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Acronyms & abbreviations in the text have the following meanings:

AJPES Agency for Public Legal Records and Related Services,
AP Agency of the Republic of Slovenia for Payments,
BS Bank of Slovenia,
IMAD Institute of Macroeconomic Analysis and Development,
MF Ministry of Finance,
p.p. percentage points,
PPA Public Payments Administration of the Republic of Slovenia,
SORS Statistical Office of the Republic of Slovenia,
SRDAP Statistical Register of Employment.

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Foreword

The **Autumn Report** is an analytical explication of the autumn economic forecasts for the current and the next two years and includes a scenario of economic trends beyond 2007. It represents the basis for the framing of economic policy measures. The Autumn Report 2005 also focuses on the analysis of available data on current economic developments and their deviations from the spring forecast.

The **autumn forecast** of economic trends is based on the IMAD's model and expert estimates built with the following source data: (i) first statistical data on economic growth for the first two quarters of 2005, first annual estimate for 2004 and revised data for 2000-2003 – as the official figures from the quarterly and annual national accounts are not yet mutually adjusted, the projected effect of this adjustment is taken into account in the forecast; (ii) data on economic growth in the international environment for the first half of 2005 and the expected or released autumn forecasts of international institutions; (iii) consultations with other organisations preparing forecasts for Slovenia, and the results of econometric models used in forecasting; and (iv) detailed data on the structure of consumer price trends in the first eight months of 2005 and revised expectations regarding oil price trends.

The autumn forecast 2005 was based on data released up until 30 September 2005, while the Autumn Report 2005 also includes data released in October 2005.

Main findings of the Autumn Report 2005

Favourable economic trends are expected to continue in 2005 and in the two years to follow. Economic growth will remain at a level of around 4% and, given that the applied macroeconomic policies will continue to be properly co-ordinated, it will be achieved in a stable macroeconomic environment, with inflation hovering around the average EU level. After the economy grew by 4.2% last year, no substantial deceleration is expected in 2005 and the next two years, and the forecasts remain within the expectations projected in spring. In real terms, gross domestic product should grow by 3.9% in 2005 and by 4% in 2006 and 2007. Inflation has continued to decline gradually in 2005 as a result of the government's and the Bank of Slovenia's coherent measures and the impact of increased competition due to Slovenia's membership in the EU. An even more rapid lowering of inflation, however, was prevented by the soaring oil prices which have risen by about 60% since the beginning of the year (Brent crude per barrel). This had a direct impact on the price rises in liquid fuels for transport and heating, which contributed more than two-thirds to the inflation in the nine months to September. The government managed to partly alleviate the pressure of the rising petroleum product prices on the consumer price rises which would otherwise have been 0.5 p.p. higher at the end of September.

According to the current data and forecasts, adoption of the euro at the beginning of 2007 is a realistic goal. Provided that the currently applied macroeconomic policies are upheld and in the absence of any major external price shocks, average inflation is expected to decline further (the forecast for 2005 is 2.5%), which will enable the fulfilment of the Maastricht price stability criterion by the middle of 2006. Slovenia already complies with the fiscal convergence criteria. The fulfilment of these criteria will also not be jeopardised next year, considering the estimates of fiscal trends observed this year and the draft budget for 2006. Further, Slovenia already meets the interest rate criterion. The tolar's exchange rate has fluctuated within a very narrow band around the central parity for sixteen months (since the entry to the ERM II), which indicates that the exchange rate stability convergence criterion will also be met in the reference period. This means that Slovenia has good chances of fulfilling the nominal convergence criteria by mid-2006 and adopting the euro at the beginning of 2007, which is the main short-term objective of macroeconomic policies. However, as already pointed out in the Spring Report 2005 (p.131), it is vital that the conditions for adopting the euro are secured in a sustainable way so that other macroeconomic balances, which are formally not requisite for entry to the EMU but are essential to ensure macroeconomic stability in the medium term, are not disrupted. In the area of wages policy, this will require further application of the current restrictive policies in 2006, however keeping a lid on the lagging of wage growth behind productivity growth, which should not exceed 1 p.p. in order to prevent too rapid 'substitute' growth in future years.

A more detailed analysis of economic growth in 2005 reveals changes in its structure which, considering the assumptions with regard to future economic trends nationally and internationally, also affects the economic growth forecast for 2006 and 2007. Compared with 2004, the structure of economic growth has seen an increase in the contribution of international trade as a result of the continued relatively high export growth and the comparatively stronger slowdown in import growth, which was mainly caused by a lower increase in investment consumption. Export growth will ease slightly in the next two years but external demand will nevertheless remain a significant factor of economic growth. On the other hand, the contribution of domestic demand, buoyed by stronger growth of gross capital formation, will increase as well.

The real growth of goods and services exports should decelerate this year (from 12.5% in 2004 to 8.6%), but less than could be expected on the basis of the lower economic growth seen in Slovenia's main trading partners. Despite the EU's generally slower economic growth compared with the previous year, the growth of Slovenian exports to other EU countries is not expected to soften substantially this year. These exports have mainly been fuelled by the robust growth of exports to France resulting from the relocation of vehicle production to Slovenia in Q4 of 2004 (the surge in merchandise exports to France contributed about one-third to the total merchandise exports in the first half of 2005). Parallel to the increased manufacture of vehicles, there has been a rise in their exports to some other EU countries as well, notably Austria and Italy. The increased goods sales to Portugal, Belgium, Finland, Denmark and the Czech Republic which can, at least partly, be attributed to the positive effects of Slovenia's EU membership, have also contributed to the maintenance of the relatively high export growth rate in 2005. On the other hand, the contribution of exports to Germany has been comparatively smaller this year. After having declined in the first three months their growth regained some impetus in April, year on year. The volume of exports to the German market in the first six months was roughly at the same level as last year, but Germany's share in Slovenia's exports consequently fell by around 3 p.p. (to approximately 20%) in one year. Among non-EU countries, the first six months of the year recorded a pick up notably in exports to Croatia, Serbia and Montenegro, and partly to Russia, although exports to the latter rose less than last year. After the free-trade agreements expired upon Slovenia's entry to the EU, merchandise exports to Macedonia and BiH dropped; exports to the USA also declined significantly. The recovery of economic growth in Slovenia's main trading partners projected for 2006 and 2007 will stimulate the growth of exports to most of these countries. Nevertheless, the total real growth of goods and services exports will be slightly lower than this year in both 2006 and 2007 (7.8% and 8.1%, respectively), primarily due to the robust exports of vehicles seen this year.

The growth of domestic consumption has slowed down this year, mainly due to the lower growth of gross capital formation. The softened growth of domestic consumption (forecast for 2005: 2.4%; 2004: 4.6%) is the result of the smaller gain in gross fixed capital formation (4.0%; in 2004: 5.9%), and even more of the substantially smaller increase in inventories compared with the previous 3 years, when this rise was a significant contributor to economic growth (this year its contribution will be negative, totalling 1 p.p.). The year-on-year growth rates of investment consumption, which rose by a mere 1.8% in the first half of 2005, are projected to gain momentum in the second half of the year on the back of the ongoing vigorous residential construction and the pick-up in investment in machinery and equipment. The growth of private consumption has been on an upward curve this year (forecast for 2005: 3.6%; 2004: 3.1%), driven largely by more favourable borrowing conditions, as the relatively high increase in wages has been partly offset by the drop in other remuneration. Despite this impetus, private consumption growth is not expected to exceed GDP growth and should remain within sustainable macroeconomic limits. Domestic consumption growth is projected to strengthen over the next two years and should mainly be underpinned by the higher growth rate of investment and the neutral contribution of changes in inventories, while private consumption growth should ease slightly. The growth of government consumption will, like this year, come in at approximately 2.5%.

Labour market performance is improving in line with the projected economic trends. The forecast of employment growth for this year (0.7%) is based on the favourable developments seen in the labour market in the first half of 2005. The number of people in employment was up most markedly in service activities (real estate, lease and business services, financial intermediation, hotels and restaurants, health care and social work, other community, social and personal services, and education), construction and some manufacturing industries (the manufacture of vehicles and the metal industry). On the other hand, the number of people in employment dropped mainly in the labour-intensive manufacturing branches (textile, leather, food-processing industries), as well as in agriculture and mining. Registered unemployment flows were also relatively favourable in the first six months this year (smaller inflow to unemployment, higher outflow from unemployment than in the same period last year). However, the slightly higher forecast registered unemployment rate (10%) than in spring (9.8%) is linked to a drop in deletions for reasons unrelated to the hiring of unemployed people. Similar employment trends with just slightly lower growth rates (0.5%) are expected in the next two years. The registered and survey unemployment rates should continue to gradually decline in that period, with the survey rate declining even slightly faster than expected in spring.

The autumn forecast is based on the adopted guidelines of economic policies, which were also the basis of preparing the draft budgets for 2006 and 2007. The autumn forecast of economic trends until 2007, presented in this Report, which also serves as the basis for the Budget Memorandum for 2006-2007, is elaborated from policy guidelines and amendments to legislation already adopted or proposed in the Budget Memorandum by the government. The effects of the measures presented within the 'Framework of economic and social reforms to increase welfare in Slovenia', adopted by the government on 3 November 2005, are not included in the autumn forecast up until 2007 since they were not adopted yet during the preparation of these forecasts and hence their effects could not be quantified with sufficient accuracy. The reform measures may already bear their first fruit in 2007 yet the main results are expected in the period after 2008. Detailed calculations as to that will be worked out during the preparation of reforms. However, already while drafting Slovenia's Development Strategy (SDS), which is to be implemented by means of the proposed reforms, it was estimated that economic growth, assuming that the SDS is optimally implemented, could be accelerated to an average annual rate of 5.5% in the 2008-2010 period (3 p.p. higher than the growth of the most advanced EU members). In the event these reforms are not carried out, however, economic growth (after 2007) would be about 1.5 p.p. lower on average, which would push the SDS' economic objective, according to which Slovenia should exceed the average EU level of economic development in the next ten years, further away.

1 International environment

The global economic growth forecasts *for 2005 and 2006 have not changed significantly since spring.* In both years, the economy is expected to grow by 4.3%, while global trade will expand at a slightly slower pace than estimated in spring (by 7% this year and by 7.4% in 2006, in real terms). Regional differences in economic trends have deepened this year. While the US economy has enjoyed a cyclical upswing for the fourth consecutive year and the Asian economies have continued to expand at robust rates, economic growth in the most developed Western European countries is set to decelerate some more.

Table 1: **Forecasts of global economic trends**

	2003	2004	2005		2006	
			April 2005	Sept. 2005	April 2005	Sept. 2005
World economic growth (real growth in %)	4.0	5.1	4.3	4.3	4.4	4.3
Volume of world trade in goods and services (real growth in %)	5.4	10.3	7.4	7.0	7.6	7.4
World commodity prices excluding energy* (growth in %)	6.9	18.5	3.8	8.6	-5.1	-2.1
6-month LIBOR** interest rates on USD deposits (%)	1.2	1.8	3.3	3.6	4.1	4.5
6-month LIBOR** interest rates on EUR deposits (%)	2.3	2.1	2.3	2.1	2.9	2.4

Source of data: IMF World Economic Outlook (April 2005, September 2005).
Notes: *weighted average relative to shares in world exports. **LIBOR - London interbank offered rate.

*The **assumed international economic trends** underlying the IMAD's autumn forecast, presented in Table 2, are based on forecasts that were available up until mid-September.* These include the Consensus September forecasts, the OECD September interim report on economic prospects in this organisation's member states, the indicated revisions of European Commission's forecasts from the summer's estimate of economic situation in the EU and the forecasts of the WIIW for Southern European Countries. The IMF's September forecasts and the October Consensus, which were released later, do not deviate from the figures that were used as assumptions.

*Due especially to the rocketing **oil prices** in the summer months, the autumn forecast projects substantially higher prices of oil in 2005 and 2006 than were assumed in spring.* When preparing the Spring Report, we expected that oil prices would gradually decelerate from the high level observed at the beginning of Q2 to USD 45/barrel towards the end of the year, and would remain at this level in 2006. Such dynamics would result in an average Brent price of USD 48/barrel in 2005 and USD 45/barrel in 2006. However, oil prices continued to rise in Q2 (averaging out at USD 51.6) and at an even faster pace in Q3 (USD 61.5). At the beginning of September, i.e. during preparation of the Autumn Report, the price of Brent crude stood at USD 68/barrel. As the factors fuelling high oil prices on both the supply and demand side, coupled with their sensitivity to one-off events, are expected to persist in the future, the autumn forecast for 2005 and 2006 assumes that oil prices will remain at the level achieved at the time of its preparation, and will fall slightly in 2007 (see Table 3).

Table 2: **Assumptions of the IMAD's forecasts on the economic growth in Slovenia's main trading partners in 2005 and 2006**

	2003	2004	2005		2006	
			April 2005	Sept. 2005	April 2005	Sept. 2005
EU	1.1	2.4	2.0	1.5	2.4	1.9
Euro area	0.7	2.1	1.7	1.3	2.2	1.7
Germany	-0.2	1.6	0.9	0.9	1.7	1.3
Italy	0.3	1.2	1.2	0.0	1.7	1.0
Austria	1.4	2.4	2.0	1.8	2.2	2.1
France	0.8	2.3	2.0	1.5	2.3	1.8
United Kingdom	2.5	3.2	2.8	2.0	2.8	2.2
Czech Republic	3.2	4.4	3.8	4.2	4.0	4.2
Hungary	2.9	4.2	3.9	3.4	4.1	3.7
Poland	3.8	5.4	4.5	3.0	4.6	4.0
Croatia	4.3	3.8	3.5	3.0	3.5	3.0
Bosnia and Herzegovina	4.0	5.7	5.0	5.0	5.0	6.0
Serbia	2.7	7.2	5.0	4.0	5.0	5.0
Macedonia	3.5	2.4	4.0	4.0	4.0	4.0
USA	2.7	4.2	3.5	3.5	3.4	3.3
Russia	7.3	7.2	5.5	5.5	5.3	5.0

Source of data: Consensus Forecasts, September 2005; Podkaminer, L. et al., July 2005; Eastern Europe Consensus, July 2005; Business Monitor International (The Russia Business Forecast Report Q4 2005); European Commission, DG Ecfin - Economic situation and outlook, August 2005; OECD - What is the economic outlook for OECD countries? An interim assessment; IMAD's own estimate.

The ***prices of other commodities*** *are expected to rise more in 2005 than estimated in spring, while the expected fall in these prices in 2006 should be less than projected in spring.* Global prices of commodities excluding energy rose by 5% (in USD) from January to August this year; like in 2004, prices of metals and food rose at the fastest pace. These trends will also continue at the annual level, as the growth of commodity prices excluding energy will average out at almost 9%, to be followed by an approximately 2% decline in 2006.

The ***euro/dollar exchange rate*** *has been revised slightly downwards from spring, to USD 1.264 for EUR 1 in 2005 (1.308 in the spring forecast) and 1.256 for 2006-2007 (1.306 in spring).* This rate is based on a technical assumption covering the entire forecasting period and is calculated on the basis of developments in the six months (March-August 2005). In this period, the euro was generally falling against

Table 3: **Price of Brent crude**

	2003	2004	2005		2006		2007
			April 2005	Sept. 2005	April 2005	Sept. 2005	Sept. 2005
average oil price per barrel, USD	28.8	38.3	48	58	45	68	66

Source of data: BP Statistical Review of World Energy, June 2005, IMAD's forecast.

the dollar after having reached its highest value this year in March (the month's average was USD 1.32 for EUR 1). In the first eight months of the year, the exchange rate averaged out at USD 1.27 for EUR 1, 3.5% more than in the same period last year.

In line with the expectations, the US Federal Reserve's ***leading interest rate*** *has been rising this year, while it remained unchanged in the euro area.* Since the end of March 2005 the leading interest rate in the USA rose by 1 p.p. to total 3.75% at the end of September. The rate is expected to continue rising – to 4.0% by the end of the year and further to 4.25%-4.50% in 2006 (Consensus, September 2005). Accordingly, the gap between the leading interest rates in the USA and the euro area, where this rate has stood at 2% since June 2003, is widening. According to foreign analysts, the euro area's leading interest rate will persist at the same level throughout 2006.

1.1 Current economic trends and forecasts in Slovenia's main trading partners

The economic growth forecast ***for the USA in 2005*** *remains unchanged since spring – 3.6%. This is also the growth recorded in the first two quarters. At the same time, no substantial slowdown is expected in* ***2006 and 2007****.* The economic expansion in the first half of the year was largely driven by domestic demand which, however, softened slightly in Q2 under the influence of the subdued growth of private investment, which recorded robust growth rates in the previous five quarters (10-15%, year on year). Results of surveys on consumer and industrial confidence are encouraging; consumers' optimism has been buoyed by the healthy growth of disposable income, partly due to improved employment trends, which have been on a resurgent upward curve since 2004 after several years of stagnation. Household consumption has been additionally boosted by the wealth effect of the rising prices of real estate. Although the robust growth of profits is expected to weaken somewhat next year, it is enabling further expansion of companies' investment activities together with the still favourable financing terms[1]. The damage caused by hurricanes will only have a transient effect on the US economy. The expected lower economic activity in the final quarter of this year will be largely offset by the increased reconstruction expenditure in 2006[2]. According to the forecasts of international institutions, these developments will allow the economy to grow by 3.6% in 2005 and by 3.3% in 2006 and 2007.

In the first half of 2005, economic growth ***in the euro area*** *fell behind the spring expectations, resulting in a slight lowering of the forecasts* ***for 2005*** *compared to spring. The forecasts* ***for 2006*** *still anticipate the economy will grow at a faster pace than in 2005 but the spring figures have been scaled down.* The euro area's economic growth has been decelerating since the second half of 2004. In Q1 of 2005, its year-on-year slowdown (from 1.5% in Q4 of 2004 to 1.3%) was still within

[1] Although short-term interest rates have risen, long-term interest rates have been falling since June 2004.

[2] The 3 federal states that were affected by hurricanes generate approximately 3.2% of USA's gross domestic product. The effect of reconstruction works on public finance will be slightly higher – according to the first estimates, the public expenditure on reconstruction will total about USD 200 bn or 1.6% of GDP.

the limits of the spring projections but exceeded them in Q2 (down to 1.1%), which resulted in a downward revision of the 2005 forecast. Most countries in the euro area cannot expect any substantial increase in their domestic consumption this year – this is true not only of Germany (where consumption has been falling steadily for three years), but increasingly also of Italy and France whose economic growth forecasts for 2005 have dropped comparatively the most in all of Slovenia's main trading partners (see Table 2). As the economic outlook for the euro area's external regions, comprising the USA, Japan and Asian countries, remains favourable (on average the forecast is even better than in spring), the euro area's export growth is expected to gain momentum in the second half of the year. This upturn will be additionally supported by the lower value of the euro against the US dollar compared to the beginning of the year. Particularly in Q4 of 2005 and in 2006, we can expect a slight acceleration of the euro area's economic growth (to 1.9%). Although the estimated impact of the higher oil prices on the euro area's economic activity turned out to be overrated in the past few years, they remain a significant risk and the cause of downscaled economic growth forecasts for 2006 as prices have stabilised at a high level and this rise is likely to persist for a longer period (see Chapter 1.2). **In 2007**, growth will remain at a similar level (2%) as in 2006, according to the forecasts of international institutions; it should come in at around 1.5% in Germany and Italy and around 2.2% in Austria and France.

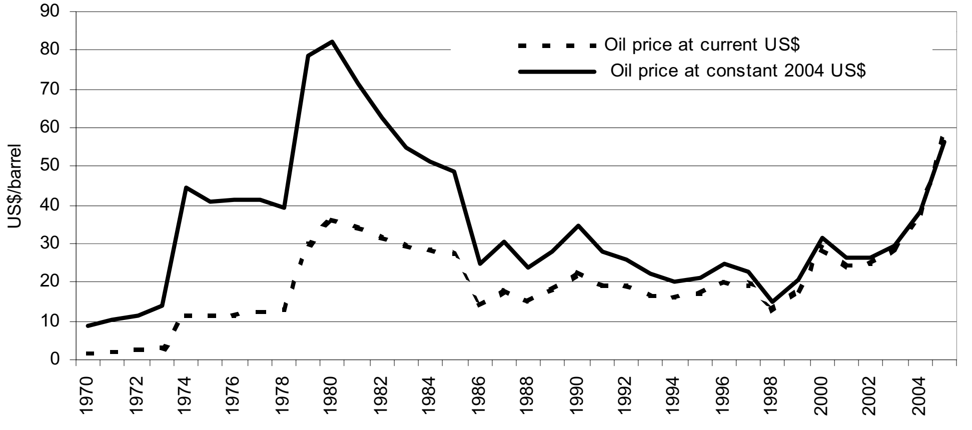
Last year's strong ***economic growth in new EU members****, stimulated by three coinciding developments – the cyclical recovery of domestic demand, the improved economic situation in the international environment and the positive effects of EU accession – has generally moderated this year.* Compared with the euro-area countries, the year-on-year growth dynamics in Slovenia's main trading partners within this group (Poland, the Czech Republic and Hungary) have been slightly different in the first half of the year. A slowdown in Q1 of 2005 was followed by a rebound in Q2, boosted mainly by the high real growth rates of exports. The Czech Republic recorded the highest growth among these countries (4.9% year on year) and its forecasts for 2005-2006 have consequently been revised upwards (see Table 2). In contrast, the forecasts for Hungary and notably Poland have seen downward revisions for both years, primarily because of their lower than expected year-on-year economic growth in the first half of 2005 (3.8% and 2.4%, respectively). According to available forecasts, economic growth in these countries will be fairly level in 2007, averaging at about 3.8%.

Within the ***countries of former Yugoslavia****, forecasts remain unchanged and as favourable as in spring for BiH and Macedonia, whereas the current economic trends in Croatia and Serbia & Montenegro have fallen short of the expectations and resulted in lower economic growth forecasts for these two countries in 2005-2006.* **Croatia's** economic growth began to soften already in 2004 due to its sliding growth of investment consumption. In Q1 this year, private consumption growth also slowed down more than expected while exports almost stagnated, resulting in the subdued growth of the economy (1.8%). However, this softening appears to have been only transitory as GDP growth bounced to 5.1% in Q2 on the back of strengthened domestic and export demand. These trends make it possible for Croatia to achieve 3% economic growth this and next year. The favourable data on **BiH**'s export and private consumption growth in the first half of 2005 confirm the spring prospects of its GDP growing by 5% this year and even more next year (6%). The outlook for **Macedonia** has not changed since spring, projecting 4% growth in both years, based on a relative improvement in industrial production and export trends compared to the previous year. This growth will also be supported by the economic programme measures set out in September's stand-by agreement between Macedonia and the IMF, placing a relatively stronger emphasis on policies aimed at boosting economic growth rather than the macroeconomic stabilisation measures. In **Serbia and Montenegro**, given the current trends in agricultural and industrial production, the forecast for 2005 (4%) is slightly lower than in spring, while an acceleration to 5% is still expected in 2006.

1.2 Impact of oil prices on global economic activity and inflation

Global oil prices *hit their historical nominal highs in the first half of September 2005.* The price of Brent crude jumped to almost USD 68 per barrel at the beginning of September, falling back to around USD 60 at the beginning of October which is, however, still a high level. Oil prices have been rising steadily, with minor or major fluctuations, since Q1 of 2004; from the beginning of 2004 to October 2005 they ballooned by over 100%. Nevertheless, their negative impact on economic activity and price rises has been smaller than two and three decades ago, when surges in oil prices triggered recessions on a global scale. The factor frequently mentioned in this context is the real value of higher oil prices. The price of oil used as the forecasting assumption in the autumn forecast (USD 58), expressed in constant (2004) dollars[3], totals USD_{2004} 56, which is still around 30% below the record level of 1980 (USD_{2004} 82, whereas the nominal price at that time was below USD 40 per barrel). However, calculations made by using other deflators, which are equally or even more adequate

Figure 1: **Oil prices – real and nominal terms**



Sources of data: BP Statistical Review of World Energy, June 2005, IMF World Economic Outlook Database September 2005.
Note: The oil price forecast for 2005 made by IMAD.

[3] Deflated by US consumer price rises; the same deflator is also used in the analyses of the European Commission (Assessing the Economic Impact of the continuing increase in oil prices, 2005) and the European Forecasting Network (European Forecasting Network Autumn 2004 Report, 2004).

in terms of their contents, such as deflators that take into account industrial producer price rises or the ratios of import to export prices (terms of trade) indicate that oil prices reached their historical peak in September 2005. Nevertheless, their effect on economic activity is smaller than in the past.

The impact of high oil prices on economic activities *is smaller than it was during past oil crises.* The *first* and probably crucial reason for this is the current generally higher energy efficiency or, in other words, lower oil intensity, which has dropped by 50% globally over the past 30 years, indicating that today the same level of GDP is being generated by using half of the previous oil consumption. Already in the 1980s, oil-importing countries took a number of measures in the face of the rocketing oil prices to ensure the more efficient use of energy (in heating and transport as well as in industry). Coupled with the economic recession, this dampened oil demand in most of these countries. Oil prices began to drop, and their fall reached such proportions that Saudi Arabia decided to cut its production in order to prevent the further sliding of oil prices (this policy was applied until 1986). The *second* factor of the present reduced vulnerability to oil price changes lies in the different intensity of price rises. During the previous oil shocks of 1974 and 1979, the price of oil bounced by over 250% and 130%, respectively, in real terms on the previous year. In contrast, this year's oil price hike (assuming that it remains at a level of around USD 65-70/barrel until the end of the year), will total 'just' about 50% in real terms. With energy intensity being lower and the increase in oil prices more gradual compared with the trends observed 20-30 years ago, oil-importing countries have now been able to respond more swiftly to the changes in business conditions due to the higher oil prices. The *third* factor comprises the reasons underlying the rising petroleum prices, which have also affected the dynamics of price growth and the persistence of prices at a certain level. The previous oil shocks resulted from reduced oil production caused by geopolitical developments[4]. The economies, given their higher energy intensity, were exposed to stronger direct effects of the more or less sudden supply shocks in shorter periods of time. However, after the political tensions eased oil supplies returned to their previous levels. Conversely, the main driver of the oil price hike in 2004 and 2005 and the persistence of prices at the high level has been the increased demand, particularly of China, India and the USA, coupled with the limited capacity of refineries and the low reserve capacity for extra oil production, as investment earmarked to raise the level of petroleum derivatives was underrated in previous years. Today's geopolitical tensions and worsened meteorological conditions, on the other hand, have mostly added to the oil price's volatility rather than affecting its level.

Since most models used by international institutions to ***estimate the responsiveness of economic activity to oil price rises*** *have implicitly assumed that this variable has been similar as during the past oil shocks, the estimated effects have often been exaggerated in recent years.* For instance, according to an estimate prepared by the IMF a while ago a permanent oil price rise of USD 5/barrel would dampen global economic growth by up to 0.3 p.p. Considering the model estimates and assuming that other factors would remain unchanged, global economic growth should have

[4] The Fourth Arab-Israeli War of 1973, the Arab oil embargo on countries supporting Israel, the Iranian Revolution of 1978-1979, and the Iraqi invasions of Iran in 1980 and of Kuwait in 1990.

slowed down by almost 2 p.p. over the last two years[5]. The actual global economic growth totalled 5.1% in 2004 (1.1 p.p. more than in 2003) and thus, importantly, exceeded the forecasts. The forecast for 2005 (4.3%), albeit lower than last year's growth, has remained unchanged since spring despite the upward revision to assumed oil prices by an average of USD 8/barrel. On the other hand, the forecast for 2006 is just 0.1 p.p. lower despite the higher assumed oil price (by USD 18/barrel). Another factor helping to alleviate the negative impact of the rising oil prices on economic activity in oil-importing countries is the fact that oil price rises are paralleled by the growing demand in oil-producing countries which are becoming an increasingly important export market, particularly for countries in the euro area. According to an ECB survey, this effect is even stronger in the euro area and the entire EU than in the USA, indicating that the impact of the rising oil prices on economic activity is comparatively smaller in the EU (ECB Monthly Bulletin, July 2005).

Using the latest model estimates (Quest) of the ***impact of higher oil prices on the euro area's economic activity****, the European Commission has established that this impact is stronger when oil prices are at a higher level, i.e. the effect is not linear.* The calculations were made for two scenarios: (1) a 25% rise in oil prices from USD 48/barrel (which actually happened in August and September); and (2) an equal rise from the level of USD 60/barrel and persistence of prices at this level. According to the first scenario (the oil price rising by USD 12), economic growth in the euro area would decelerate by 0.3 p.p. in the first year, and by 0.5 p.p. in five years. Inflation would be 0.1 p.p. higher in the first two years and by a total of 0.2 p.p. in five years. According to the second scenario, the estimated impact of the higher oil price (by USD 15) on economic growth in the first year would be 0.1 p.p. higher than in the first scenario (totalling 0.4 p.p.).

[5] The price of Brent crude in the global market rose by an average of USD 10/barrel in 2004. A further rise of USD 20 is anticipated this year according to the latest estimates. Similar trends have been recorded in the prices of West Texas Intermediate and Dubai oil.

2 Gross domestic product

2.1 Revision of GDP for 2000-2003 and first annual GDP estimate for 2004

The autumn report is based on the SORS' latest data *on gross domestic product (GDP) and gross national income (GNI).* The revised data that were released in September[6] mainly differ from the figures published so far in Financial Intermediation Services Indirectly Measured (FISIM)[7], which are now allocated to the users of these services. This is a methodological novelty that must be enforced by the EU members' statistical offices this year to comply with the European System of Accounts 1995. The allocation of FISIM to users will result in an average 1% nominal increase in GDP and GNI. The allocation of FISIM according to the production method raises the production and gross value added in the sector of other monetary financial intermediaries (producers of financial intermediate services), while the gross value added of other market sectors (users of these services), will be reduced by the amount of the FISIM. In final consumption, the FISIM are allocated to households, the government and non-profit institutions serving households. The FISIM allocated to final consumption, plus exports minus imports of FISIM, add up to the overall effect of the FISIM allocation to GDP by users.

The published revised national accounts figures also reflect the ***changed calculation method at constant prices***. The new method is based on prices from the preceding year and introduces the so-called chain-linked estimates of GDP at constant prices. This method is better than the old fixed base year method (2000 prices have been used in the calculations), as it takes into consideration current changes and relative price ratios. Due to the allocation of FISIM to users and the calculation at constant prices from the preceding year, the new real GDP growth rates in 2000-2004 differ slightly (by a maximum of 0.2 p.p.) from the figures published so far (see Tables 14a and 14b in the Statistical Appendix).

Apart from these methodological changes, some other corrections *have been made during the routine annual revision of GDP.* For the entire period (2000-2004) a part of the intermediate government consumption (of direct users, at central and local levels) has been transferred to gross fixed capital formation (current investment maintenance, accounting for 0.3%-0.4% of GDP, on average). Further, households' own construction activities are no longer divided into finished dwellings (gross

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[6] The revised figures on the expenditure structure of GDP were published on 15 September 2005 in the First Statistical Release No. 203/2005. Data on the production and cost structure of GDP and other main national accounts aggregates were released on 30 September in Rapid Report No. 262/2005.

[7] In line with the European System of Accounts (1995), other financial intermediaries (S. 122) charge their services to clients directly while also providing clients with services for which income is generated indirectly, through the differing rates of interest on deposits and loans. The income earned by applying different interest rates is shown as the FISIM in national accounts. The allocation of FISIM to users is based on data on deposit and loan stock by maturity and by sector at the end of each period, and the relevant interest rates and calculated interest. The calculation of FISIM is based on the reference interest rate on interbank loans. The FISIM on loans is calculated as the difference between the actual loan interest rate and the reference interest rate, while the FISIM on deposits is calculated as the difference between the reference interest rate and the actual deposit interest rate.

fixed capital formation) and unfinished dwellings (changes in inventories) – such construction is now shown under the single heading 'household sector investment'. Neither of these changes affects the GDP level on the whole; they only modify individual categories of its expenditure structure. Based on the supply and use tables for 2002, several other revisions were made to the expenditure structure of GDP in 2002-2004 (See Tables 14a and 14b in the Statistical Appendix). The main changes from the data published so far include an increase in household expenditure and a drop in gross fixed capital formation (by 0.4%-0.5% of GDP).

The regular annual revision of the balance of payments, completed by the Bank of Slovenia in September this year, brought ***revisions to data on international transactions*** *in 2002-2004.* Revisions to the balance of payments headings are minimal for 2002 and 2003 but more significant for 2004 (see Box 2). The deficit on the current transactions account in 2004 was SIT 6,746 m lower according to the national accounts than according to the balance of payments. This difference is due to accrual corrections[8] in the estimates of primary revenue and expenditure with EU institutions (inflows of agricultural subsidies from the EU and outflows of part of production and import taxes as the EU's own resources) after Slovenia's accession to the EU.

For ***the calculation of the current general government deficit as a share of GDP and the gross national income****, the FISIM are not included in the calculation of these two national aggregates.* In figures for the preceding years and in forecasts, the Autumn Report uses the latest statistical data, i.e. GDP and GNI, calculated on the basis of FISIM allocated to users. The European Commission, however, will still use national aggregates without FISIM for its Excessive Deficit Procedure this year since many statistical offices in the EU have not yet managed to calculate GDP according to the new methodology. Therefore, the FISIM must be excluded from GDP in the estimate of Slovenia's current general government deficit and debt relative to GDP (ESA 95 methodology). The same holds for the GNI, used as the basis for calculating member states' contributions to the EU budget: the FISIM in final consumption is subtracted from the GNI value.

In September this year, the SORS published its ***first annual estimate of GDP in 2004.*** According to these data, GDP in current prices totalled SIT 6,251.2 bn in 2004, which was SIT 60.1 bn more than calculated in the preliminary estimate based on quarterly accounts. This difference is largely attributable to the described methodological change in the FISIM calculation. According to the first annual estimate, real GDP growth totalled 4.2% in 2004, thus falling 0.4 p.p. behind the preliminary estimate based on quarterly accounts (and coming closer to the IMAD's 2004 autumn forecast, 4%). The principal changes in the **expenditure structure of GDP** growth for 2004, which contributed to the lower growth estimate, were the lower real growth of gross fixed capital formation (estimate revised downwards from 6.8% to 5.9%) and the higher estimate of imports of goods and services (revised from 12.4% to 13.2%). Given the almost unchanged estimate of real export growth,

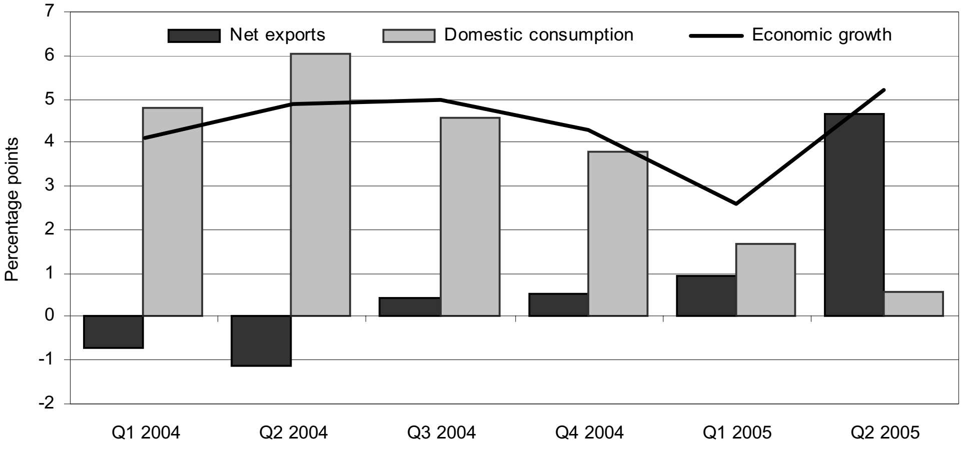
[8] By SIT 7,297 m in subsidy inflows and by net SIT 551 m in the outflows of own resources from customs duties and import taxes. The payments of customs duties and import taxes (the EU's own resources) are entered in the national accounts according to the gross principle. 25% of gross payments are shown as exports of government services.

this upward revision also resulted in a higher negative contribution of external trade to economic growth according to the latest data (-0.4 p.p. over the -0.2 p.p. calculated from the preliminary figures). A downward revision was also made to the estimate of private consumption growth (from 3.5% to 3.1%), whereas government consumption rose appreciably more according to the new estimate (2.9% over 1.7%). On the **production side**, the biggest upward revisions to value-added growth were made in mining and quarrying (by 7.7 p.p. to 2.5%), financial intermediation (by 4.4 p.p. to 14.8%) and public administration, defence, and compulsory social security (by 2.8 p.p. to 5.8%). The largest downward revisions, on the other hand, were observed in transport, storage and communications (by 3.1 p.p. to 0.8%), hotels and restaurants (by 1.8 p.p. to 0.4%) and electricity, gas and water supply (by 1.8 p.p. to 3.1%).

2.2 Expenditure structure of gross domestic product

*Slovenia's **economy grew** by 3.9% **in the first half of 2005***. Following its 2.6% growth in Q1, GDP recorded 5.2% real year-on-year growth in Q2[9], the highest gain since Q1 of 2000. Against the robust rise in exports and softened growth of imports, the acceleration of GDP growth seen in Q2 this year was driven by the high positive contribution of international trade, which totalled 4.7 p.p. (0.9 p.p. in Q1). Domestic consumption's real growth slowed down in Q2 (from 1.6% in Q1 to 0.5% year on year), largely on account of sliding inventories. On the other hand, there was an acceleration in the growth of private consumption (from 2.9% to 4.1%) and gross fixed capital formation (from 0.8% to 2.6%).

Figure 2: **Contribution of net exports and total domestic consumption to economic growth, year on year**



Source of data: SORS, calculations by IMAD.

[9] Year-on-year GDP growth adjusted for working days totalled 2.8% in Q1 and 4.7% in Q2. The quarterly growth of GDP also strengthened according to seasonally-adjusted data, rising from 1.2% in Q1 to 2.6% in Q2.

*The real **growth of goods and services exports**, while decelerating from 2004, remained strong in the first two quarters of 2005 (10.0% and 10.9%, respectively, year on year, averaging out at 10.5% in the first half of the year), while **import growth** tumbled in Q2 (from 8.3% to 3.6%, averaging out at 5.8%).* Despite the softening of the economic growth in the EU economies, the shares of these countries in Slovenia's regional structure of merchandise exports is increasing, mainly due to the strongly accelerated exports of vehicles to France as well as Austria and Italy (see Chapter 3.1). On the import side, data for the first half of the year indicate a substantial increase in imports from the countries of former Yugoslavia, while the growth of imports from the EU was much more subdued, also when compared with 2004. In the breakdown of imports by end-use product groups, the fastest growth in the first half of the year was observed in imports of intermediate goods while imports of investment goods dropped due to modest investment consumption (see Chapter 3.3). The growth of trade in services slowed down much more than the growth of trade in goods in the first six months to June. Exports of services softened notably while their imports experienced similar growth dynamics as last year.

*The growth of **domestic consumption aggregates** was generally slower than GDP growth in the first half of the year; the comparatively highest rise was recorded in private consumption.* The growth of domestic consumption was relatively low in this period (1.1% year on year): in Q1, this was mainly due to the weak growth of investment consumption and the lower rise in inventories than last year, while the main reason in Q2 was a sharp drop in inventories. With higher employment and the relatively strong wage growth, matched by sustained household borrowing, private consumption was up 3.5% year on year in the first half of 2005, its year-on-year growth being considerably stronger in Q2 (4.1%) than in Q1 (2.9%). Gross fixed capital formation registered much more modest growth than in the previous two years (1.8% year on year). The acceleration of investment consumption growth seen in Q2 (from 0.8% to 2.6%) was largely generated by stronger investment in residential and other construction, while investment in machinery and equipment is estimated to have been slightly below last year's level. After the high positive contribution of the change in inventories to growth in 2004, linked partly to the impacts of the EU-accession-related change in the external trade regime, their slower growth and negative contribution to economic growth in the first half of this year were expected. The negative contribution of the change in inventories, which already depressed the year-on-year GDP growth by 0.5 p.p. in Q1, increased again in Q2 and pushed the year-on-year GDP growth down by a further 2.9 p.p.

*The **autumn forecast of GDP growth for 2005** is set at 3.9%, 0.1 p.p. more than in spring.* Given the economic developments in the first six months of 2005, where the main deviations from spring forecasts are found in export growth (upwards) and in gross fixed capital formation (downwards), the autumn forecast brings a somewhat bigger revision to the structure of GDP growth. The estimated positive contribution of international trade to economic growth is thus even slightly (by 0.9 p.p.) higher than in spring, while the estimated contribution of domestic consumption has been revised downwards (by 0.8 p.p.; see Table 4). In the second half of 2005, economic growth will remain at approximately the same level as in the first half, recording a relative rise in domestic consumption's contribution to growth (chiefly on the back of the expected higher rise in gross fixed capital formation), and a smaller contribution

Table 4: **Contributions to GDP growth**

	percentage points (unless indicated otherwise)						
	2001	2002	2003	2004	2005	2006	2007
					estimate	forecast	
GROSS DOMESTIC PRODUCT (real growth, in %)	2.7	3.5	2.7	4.2	3.9	4.0	4.0
Goods and services trade balance (exports-imports)	1.7	1.1	-2.0	-0.4	1.4	0.8	0.6
Domestic consumption, total	0.9	2.4	4.6	4.6	2.5	3.2	3.4
- Private consumption	1.3	0.8	1.9	1.7	2.0	1.7	1.7
- Government consumption	0.7	0.6	0.3	0.6	0.5	0.5	0.5
- Gross fixed capital formation	0.1	0.2	1.6	1.4	1.0	1.1	1.2
- Changes in inventories and valuables	-1.2	0.8	0.8	0.9	-1.0	-0.1	0.0

Source of data: SORS, Rapid Reports, No. 262/2005; estimate and forecast by IMAD.

from international trade (primarily due to the slightly slower year-on-year export growth). Foreign demand will therefore be a significant driver of economic growth in 2005 as a whole (see Chapter 3.1). Against the projected 8.6% real growth of goods and services exports and 6% real growth of imports, international trade is to contribute around 1.4 p.p. to economic growth. Despite its expected pick up in the second half of the year, the real growth of domestic consumption is set to be considerably lower in 2005 (2.4%) than in 2004 (4.6%), chiefly due to the softened growth of gross capital investment (gross fixed capital formation and change in inventories). This year's real growth of private consumption (3.6%) will be higher than last year, but it should nevertheless not exceed the aggregate GDP growth and will thus remain within sustainable macroeconomic limits. In our estimate, the main impetus to this year's slightly higher (by 0.2 p.p.) increase in private consumption relative to the spring expectations was underpinned by the dynamics of wages and employment, along with the sustained robust growth of household bank loans (the bulk of these are long-term tolar and foreign currency loans), which are partly being used for household final consumption. Due to the relatively weak growth of gross fixed capital formation in the first six months of 2005, this year's real increase in investment consumption (4.0%) will fall behind the figure recorded last year as well as that expected in spring. On the basis of data on issued building permits in 2004 and the first half of 2005, residential construction is expected to keep up its lively pace in the second half of the year while investment in non-residential construction is estimated to remain at the high level achieved in the past two years. As the changes in inventories made a substantial negative contribution to growth in the first half of the year, their annual contribution will also be negative (around -1 p.p.). The real growth of government consumption in 2005 is to remain at approximately the level of the first six months (2.5%).

*The autumn **forecast of real GDP growth for 2006** is projected at 4.0%.* Against the improved economic outlook in the international environment, the growth of exports to most trading partners is expected to strengthen, although total exports growth (7.8%) will be slightly lower than in 2005 due to the effect of this year's booming exports to France representing a high comparative basis (see Chapter 3.1). Domestic consumption's growth should strengthen in 2006, largely due to the slightly higher growth of gross fixed capital formation (4.5%) fed by the sustained vigorous growth of housing construction and the smaller negative contribution of the change in inventories to economic growth. The growth of private consumption (3.1%) will cool off somewhat compared to 2005 given the expected trends in household disposable income (lower growth of wages and slightly lower growth of employment over 2005). With the expected dynamics of total domestic consumption and exports, the growth of imports (6.5 %) will also be slightly higher than this year, while the contribution of external trade will consequently contract to 0.8 p.p.

In 2007, real GDP growth *is projected to remain at a similar level as in 2006 (4.0%).* Assuming favourable conditions in the international environment, exports of goods and services are to record stronger growth (8.1%), as should gross fixed capital formation (5.0%), whereas private consumption is expected to be up around 3.1%. With the anticipated trends in exports and domestic consumption, the imports of goods and services should rise by 7.3% in real terms in 2007, while the contribution of international trade should amount to 0.6 p.p.

Expenditure on domestic consumption *in current prices has exceeded the produced GDP since 2003.* The deficit in the international trade of goods and services expanded sizeably last year, to 1.2% of GDP, according to the revised balance of payments data. The deficit was thus much bigger than in the preceding year (0.1% of GDP), while the real growth of domestic consumption was very similar in both years (4.7% in 2003 and 4.6% in 2004). Despite the modest increase in domestic spending this year (2.4%), total domestic consumption in current prices will still exceed GDP by 0.5%. The deficit in goods and services trade will narrow by 0.7 p.p. this year over 2004.

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

	Structure in %, current prices						
	2001	2002	2003	2004	2005	2006	2007
					estimate	forecast	
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Goods and services trade balance (exports-imports)	-0.7	1.4	-0.1	-1.2	-0.5	-0.1	0.2
Domestic consumption, total	100.7	98.6	100.1	101.2	100.5	100.1	99.8
- Private consumption	56.6	55.5	55.8	55.4	55.3	54.9	54.5
- Government consumption	20.0	19.7	19.6	19.5	19.5	19.4	19.3
- Gross fixed capital formation	24.1	22.6	23.3	24.1	24.5	24.7	24.9
- Changes in inventories and valuables	0.0	0.7	1.4	2.2	1.2	1.1	1.0

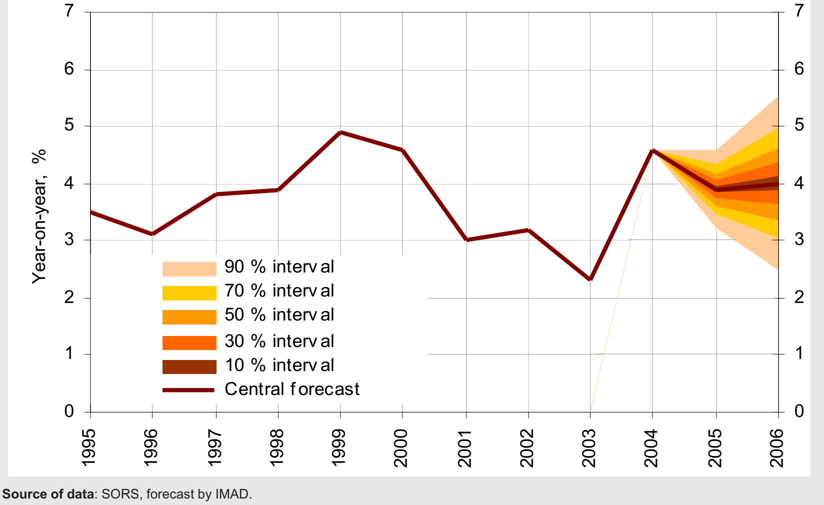
Source of data: SORS, Rapid Reports, No. 262/2005; estimate and forecast by IMAD.

Box 1: Probability of economic growth deviating from the central forecast

Apart from forecasting economic growth, the IMAD's autumn analysis also estimates the probability of growth deviations from the central forecast. The estimated probability of actual growth deviating from the forecast is based on forecast errors from previous years. Each forecast of economic growth for the following year, published in the current analysis, is compared with the GDP estimate based on quarterly data[10]. These data are also shown in the figure below. Any later data revisions are not taken into consideration when estimating the forecast errors. This is the routine procedure used in assessing the quality of forecasts since it is assumed that subsequent revisions incorporate new data and methodological changes which could not originally be included and therefore do not reflect errors in actual forecasting[11].

Apart from past errors, the presented risk distribution also includes the IMAD's current estimate of potential risks. The bold curve in Figure 3 shows the GDP growth rates according to the first released estimate based on quarterly data, and the central projection for this and next year. The bands around the central forecast show the intervals for which it can be assumed with the indicated probability that the actual economic growth will lie within their range. The outer bands thus correspond to a 90% probability of actual GDP growth falling within that range.

Figure 3: **Central forecast of economic growth and the probability of expected deviations**



Source of data: SORS, forecast by IMAD.

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[10] The Autumn Report 2005 thus forecasts economic growth for 2006 which will be compared with the actual growth figure for 2006, to be published by the SORS within 70 days of the end of Q4/2005, in order to estimate the forecasting errors.

[11] The IMAD's other forecasts are tested in the same way, and their validity assessments are regularly published in the Spring Reports.

In 2005 and 2006, the risks are evenly spread around the central forecast. The main risks to realisation of the projected GDP growth are changes in the international environment and non-application of the presented macroeconomic policies. The deviations of actual GDP growth in either direction from the central forecast should thus not exceed 0.7 p.p. in 2005 and 1.5 p.p. in 2007. We can therefore expect with 90% probability that economic growth will total between 3.2% and 4.6% in 2005, and between 2.5% and 5.5% in 2006.

2.2.1 Gross national disposable income

*The **growth of real gross domestic income** lagged behind the gross GDP growth in 2004.* The growth of gross domestic income, which in addition to changes in the GDP level also measures changes in the purchasing power of income resulting from the changed terms of trade, is estimated to have totalled 3.4% in 2004. The large difference between this figure and GDP growth (4.2%) indicates that changes in international economic conditions and the national economy's purchasing power can have a significant impact on factor incomes and the performance of economic subjects, which is particularly evident in the Slovenian economy given its size, inclusion in international trade and import structure. The real income of residents depends not only on increases in domestic production but also on the relative dynamics of export and import prices. The growth of import prices this and last year has exceeded exporters' price rises (by about 1.2 p.p.) , particularly on account of the high oil prices in the global market which, in turn, pushed up the prices of other commodities and producer prices in Slovenia's main trading partners. Since resident producers achieve lower price growth in exports than imports, their terms of trade are deteriorating which is reflected in their lower real incomes or, in other words, in a drop in the purchasing power of their income and the national economy's income as a whole. This means that the income generated by domestic production can currently cover fewer purchases of foreign products than it could before the

Table 6: **Main national accounts aggregates, 2000-2004**

	Real growth rates (%)				
	2000	**2001**	**2002**	**2003**	**2004**
GROSS DOMESTIC PRODUCT	4.1	2.7	3.5	2.7	4.2
GROSS DOMESTIC INCOME	2.3	3.6	4.6	3.1	3.4
GROSS NATIONAL INCOME	2.0	3.8	3.8	3.0	3.1
GROSS NATIONAL DISPOSABLE INCOME	2.1	3.9	3.7	2.8	2.9
Domestic consumption	1.4	0.9	2.4	4.7	4.6
Expenditure on final consumption	1.2	2.7	1.8	3.0	3.1
Private consumption	0.7	2.3	1.3	3.4	3.1
Government consumption	2.6	3.9	3.2	1.6	2.9
Gross fixed capital formation	1.8	0.4	0.9	7.1	5.9
GROSS SAVINGS	5.0	7.5	9.8	2.3	2.3

Source of data: SORS, Rapid Reports, No. 262/2005.

terms of trade worsened, which is also one of the reasons for this year's softened import growth. Against the deteriorated terms of trade the growth of all main domestic consumption aggregates has lagged behind GDP growth this year. The strongest slowdown was recorded in gross fixed capital formation (in the first six months, imports of investment goods dropped by 5.6% in nominal terms year on year, in EUR). The lagging of export price rises behind import price rises should remain similar as last year in 2005 and narrow in the next years. Consequently, the lagging of gross domestic income growth behind GDP growth will decrease as well.

The gap between savings and investment *will narrow by about 0.4 p.p.* ***this year*** *over 2004.* Despite the considerable softening in domestic gross investment – which will cause the share of gross capital investment in GDP to drop by about 0.6 p.p. – the achieved volume of national savings will not suffice for its financing (the same as last year). Given that the share of final consumption is expected to remain unchanged, the share of gross savings relative to GDP is projected to be 0.2 p.p. lower in 2005 over 2004, primarily due to the anticipated poorer results in net current transfers with the rest of the world (see Table 7).

In the ***next two years*** *we expect the conditions for national savings building to improve.* The share of national savings relative to GDP should thus rebound by 0.9 p.p. in 2006 to total 25%. Apart from the pick up in the gross operating surplus (by 0.5% of GDP), the balance of current transfers with the rest of the world is also expected to turn positive next year (0.3% of GDP; this year: -0.1% of GDP). This level of savings would make it possible to finance gross fixed capital formation, which should grow by 4.5% next year, with net borrowing abroad amounting to 0.7% of GDP or EUR 195 m. Given the expected further increase in the share of the gross operating surplus and the positive balance of current transfers with the rest of the world, the autumn forecast projects that the share of gross savings will gain a further 1.1 p.p. in 2007 to total over 26% of GDP.

Table 7: **Formation and distribution of gross national disposable income**

	Structure in % of GDP, current prices						
	2001	2002	2003	2004	2005	2006	2007
					estimate	forecast	
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net primary income with the rest of the world	0.3	-0.5	-0.6	-0.9	-0.9	-0.9	-0.9
GROSS NATIONAL INCOME	100.3	99.5	99.4	99.1	99.1	99.1	99.1
Net current transfers with the rest of the world	0.6	0.6	0.4	0.1	-0.1	0.3	0.9
GROSS NATIONAL DISPOSABLE INCOME	100.9	100.1	99.8	99.2	99.0	99.4	100.0
Final consumption	76.6	75.3	75.4	74.9	74.9	74.4	73.9
GROSS SAVINGS	24.3	24.8	24.4	24.3	24.1	25.0	26.1
Current account balance	0.2	1.5	-0.3	-2.0	-1.6	-0.7	0.2
GROSS CAPITAL FORMATION	24.1	23.4	24.7	26.3	25.7	25.7	25.9
of which: gross fixed capital formation	24.1	22.6	23.3	24.1	24.5	24.7	24.9

Source of data: SORS, Rapid Reports, No. 262/2005; estimate and forecast by IMAD.

2.3 Production structure of gross domestic product

After a modest first quarter, the activity in primary activities picked up in the second quarter while services recorded relatively even growth in both quarters. The 0.6% year-on-year growth of primary activities in Q1 was followed by a 5% rise in Q2, generated by the strengthened activity in manufacturing and construction. In services, the difference between value-added growth in Q1 and Q2 was less pronounced (4.3% and 5.0%). Within that, mainly market-oriented services recorded a bigger increase in value added than public services in both periods.

The autumn forecast of total value-added growth for 2005 *remains unchanged since spring (3.9%) although several revisions have been made to forecasts by activity.* The main changes include upward revisions in financial intermediation and construction, and downward revisions in manufacturing, public administration, defence and social security.

Manufacturing's value added *will increase by 3.9% in real terms* ***this year****, i.e. 0.6 p.p. less than expected in spring.* This lower growth is linked to the revision of assumptions about the international environment (see Chapter 1), since the economic trends in Slovenia's main trading partners, given the high export orientation of Slovenian manufacturing[12], strongly affect the dynamics of this sector. Although the outlook for the manufacture of transport equipment has improved since spring and impacted on the relatively strong growth of exports (see Chapter 3.1), the share of this industry in total value added is considerably lower than its comparable share in exports[13]. After the relatively poor performance in Q1 (down 1.0% year-on-year), manufacturing's production activity[14] rose significantly in Q2 (up 5.8%). This growth continued in July, when manufacturing's production activity was 3.7% higher over July 2004 (taking into account that this year's July had one working day less), and 6.2% higher according to working-day adjusted data. The strongest production growth was recorded in the automotive industry where, matched by the pick-up in exports of road vehicles (see Chapter 3.1), the production volume in the first seven months this year overtook the comparable production of 2004 by more than 30%[15]. The boosted production of road vehicles thus contributed 50% to the total manufacturing's production growth. The manufacture of metals and metal products also recorded robust growth in this period. The decline in exports of food and beverages to the markets of former Yugoslavia, which began upon Slovenia's

[12] According to data from companies' balance sheets and profit and loss accounts, the turnover that manufacturing companies generate abroad accounted for 58.5% of their total turnover in 2004.

[13] According to the SORS (Input-output tables, Slovenia, 2001), the manufacture of transport equipment generated just 3.7% of manufacturing's value added while it exported 13.0% of manufacturing's total exports.

[14] In July 2005 the SORS adopted a new methodology for measuring industrial production activity. The quantity data on production volumes that were used from 1952 onwards as the production activity growth indicator have been replaced by the deflated value of production which also indicates changes in the quality of products. According to the new methodology, the calculation of the value of industrial production in a given month is based on deflated turnover in the current month, increased by the difference between the value of stocks in the current and the preceding month.

[15] The high production and export growth in road vehicles is linked to the manufacturer's strategic decision to compensate for reduced production elsewhere with increased production in Slovenia.

accession to the EU, contributed to the drop in production in this activity that was already observed last year and which has continued this year. A similar trend has been recorded in the manufacture of textiles and textile products, although the drop this year is no bigger than in previous years. The growth of manufacturing's industrial production is estimated to strengthen still further until the end of the year compared with the growth achieved in the seven months to July, and to come in at 3.2% for 2005 as a whole.

***Among other primary activities**, the estimated growth of value added **for 2005** has been revised downwards in electricity, gas and water supply (-1.0%; in spring: 1.0%) and upwards in construction (4.3%; in spring: 3.5%).* The correction in electricity, gas and water supply is due to the low water levels of Slovenian rivers, the reduced production of hydro-electric plants and the consequently lower overall power output. In the second half of the year, hydrological conditions are expected to improve (August already recorded above-average water levels) and the Krško nuclear power plant should also produce more power (because there has been no regular overhaul like there was last autumn). The upward correction in construction is mainly linked to the intensive growth of residential construction, which exceeded

Table 8: **Value added by activity**

	Real growth rates, %			
	Constant prices of the preceding year	2004 constant prices		
	2004	2005	2006	2007
		estimate	forecast	
A. Agriculture, forestry, hunting	10.8	1.0	1.0	0.5
B. Fishing	-4.3	0.0	0.0	0.0
C. Mining	2.5	-1.0	-1.0	0.5
D. Manufacturing	4.2	3.9	4.4	4.7
E. Electricity, gas and water supply	3.1	-1.0	3.0	1.5
F. Construction	0.9	4.3	3.3	3.5
G. Wholesale and retail trade, repair of motor vehicles	3.5	4.0	3.4	3.4
H. Hotels and restaurants	0.4	3.3	4.5	4.5
I. Transport, storage and communications	0.8	4.0	4.5	4.0
J. Financial intermediation	14.8	10.0	6.6	7.1
K. Real estate, renting and business activities	3.8	3.8	4.5	4.2
L. Public administration, defence and social security	5.8	2.7	2.5	2.5
M. Education	2.7	2.9	2.7	2.5
N. Health and social work	3.5	4.5	4.4	4.0
O. Other community, social and personal services	3.6	4.5	4.3	4.5
P. Private households with employees	-8.1	5.0	0.5	0.5
VALUE ADDED	4.1	3.9	4.0	4.0

Source of data: SORS; estimate and forecast by IMAD.

the IMAD's spring expectations (the value of construction put in place by large enterprises in residential building construction was up 43.2% in real terms). In agriculture and mining, the trends are in line with expectations whereas poorer results than expected have been recorded in fishing; however, an improvement is projected for the second half of the year, hence the forecasts for these activities remain unchanged (see Table 8).

*The value added of **service activities** is projected to grow by 4.2% **in 2005** – the forecast remains essentially unchanged from spring* (+0.1 p.p.). Higher growth is expected in financial intermediation (10.0%, spring forecast: 6.0%), which appears to be related chiefly to the banks' vigorous lending activity. The outlook for growth in wholesale and retail trade and transport, storage and communications remains the same (both 4.0%). Mainly owing to the subdued growth in Q1, the forecasts for hotels and restaurants, as well as for real estate, renting and business activities have been lowered by 0.7 p.p. (to 3.3% and 3.8%, respectively). In the latter group, poorer results than expected in spring were achieved in both quarters. In public services, value added is expected to climb by 3.5%, i.e. almost the same as projected in spring (3.6%). In public administration, defence and compulsory social security, activity softened more than expected in the first half of the year, which was related to the lower employment growth than projected in the employment plan. On the other hand, the growth of other public service activities (education, health care and social work, and other community, social and personal services) exceeded the expectations. Employment growth in these activities is not estimated to slow down until the end of the year (see Table 13 in the Statistical Appendix); therefore, their value added will be slightly above the spring forecasts. In education, this will be largely due to the still robust employment growth in primary education, while in other community, social and personal services it should be underpinned by the good performance and rapid expansion of gambling activities and the increase in employment in sanitation and similar activities.

***The forecast of value-added growth for 2006** totals 4.0%, roughly the same as for 2005.* Within that, the growth of value added in manufacturing is projected to strengthen (to 4.4%), primarily owing to the higher economic growth in the EU, more specifically the euro area (see Chapter 1). Given this year's dynamics and the distribution of working days, a significant acceleration is expected in the growth of manufacturing's industrial production at the beginning of 2006, which will be followed by a slight softening in growth rates. The volume of industrial production should thus increase by 3.4% to 3.5% in 2006. Similarly, we expect an acceleration of growth in real estate, renting and business activities in 2006 over 2005 (to 4.5%). The improved forecast of value-added growth in electricity, gas and water supply (to 3.0%) was made on the basis of the unfavourable hydrological conditions in the first half of the year that resulted in this year's low production basis, while the forecast for 2006 assumes normal weather conditions. Given the dynamics observed this year, residential construction can be expected to remain vigorous next year[16], although its growth (3.3%) will not keep up with this year's. Public services' value added is projected to increase by 3.4% in 2006. Compared with this year, only a

[16] The building permits issued in the first half of 2005 were granted for the construction of 3,501 new dwellings (new construction and extensions), i.e. 21.5% more than in the same period a year ago.

slight deceleration is expected due to the continued weak growth of employment in public administration and the slightly lower growth in other public services.

***In 2007, value-added growth** should remain at the same level as in the preceding year (4.0%).* The structure of growth in 2007 will also be similar, although it is projected to be slightly higher in manufacturing (4.7%) as a result of the faster growth of EU economies (see Chapter 1) and lower in electricity, gas and water supply (1.5%, assuming normal hydrological conditions). The value added of public services is expected to gain 3.2%, reflecting a further slowdown in growth due mainly to the low growth of employment in public administration and education, where employment growth in the primary education sector is expected to soften. The growth of value added in health care and social work, and other community, social and personal services is projected to remain relatively strong and come in at 4.0% and 4.5%, respectively. Within market services, even slightly higher growth of value added than in 2006 is expected in financial intermediation, slightly lower growth than in 2006 is projected in real estate, renting and business activities, while the growth of other market services should remain unchanged (see Table 8).

2.4 Cost structure of gross domestic product

*After the increases in the **share of compensation of employees** in GDP seen in 2004 and 2005, their share will begin to decline after 2006.* Due to the considerable lagging of the implicit GDP deflator behind domestic inflation resulting mainly from the deteriorated terms of trade, and in line with the effective wage adjustment mechanism, the share of the compensation of employees in GDP rose by 0.3 p.p. in 2004 over 2003. Given the deterioration in the terms of trade which is expected to

Table 9: **Cost structure of gross domestic product**

	Structure in % of GDP, current prices						
	2001	2002	2003	2004	2005	2006	2007
					estimate	forecast	
1. COMPENSATION OF EMPLOYEES	53.4	52.7	52.4	52.7	52.8	52.5	52.3
a) Gross wages and salaries	47.6	46.6	46.1	46.3	46.2	46.0	45.7
b) Employers' social contributions	5.9	6.1	6.3	6.5	6.6	6.6	6.6
2. TAXES ON PRODUCTION AND IMPORTS	16.1	16.4	16.6	16.5	16.4	16.0	15.7
a) Taxes on products and services	13.5	13.8	13.7	13.5	13.4	13.4	13.4
b) Other taxes on production	2.6	2.6	2.9	2.9	3.0	2.6	2.3
3. SUBSIDIES	1.5	1.3	1.7	1.8	1.8	1.8	1.7
a) Subsidies on products and services	0.5	0.4	0.5	0.5	0.5	0.5	0.5
b) Other subsidies	1.0	0.9	1.2	1.3	1.3	1.3	1.2
4. Gross operating surplus	24.4	24.1	25.3	25.1	25.1	25.6	25.9
5. Gross mixed income	7.6	8.1	7.5	7.5	7.5	7.6	7.7
6. GROSS DOMESTIC PRODUCT (6=1+2-3+4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source of data: SORS, Rapid Reports, No. 262/2005; estimate and forecast by IMAD.

keep up this year, and the 4% real rise in the compensation of employees, the share of these costs in GDP is projected to increase marginally in 2005 over 2004 (by 0.1 p.p. to 52.8%). The real growth of compensation of employees in 2006 will total 3.2% in 2006 and 3.4% in 2007 which will, assuming the expected improvement in the terms of trade, lead to a gradual decrease in the share of these costs in GDP during this period (see Table 9).

Among the components of the GDP cost structure, the ***share of taxes on products and imports*** *will decrease at comparatively the fastest pace.* According to the SORS' data, taxes on production and imports amounted to SIT 1,030 bn or 16.5% of GDP in 2004, i.e. 0.1 p.p. less than in 2003. Given the drop in customs duties and import taxes (which since EU accession only apply to imports from non-EU countries and are largely revenue for the EU budget – just a quarter of the collected customs duties is left to the member states to cover the costs of collection) and the expected dynamics of macroeconomic aggregates, we estimate that the share of taxes on production and imports will edge down slightly further (by 0.1 p.p.) this year over 2004. Projections assuming unchanged VAT rates (8.5% and 20%) and a phased reduction of the payroll tax (by 20% in 2006 and a further 20% in 2007) as laid down in the draft budgets for 2006 and 2007, indicate that this will result in a drop in the share of taxes on production and imports, totalling 0.4 p.p. of GDP in 2006 and a further 0.3 p.p. of GDP in 2007.

After the further contraction in the ***share of subsidies*** *in 2002, when it totalled 1.3% of GDP, this share increased to 1.8% of GDP in the 2004-2005 period.* Within that, subsidies on products have been stable, accounting for approximately 0.5% of GDP. Other subsidies have been on the increase, which is partly the result of new programmes co-financed by European structural funds and national resources. Therefore, the share of subsidies is still not expected to change significantly over the next few years.

The ***share of gross operating surplus*** *should remain at the same level as last year in 2005 and increase in the following two years.* Last year's drop in this share is estimated to have been prompted mainly by the deteriorated terms of trade. For similar reasons, it is expected to remain at the 2004 level this year. Assuming that economic subjects will continue to improve their cost efficiency and competitive capacity and taking into account the planned payroll tax reduction, the share of gross operating surplus in GDP is expected to gradually build up over the next few years.

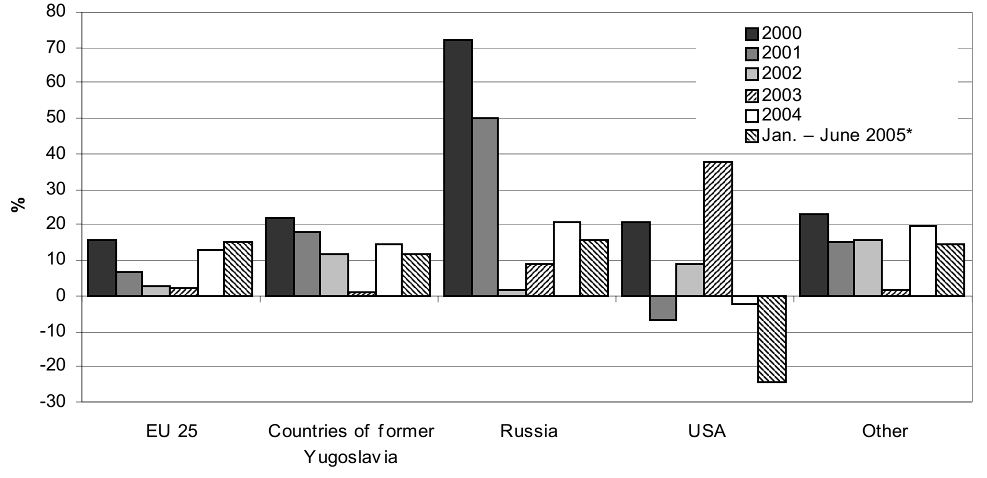
3 Consumption aggregates

3.1 Export-import flows

International trade *was the main driver of economic growth* ***in the first half of the year***. It contributed as much as 2.8 p.p. or 71.8% to economic growth in the first half of the year, after having recorded the highest year-on-year contribution since 2000 in Q2 (4.7 p.p.). According to the national accounts data, trade in goods and services rose by 8.1% in real terms in the first half of 2005 compared to the same period of 2004. The real growth of goods exports remained strong in both quarters (11.2% on average) despite the slowdown from levels achieved in 2004, while the growth of services exports, after having only marginally lagged behind goods exports growth in the second half of 2004, has been sluggish this year (5.9%). The growth of merchandise imports softened more than that of exports, notably in Q2 (from 8.8% to 3.2%, averaging out at 6%), while the growth dynamics of services imports were similar as last year (5.1%).

The six-month figures on exports of goods *confirm the expected gradual slowdown of export growth this year. Despite the softening of EU economies, however, export growth to these countries has still been relatively strong.* According to the external trade statistics, merchandise exports were up 13.2% in the first six months year on year (nominally in EUR); within that, a comparatively bigger rise was recorded in exports to EU countries (15.2%; to non-members: 8.9%). The growth of goods exports to the EU countries, which has been on an upward trend since Q4 of 2003, was strongly accelerated by exports to France in the first half of 2005. These surged by 87.5% over the same period last year. The structure of the main export products according to the SITC shows that exports of road vehicles to France rose threefold in that period so that the share of road vehicles exports increased by 21.8 structural points and accounted for 57.9% of total exports to France. The surge in merchandise exports to France is estimated to have contributed about 50% to the growth of exports to EU countries and over one-third to overall growth of goods exports. Road vehicles exports also impacted significantly on exports to Slovenia's other main partners within the EU: their exports to Austria climbed by 90.9%, and to Italy by 46.7%. Although exports to Germany have been on the increase since April, they rose by a mere 0.3% in the six months to June. This modest growth in comparison with that achieved in 2004 was partly caused by the weak growth of the German economy, which has been largely generated by exports and investment in machinery and equipment this year (see Chapter 1). Among the main export products, the biggest increase in exports to Germany was observed in general industrial machinery and metal products, while drops were registered in exports of road vehicles, electrical machinery and equipment, and furniture. Exports to some old EU members, which were previously not Slovenia's traditional trading partners (Belgium, Denmark, Sweden, Portugal), continued to grow at high rates. Exports to the main partners from new EU members have remained robust this year, notably to the Czech Republic (up 28.3%). Exports of medical and pharmaceutical products were partly shifted to these markets through domestic direct investment in pharmaceutical industry. Exports of iron and steel have also been burgeoning this year.

Figure 4: **Growth of Slovenia's merchandise exports by region/country in 2000-2005, in EUR**



Source of data: SORS. Note: *in the first six months of 2005 over the same period of 2004.

Among Slovenia's other main trading partners, this year's dynamics of goods exports to the countries of former Yugoslavia reflect the changed external trade regime which became effective upon Slovenia's accession to the EU. Exports to the USA have been in decline while exports to Russia have been rising at a slower pace than last year. Due to the largely liberalised trade in industrial products between the EU and Croatia, effective as from January 2004, merchandise exports to Croatia achieved relatively high year-on-year growth also in the first half of 2005 (16.4%, in EUR). Apart from the increased exports of road vehicles (up 41.3%), total export growth benefited significantly from exports of general industrial machinery, medical and pharmaceutical products, electrical machinery and equipment, and metal products. Goods exports to Serbia and Montenegro, with which the external trade regime remained unchanged after Slovenia's entry to the EU, also rose substantially (by 25.2%). Exports to BiH and Macedonia, which surged prior to Slovenia's EU accession due to the expected trade regime change[17] and began to decline thereafter, dropped again in the first six months this year (by 4% and 5.3%, respectively) over the same period last year. Goods exports to Russia, fed by the rising exports of metal products, electrical machinery and equipment, and medical and pharmaceutical products, were up 15.8% in the first six months year on year. Exports to the USA, by contrast, have fallen for the second consecutive year (this year by 24.3%), largely due to the softened exports of medical and pharmaceutical products after their booming in 2003.

Within ***exports of services****, exports of transport services have been growing at the fastest pace this year.* The 11% growth (in EUR) of services exports was largely generated by the vigorous transport services exports (up 14.2%) related to the sustained robust growth of goods exports. The increase in receipts from travel (up

[17] See Bednaš, M. (Ed.) (2005).

11.1%), given the otherwise unchanged number of foreign tourists in Slovenia, indicates tourists' higher consumption. Exports of other services (all except transport and travel) recorded the slowest growth (7.1%) of all components. Within that, the biggest increase was seen in exports of construction services.

On the side of ***imports of goods****, the first half of the year recorded a notable rise in imports of intermediate goods.* In the first six months of 2005, imports of goods were up 8.3% year on year (nominally, in EUR). The regional structure of imports shows a substantial increase in imports from the countries of former Yugoslavia (up 42.6%), whereas imports from the EU countries rose at a more subdued pace (6.9%), also when compared with last year. The biggest upswing was witnessed in imports of intermediate goods (up 14.3%) as a result of export growth and the soaring prices of oil (up 47.2%)[18] and other commodities to a smaller extent (up 6.7%). Similarly, strong growth was observed in imports of intermediate goods excluding oil (11.2%). On the other hand, import prices of intermediate goods have dropped this year in year-on-year terms. The import growth of these products also recorded a low value (4.1%) and fell behind the average imports. Imports of investment goods slipped (by 5.6%), mirroring the modest domestic investment activity (see Chapter 3.3), as imports of machinery specialised for particular industries, automatic data-processing machines, telecommunication equipment and other transport vehicles fell appreciably over the same period last year.

Imports of services *rose less rapidly than their exports in the first six months year on year.* The main contributions to the 9.6% growth (in EUR) came from various business, professional and technical services, which also account for the largest share of other services, whose imports record the strongest growth due to economic development. Imports of other services thus rose by 17.3% in nominal terms, imports of travel services by 4% and imports of transport services by 1.6%.

The ***figures on trade in goods and services in July and August*** *point to a slowdown in export-import flows compared with the first six months.* The year-on-year growth of goods and services exports and imports decelerated strongly in July (8% and 8.8%, respectively) over June (15.8% and 10.8%). In August, the year-on-year increase in export (13.9%) and import flows (10%) recovered, mainly due the robust growth of trade in travel services.

The autumn estimate of the real growth of exports in 2005 *has been revised upwards since spring, while the estimated* ***growth of imports*** *is lower.* Exports of goods and services should grow by 8.6% in real terms in 2005, 1.1 p.p. more than expected in spring, because of the expected higher growth of goods exports; on the other hand, exports of services will record a slightly smaller rise. The upward revision was due to the stronger growth of exports to EU countries than projected in spring. The latter was largely underpinned by the strongly accelerated exports of vehicles to France, Italy and Austria this year. The increase in exports will also be helped by the sustained robust growth of exports to Croatia, and Serbia and Montenegro, and to a lesser extent Russia, where growth will be slower than last year. In contrast, the

[18] The share of oil in total imports increased by 1.4 p.p. to 5.9% in the first half of 2005 over the same period of 2004.

volume of exports to BiH, Macedonia and the USA is expected to drop this year over 2004. Imports of goods and services will be up 6% in 2005 in real terms, 0.5 p.p. less than forecast in spring. Lower growth is expected in both goods imports (mainly due to the substantially lower estimate of gross fixed capital formation growth) and services imports. The external trade balance will thus contribute about 1.4 p.p. to GDP growth in 2005 (the spring forecast projected a contribution of 0.5 p.p.).

In 2006*, goods and services exports should grow less than in 2005 while their imports are expected to be higher (the autumn forecasts are just 0.1 lower than those from spring).* Against the improved economic outlook for the international environment, merchandise exports to EU countries are expected to continue rising, although their growth will be lower than in 2005 due to the booming exports to France this year (creating a high comparative basis). Exports to Croatia, Serbia and Montenegro, and Russia should record lower but still relatively high growth, while the decline in exports to BiH, Macedonia and the USA is expected to come to a halt. Assuming such a regional structure of goods exports growth, total export growth (7.8%) will be slightly lower than in 2005. Given the expected dynamics of total domestic consumption and exports, the growth of imports (6.5%) will also be slightly higher than this year, while the contribution of the external trade balance will consequently contract and total 0.8 p.p.

In 2007, *international trade is expected to experience a slightly stronger rise than in 2006.* Apart from the favourable import demand from EU countries, we also expect the healthy growth of exports to Croatia, Serbia and Montenegro, and Russia to continue. Total exports will record an 8.1% real rise over the preceding year. Given the dynamics expected in exports and domestic consumption, the real growth of goods and services imports should come in at 7.3%.

3.2 Private consumption

Year-on-year **private consumption growth** totalled 3.5% **in the first six months** of the year (2.9% in Q1 and 4.1% in Q2). It lagged 0.4 p.p. behind economic growth, to which it contributed 1.9 p.p. (47.8%).

Household receipts[19] *recorded a 2.0% real year-on-year rise in the first half of the year.* The main contribution to this rise (2.8 p.p.) came from the increase in the net wage bill, totalling 6.3% (2.2. p.p. more than in the same period last year and the highest six-month rise since 1993). Other remuneration[20], after last year's 11%

[19] Previously 'household income'; the term 'household receipts' was introduced in the Slovenian Economic Mirror No. 03/2005 and the Spring Report 2005 in order to avoid it being confused with the category of disposable income. The receipts include net wages and other remuneration according to the Agency for Public Legal Records and Related Services' (AJPES) data and transfers to individuals and households according to the Ministry of Finance's consolidated general government revenue and expenditure.

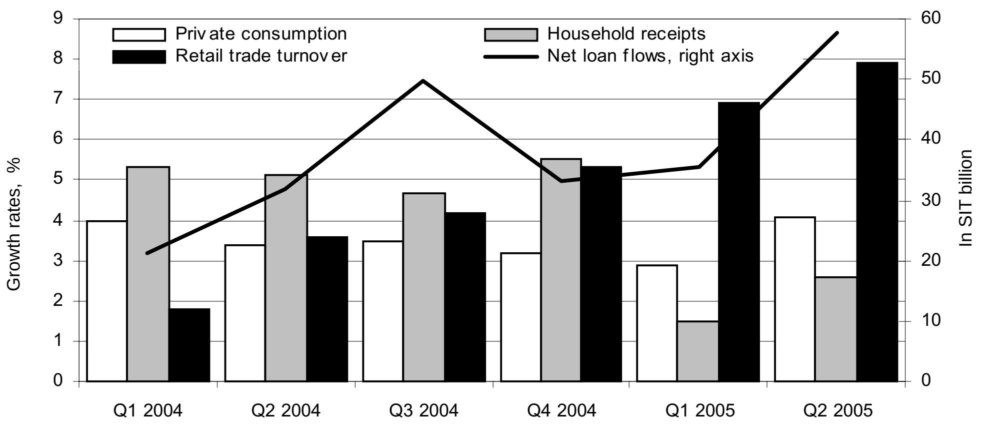
[20] Other remuneration includes: contract-based payments, work-related reimbursements (compensation for meals during work, transport from and to work, allowance for business trips, holiday allowance, severance pay upon retirement, jubilee rewards etc).

increase, registered an 8.4% real drop in this year's first six months[21]. Social transfers were up 2.3% in real terms.

Among other indicators*, the pick-up in retail trade turnover and consumer confidence confirmed the slightly strengthened household consumption* (over 2004, when it rose by 3.3%). According to the SORS' monthly survey[22], turnover in retail trade was up 7.4% in real terms in the first six months over the same period of 2004; the biggest rise was registered in textile, clothing and leather products (up 19.8%). The value of the consumer confidence indicator remained slightly above the long-term average. On the other hand, there were fewer new car registrations (-5.9%) in this period, according to the Directorate of Administrative Interior Affairs (DAIA). Similarly, the BS' data on travel (in EUR) did not imply an increase in spending in this segment as non-residents' spending in Slovenia rose more (10.9% in nominal terms) than residents' spending abroad (up 4.0%). Imports of consumer goods (in SIT) climbed by just 4.8% in nominal terms (their annual growth in 2004 totalled 18.8%).

The increased household borrowing *that began towards the end of 2003 continued in the first six months this year. Foreign currency loans are becoming increasingly attractive for households.* The overall year-on-year real increase in the volume of bank loans to households (tolar and foreign currency) totalled 24.7% in June (11.8% in June 2004). Within these, foreign currency loans (most of which are estimated to be housing loans) have been rising at the fastest pace while, in tolar loans, long-term ones have predominated since March 2003. The stock of foreign currency loans at the end of June was therefore 4.5-times higher than in June 2004, while their share in the total household loans (7.2%) rose by 5.6 structural points.

Figure 5: **Dynamics of private consumption and selected aggregates**

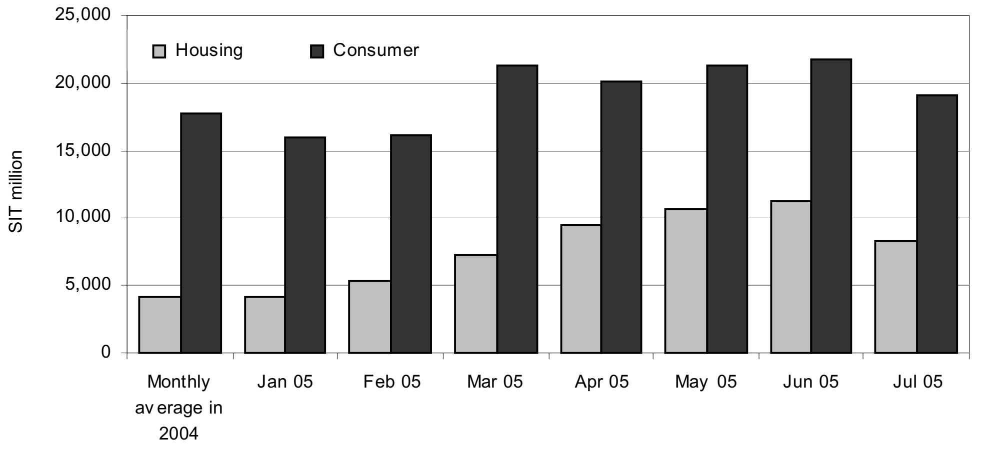


Sources of data: SORS, AJPES, Ministry of Finance, Bank of Slovenia; calculations by IMAD.

[21] In the first half of 2005, contract-based payments dropped by 17.6% in real terms year on year while reimbursements declined by 7.8%; however, other remuneration fell largely on account of the latter since reimbursements account for 90% of other remuneration.

[22] TRG/M, cumulative volume index.

Figure 6: **New loans granted to households**



Source of data: Bank of Slovenia.
Note: comprising the eight banks' total consumer loans; also see Notes 23 and 24.

Within the new loans taken out in the first half of the year[23]*, housing loans rose much more rapidly than consumer loans.* In the first half of the year, total new loans were up 25.1% in real terms, year on year (27.3% in the first half of 2004). Housing loans (close to 30% of total loans) doubled in real terms. One possible reason for this robust growth is the ending of the one-year period after the expiry of the National Housing Savings Scheme (NHSS) in July 2004, during which time savers could take out housing loans. Consumer loans, which are largely used for household consumption according to the national accounts methodology (in contrast to housing loans which are used for housing investment), recorded slower real growth in the first six months this year than in 2004 (8.4% over 26.0%). Within consumer loans, which are also monitored in terms of maturity[24], the biggest rise was observed in those with a maturity higher than 5 years.

*All three **indicators of borrowing from banks** rose.* The commercial banks' loan burden on households (ratio of the average volume of loans to receipts) increased from 2.8 to 3.3 compared to the first six months of 2004. Household indebtedness, measured as the ratio of the average volume of loans to deposits (see Chapter 8.2.1), climbed from 0.31 to 0.35 in the first half of 2005 over the same period of 2004. Due to the vigorous lending, the year-on-year increase in loans in the first six months of 2005 was 14.6-times higher than the corresponding increase in receipts (4.1-times higher in the same comparison for 2004 over 2003).

*The **available data for the third quarter** indicate a continuation of the existing trends.* In July and August together, the real year-on-year growth of the net wage

[23] The BS' figures comprise data on eight banks selected according to the criterion of the banks' total assets.

[24] The reporting on the elements of consumer loan contracts (maturity, interest rate, etc.) is limited by criteria such as the loan amount and/or number of contracts reported; as a result, less than one-third of consumer loans were included in this reporting in the first half of the year. Housing loans are fully covered. Also see the preceding note.

bill was still relatively high (5.7%) while the growth of other remuneration was negative again (-5.3%). The average year-on-year growth of the real turnover in retail trade[25] accelerated in these two months (to 11.2%). In contrast to the figures for the first half of the year, the growth of residents' spending abroad (12.2%, nominally in EUR) surpassed the growth of non-residents' spending in Slovenia (10.6%) in the holiday months (July, August). By August, the net flows of total loans rose to total almost 94% of the total net flows in 2004; within that, foreign currency loans were 3.3-times higher than last year's flows. The year-on-year growth rate of new loans fell to 2.2%[26] in July, which can be attributed to the mentioned ending of the one-year period after the expiry of the first NHSS. In the third quarter of the year, the dwindling of new car registrations moderated (-3.4%).

The ***autumn forecast of private consumption growth for this year*** *(3.6%) is slightly higher compared to the spring forecast.* The forecast has been revised upwards by 0.2 p.p. due to the stronger growth of wages than expected in spring, the favourable developments in the labour market and the lower (according to the SORS' first annual estimate) household consumption growth in 2004 (also see Chapter 2.1). The expected real increase in the compensation of employees thus totals 4%. The estimated real growth of disposable income (3.5%) is 0.3 p.p. lower than in spring, chiefly on account of the collected personal income tax being higher than projected. Household borrowing is expected to continue growing in the second half of the year, albeit at a slower pace than in the first six months.

The estimated growth of private consumption ***in 2006*** *remains the same as in spring, namely 3.1%.* The estimated real growth of disposable income totals 3.0%. With the 0.6% increase in the number of wage earners and the slower real growth rate of the gross wage (2.6%), the gross wage bill will grow in real terms by 3.2%. The propensity to consume should strengthen just slightly (by 0.1 p.p.). Due to the favourable loans, borrowing is projected to continue, although at a slower pace. Within that, particularly housing loans and the related purchases of durable and semi-durable goods are expected to continue rising.

In 2007 *private consumption is also projected to grow by 3.1% in real terms.* Given the equal estimated growth of disposable income, the propensity to consume should remain roughly at the level of the preceding year. Due to the strong borrowing seen in previous years, we expect income to be burdened by loan repayments so that less of it will be available for consumption.

3.3 Gross capital formation

According to quarterly data, ***gross fixed capital formation*** *rose by 1.8% in real terms in the first half of the year over the same period of 2004.* In Q1 it was at approximately the same level as at the end of 2004; in Q2 it rose by 1.5%, according to seasonally-adjusted data. The acceleration in its growth seen in Q2 (from 0.8%

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[25] Calculated from original indices of the turnover volume in retail trade according to the TRG/M survey.

[26] On average, the year-on-year real growth totalled over 80% each month from July 2004 to June 2005. In July, housing loans were up 23.2% in real terms while consumer loans dropped by 4.8%.

to 2.6% year on year) was largely based on investment in building and construction[27], which was up 8.6% according to the SORS' estimate, since the value of investment in machinery and equipment saw a 3.0% real drop over the year before when it picked up substantially[28].

We expect that the growth of gross fixed capital formation will strengthen ***in the second half of 2005*** *although it should remain below the spring expectations for the year as a whole (4.0%; spring forecast: 6.7%).* The statistics on building permits indicate that the construction of dwellings is to remain robust. The building permits issued last year were intended for the construction of 6,733 new dwellings or extensions, 17.6% more than in 2003; their total planned floor area also increased by 14.1%. Favourable trends continued in the first six months of 2005, when the projected number of new dwellings (and extensions) was up 18.7% year on year, while their total floor area expanded by 21.5%. An increase, albeit lower than in housing, is also expected in investment in non-residential construction. Investment in machinery and equipment should pick up in the second half of the year. According to the SORS, domestic industrial enterprises' orders of investment goods in the domestic market[29] ballooned by 87.7% in July 2005 over July 2004, although in the first half of the year they were still below the level from the comparable period of 2004.

In 2006 and 2007, gross fixed capital formation *is expected to grow slightly more than this year, by 4.5% and 5.0%, respectively.* The vigorous growth of housing investment is anticipated to continue in both years on the back of the increase in the number of planned dwellings and their total floor area shown by the data on issued building permits. Investment in other building and construction is expected to rise at a modest pace in 2006 and 2007. Within that, motorway construction will remain at roughly the same level as this year. The expected propitious export dynamics should benefit corporate investment activity, which will mainly be reflected in the growth of investment in machinery and equipment. Growth will also be boosted by the expected larger investment in the manufacture of motor vehicles. In 2006, investment will be additionally affected by the amended investment relief[30].

The contribution of changes in inventories *to economic growth will still be strongly negative this year while it should become more neutral in the next two years.* The level of inventories and valuables rose in the first half of 2005. However, due to the

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[27] The seasonally-adjusted value of construction put in place was thus 10.0% higher in real terms than in Q1. Residential construction is estimated to be growing particularly robustly: large construction companies increased their value of residential construction put in place by 43.2% in real terms.

[28] In the first half of 2004, Slovenia imported machinery and equipment worth EUR 2,408 m, i.e. 14.4% more than in the same period of 2003.

[29] This is a new statistical indicator that has been published by the SORS since August 2004. Enterprises report new orders in their Monthly Report on Turnover, New Orders and Value of Stocks (IND-PN/M), which is also used as the basis for calculating the industrial production and inventories indices.

[30] The current Corporate Income Tax Act (in effect since 1 January 2005) stipulates substantial cuts to investment tax relief in 2006. The government's draft Act Amending the Corporate Income Tax Act, while providing for investment relief on research and development and preserving the existing level of investment relief on equipment until 2007, revokes the relief on real estate as from 2006 and reduces relief on equipment not intended for R&D.

even higher increase in inventories seen in the first half of 2004 the contribution of the change in inventories to economic growth was negative, totalling 1.8 p.p. Similar trends are expected to continue in the second half of the year so that their annual negative contribution will amount to 1.0 p.p. of GDP. 2006 and 2007 should experience similar increases in the level of inventories as this year, hence the negative contribution of the change in inventories should total just 0.1 p.p. in 2006 while being neutral in 2007.

3.4 General government consumption

*According to the SORS' quarterly accounts, **general government consumption** rose by 2.5% in **the first half of the year** compared to the same period of 2004.* Its real growth in Q1 (2.3%) was lower than in Q2 (2.8%); in both quarters, however, individual government consumption grew at a faster pace (3.1% and 3.2%) than collective government consumption (1.1% and 2.2%).

*The real growth of general government consumption is estimated to come in at 2.5% **in 2005**, having remained unchanged relative to the spring forecast.* The forecast of general government consumption in 2005 is based on macroeconomic assumptions, estimates of general government expenditure (covering only that part of expenditure included in general government consumption according to the national accounts methodology) after the adoption of the revised state budget, and estimates of local government budgets and the planned expenditure on compulsory health security according to the financial plan of the Health Insurance Institute of Slovenia for 2005 (also see Chapter 7.2.4). General government consumption growth will thus lag behind the projected GDP growth, and its share in this aggregate will amount to 19.5%. The contribution of general government consumption to GDP growth is estimated to total 0.5 p.p., which is 0.1 p.p. less than in 2004.

Individual government consumption will grow slightly more than collective government consumption in 2005 (see Table 10). The projected increase in the number

Table 10: **General government consumption**

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
Real growth (%)								
General government consumption, total	2.6	3.9	3.2	1.6	2.9	2.5	2.4	2.6
Individual consumption	1.3	3.2	4.4	2.0	3.3	2.8	2.5	2.6
Collective consumption	4.4	4.9	1.5	1.1	2.4	2.0	2.2	2.6
As a % of GDP								
General government consumption, total	19.3	20.0	19.7	19.6	19.5	19.5	19.4	19.3
Individual consumption	11.4	11.9	11.8	11.8	11.8	11.8	11.7	11.7
Collective consumption	7.9	8.1	7.9	7.8	7.7	7.7	7.7	7.6

Source of data: SORS; estimate and forecast by IMAD.

of people employed in the general government sector is estimated at around 2%; specifically, slightly faster growth is foreseen in health care, social work and education, while employment in public administration and defence is expected to grow at a somewhat slower pace. Within the latter, the number of employees in public administration should be reduced while a build-up is planned in the army and the police due to the professionalisation of the armed forces and protection of the EU's external border. The real growth of intermediate consumption in 2005 is estimated to be around 3.0%.

In 2006*, general government consumption is expected to grow by 2.4% in real terms – the forecast remains almost unchanged from spring (-0.1 p.p.).* Its continued lagging behind GDP growth (by 1.6 p.p.) will further cut its share in GDP to 19.4%. The number of people employed in the general government sector is projected to increase by a total of about 2% in 2006, with trends in individual activities remaining similar as in this year. 2006 should still witness the modest real growth of intermediate consumption (2.8%) with a slightly faster increase being expected in expenditure on special materials and services for the Slovenian Armed Forces (obligations arising from NATO membership) and expenditure on medicines and material costs in health care.

A 2.6% real increase in general government consumption is forecast for ***2007****.* It will fall behind GDP growth by 1.4 p.p.; as a result, its share in GDP will further contract to total 19.3%.

4 International economic relations

4.1 Balance of payments

Against the backdrop of favourable goods and services flows, the ***deficit in the current account*** *(EUR 63 m) was sizeably smaller* ***in the first half of 2005*** *than in the same period last year (EUR 251.7 m).* The narrowing of the **trade balance** deficit (from EUR 484.6 m to EUR 273.5 m, comparing the same periods), was the result of the substantial lowering of the trade deficit with EU countries, while the surplus in trade with non-member states remained unchanged at the year-on-year level. At the same time, the surplus in the **services balance** rose (from EUR 342.9 m to EUR 393.6 m). Within that, the surplus in trade in transport and travel expanded more than the deficit in trade in other services (also see Chapter 3.1). Due to the high oil prices (see Chapter 1.1), the rising prices of other primary commodities and of European industrial products (among which the biggest rises were observed in intermediate and capital goods), the terms of trade in goods and services deteriorated by 1 p.p. year on year. Nevertheless, a surplus of EUR 120.1 m was achieved in goods and services trade (the same period of 2004 recorded a deficit of EUR 141.8 m). The deficit in the **factor incomes balance** widened slightly (from EUR 142.4 m to EUR 154.1 m), largely due to the interest paid on loans taken out abroad and partly to the smaller surplus in net labour income. The **balance of current transfers** registered a deficit (EUR 29 m) in the first half of 2005, compared with last year's surplus of EUR 32.5 m. The deficit seen this year resulted from the modest acquisition of funds from the EU budget, which caused the net outflows from the general government sector to increase from EUR 31.7 m to EUR 107.9 m. The surplus in other transfers did not suffice to cover the general government sector's deficit in transfers.

After **July's** deficit (EUR 28.6 m), **August** saw the highest current account surplus this year (EUR 72.9 m), so that its cumulative deficit was even lower than at the end of the first six-month period (EUR 18.6 m).

International financial transactions *(excluding international monetary reserves) recorded a net inflow* ***in the first half of the year****. At the same time, their structure changed.* The net inflow of EUR 136.6 m (compared to the net capital outflow of EUR 111.8 m recorded in the first half of 2004) was chiefly generated by the net inflow of other investment, whereas direct investment and investment in securities registered a net capital outflow.

Direct investment *experienced a net capital outflow totalling EUR 170.9 m* (while the same period of 2004 saw a net inflow of EUR 36.2 m). As exports of outward direct investment fell (down 13.9% nominally, in EUR), the inflow of foreign direct investment in Slovenia was appreciably lower as well (down EUR 9.9 m). The low increase in equity capital was largely the result of a Belgian brewer's withdrawal from the Slovenian capital market. Apart from that, net claims on non-residents arising from loans and trade credits between affiliated enterprises (other capital) rose sharply, from EUR 15.1 m to EUR 95.8 m.

Capital outflows were also generated by ***investment in securities*** *which, following* *last year's strengthening, rose further in the first half of the year (by 47.1% year on year, to EUR 617.6 m).* Banks and households alike increased this type of investment, the bulk of which went to equity securities. According to the BS, these mainly consisted of investment in BiH and Croatia, and partly in Serbia and Montenegro. Due to the repayment of government Eurobonds (EUR 494.2 m), liabilities arising from non-residents' investment in securities contracted as well.

In other investment, *where a net capital outflow of EUR 928.5 m was achieved in the first six months (EUR 272.8 m in the first half of 2004), the inflows largely comprise banks' borrowing and foreign banks' deposits, while outflows largely consisted of outflows of foreign currency and deposits via households and outflows via trade credits.* On the assets side, the strongest year-on-year rise was observed in commercial lending to non-residents (up 24.1% in nominal terms, in EUR), particularly of the EU countries. Exports of foreign currency and deposits via households continued, although they were lower than in the first half of the 2004 (EUR 340.8 m over EUR 392.6 m). On the liabilities side, the flows of trade credits dropped by 32.3% year on year as a result of import flows being slower than export flows. Commercial banks borrowed amply (up 167.6%) to meet the increased domestic demand for foreign currency loans. On the other hand, corporate borrowing abroad fell, partly because of the convergence of domestic and foreign interest rates on loans. There was also a substantial pick-up in foreign banks' deposits in domestic banks (up 111.2%) that partly offset the shortfall in tolar savings and enabled banks to lend foreign currency.

Due to the described capital flows ***international monetary reserves*** *increased.* The total balance of payments, reflecting international monetary reserves, gained EUR 42.4 m in the six months to June (while contracting by EUR 337.5 m in the same period last year). At the end of June the stock of international monetary reserves thus amounted to EUR 6,764.5 m while the stock of commercial banks' foreign exchange reserves totalled EUR 1,251.2 m. International reserves sufficed to cover 4.9 months' average imports of goods and services, i.e. less than at the end of June 2004 (5.2 months' worth). Considering the World Bank's criterion of a minimum of three-months' coverage of total imports, and noting that international monetary reserves still suffice for the coverage of short-term debt by remaining maturity, Slovenia's reserve position is relatively favourable.

After **July's** surplus in **international financial transactions** (EUR 84.4 m, excluding international monetary reserves), a deficit (of EUR 23.3 m) was seen in **August**. The cumulative surplus in the eight months (EUR 197.3 m) was higher than at the end of the first six-month period.

The ***current account deficit in 2005*** *is expected to exceed the spring forecast.* The difference will largely result from the higher estimated deficit in factor incomes (higher estimate of reinvested earnings) and the modest acquisition of funds from the EU budget. Therefore, the current account is projected to record a deficit of EUR 436 m or 1.6% of GDP this year. Against the faster growth of goods exports than imports (also see Chapter 3.1), the trade balance deficit will narrow relative to 2004 (to EUR 885 m) despite the deteriorated terms of trade in goods (by 2.1 p.p.). In our estimate, the services balance surplus will be higher (EUR 751 m) as a result of the real dynamics in the services trade since the terms of trade will generally remain unchanged. The factor incomes balance will register a slightly higher deficit (EUR 263 m), chiefly on account of the reinvested earnings and payment of interest on loans taken out abroad. The current transfers balance is likely to end up this year with a deficit (of EUR 39 m). Current figures indicate that Slovenia will acquire less funds from the EU budget than planned in the revised budget for 2005, particularly for cohesion, structural and internal policies.

The current account *is projected to record a deficit of EUR 195 m or 0.7% of GDP* ***in 2006***. Given that export flows continue to grow at a faster pace than import flows, and despite the deteriorated terms of trade, the deficit in goods and services trade is expected to narrow to EUR 17 m (the deficit in goods trade will narrow while the surplus in services should grow). The factor incomes balance deficit will widen slightly more (to EUR 273 m). The surplus in the current transfers balance is expected to total EUR 95 m, assuming the enhanced absorption of EU funds. In **2007**, the trade in goods and services is expected to be in surplus. The overall balance of the current account should also enjoy a surplus of EUR 48 m or 0.2% of GDP.

Box 2: **Final data on foreign trade for 2004 and revised balance of payments data for 2002-2004**

In August this year, the SORS published the final figures on external trade for 2004. In addition to regular transactions, these also include updated data on merchandise trade with both the EU (Intrastat) and the revised data on trade with non-member states (Extrastat).

The reporting units report to the Intrastat monthly, however only on the goods flow in which they exceed the assimilation threshold (SIT 22.6 m). For this reason, data on trade with the EU are supplemented with data estimates for those enterprises below the assimilation threshold, based on estimates from tax data. The estimated value of trade generated by the enterprises below the threshold for 2004 is calculated on the basis of the share of value in goods trade with the EU created by enterprises whose trade with the EU did not exceed the threshold in 2003. For EU countries, this estimate totalled EUR 185.4 m in goods exports and EUR 244.1 m in goods imports in 2004. According to provisional data, growth of the total trade in goods to the EU enjoyed a nominal rise of 2.4 p.p.: export growth rose to 12.6% and import growth to 14.6%. According to the final figures, the deficit in the trade balance with the EU was 58.7 m higher and totalled EUR 3,141.2 m.

The Extrastat includes all transactions in goods regardless of their statistical value and net mass. Therefore, there is no fixed statistical threshold. Transactions are classified in the relevant reporting month according to the date of submitting the customs declaration or other date determined for the implementation of customs regulations. The differences between the final and provisional data on merchandise trade with non-member states in 2004 were less remarkable than in trade with the EU. The growth of goods imports was up 0.3 p.p. in nominal terms, to 14.6%, while the growth of goods imports strengthened by 1 p.p. (to 20.3%). The difference between the value of final and provisional data totalled EUR 10.7 m in exports and EUR 20.5 m in imports. As a result, the surplus in the trade balance with non-member states was EUR 9.8 m lower according to the final data, totalling EUR 1,781.2 m.

September also saw the release of the revised balance of payments data for 2002-2004. This revision accounts for methodological changes and updated statistical sources Methodological changes concern the alignment of the method for recording interest in the balance of payments with international recommendations, and the calculation of the CIF/FOB ratio.

The new methodology is based on the principle of accrued interest (data on interest are included when it is actually accrued), which replaced the paid interest principle (recording interest when it was actually paid), which was used up until the revision. The changes observed in the current transactions in 2002 and 2003 were minor. The surplus in current transactions in 2002 exceeded the provisional figure by EUR 8.4 m while the deficit in 2003 fell behind it by EUR 10 m. According to the final data, the surplus in 2002 this totalled EUR 343.8 m, while the deficit in 2003 amounted to EUR 81.2 m. The balance of payments underwent the most substantial revision in 2004 when the deficit in current transactions in 2004 topped the preliminary figure by EUR 305.4 m and totalled EUR 543.7 m (2.1% of GDP). This widening was largely prompted by the change in the CIF/FOB ratio and the inclusion of actual reinvested earnings.

The increased deficit in the balance of payments in 2004 chiefly stemmed from the higher deficit in goods trade and higher reinvested earnings. Given the presented external trade statistics, the deficit in goods trade expanded by EUR 68.5 m relative to the preliminary data and totalled EUR 1,360 m in 2004. If we also take into account the drop in the CIF/FOB ratio from 1.0393 to 1.0306 and the adjustment of data coverage, the trade deficit widened by EUR 168.9 EUR to EUR 1,008.8 m. The actual reinvested earnings (EUR 255.3 m) were significantly higher than the estimate (EUR 67.1 m).

4.2 International competitiveness

The price competitiveness of the Slovenian economy has improved in 2005; in the long-term perspective, it is still relatively stable despite a slight deterioration. Changes in the methodology for calculating wages per employee and the industrial production index have hampered the monitoring of actual movements in Slovenian manufacturing's cost competitiveness[31]. Year-on-year comparisons show that cost competitiveness has been improving since April this year. Slovenia's market shares in the markets of its main trading partners have been growing at an accelerated pace.

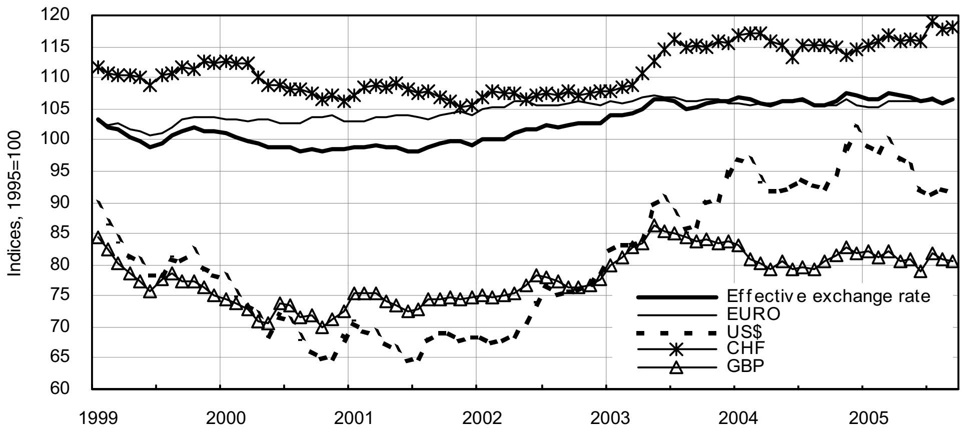
The price competitiveness *in the currency area of advanced OECD trading partners improved* ***from January to August*** *under the impact of the US dollar's appreciation and the more favourable dynamics of relative prices.* Due to the dollar's appreciation, the tolar registered a nominal fall against the OECD basket of currencies[32] (down

[31] According to the new methodology the time series are available from January 2004 (also see Chapters 2.3 and 6.1).

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

1.2%), whereas it has remained nominally stable against the euro ever since Slovenia joined the ERM II. As the growth of Slovenian consumer prices, compared with foreign ones, slowed down markedly in the same period (to 0.1%) and relative industrial producer prices fell (by 1.4%), the tolar also recorded a slight real fall against the OECD basket of currencies in August over December (1.2% when measured by relative consumer prices and 2.6% when measured by relative industrial producer prices). At the year-on-year level, price competitiveness remained close to the level of 2004 in the eight months to August: the tolar appreciated by 0.5% (measured by relative consumer prices) and depreciated by 0.1% (measured by relative industrial producer prices) against the OECD currency basket. The price competitiveness of the euro currency area has also been relatively stable this year. On the basis of relative consumer prices, it deteriorated slightly (by 0.4% in August over December and by 0.1% until August year on year), while having improved somewhat on the basis of relative industrial producer prices (by a respective 0.8% and 0.3%).

Figure 7: **The tolar's real effective exchange rate, CPI deflator**



Sources of data: BS, SORS, OECD; calculations by IMAD.

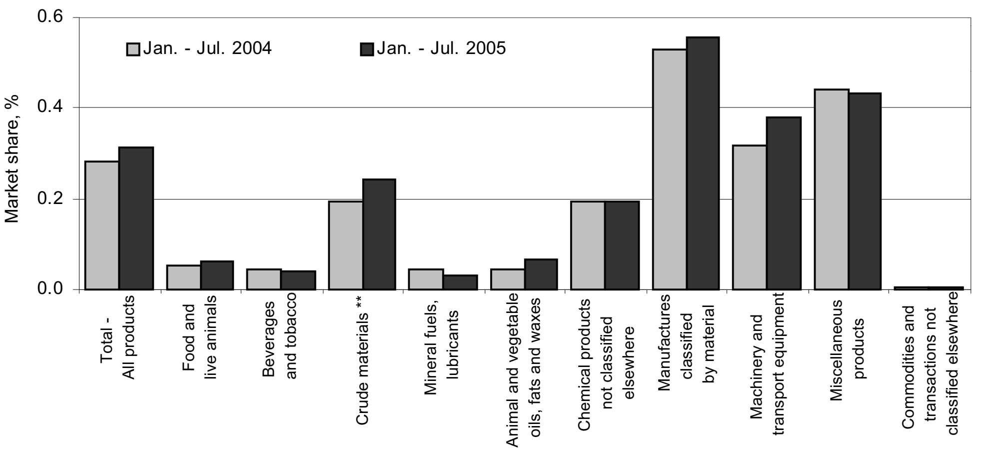
In the first seven months of 2005 Slovenian price competitiveness continued to trend up relative to Croatia and the average of the Czech Republic, Slovakia, Hungary and Poland. The tolar depreciated against the Croatian kuna by 2.6% in real terms[33] over December 2004 and by 0.2% against the average of the Czech and Slovak korunas, the Hungarian forint and the Polish zloty. Year on year, it depreciated by a respective 2.6% and 7.4% in the seven months to July.

In the currency area of the advanced OECD trading partners, the year-on-year deterioration of Slovenian manufacturing's ***cost competitiveness*** *softened (to 1.3%)* ***in the first seven months of 2005.*** Following the modest growth in Q1, labour productivity enjoyed accelerated growth between April and July (up 6.3%; January-

[33] Deflated by relative consumer prices.

July: 4.2%) that was underpinned by a recovery in production. Concurrently, the growth of the real compensation per employee decelerated slightly (to 2.3% between April and July; in the first seven months it was 2.7%, deflated by the consumer price index). While real net wages rose appreciably this year[34], other remuneration dropped sharply. Due to September's raising of the minimum taxable income on which payroll tax may be levied, and January's amendments to the Personal Income Tax Act, the tax burden on wages was reduced as well (also see Chapters 3.2, 6.1 and 7.1). As a result, relative unit labour costs fell between April and July (by 1.6%) but this drop was not large enough to entirely offset their vigorous growth in the first quarter (5.3%).

Figure 8: **Slovenian market shares in the EU-25, by SITC sectors**



Sources of data: SORS, Eurostat; calculations by IMAD.
Note: **excluding fuels.

*The upward trend of Slovenia's competitiveness, measured by the g**rowth of Slovenia's market share** in its main international markets[35], continued in the **first half of 2005** at an accelerated pace*. The increase in the aggregate market share (from 0.55% to 0.587% year on year) was largely fed by the growth of the Slovenian market share in machinery and transport equipment in its main trading partners within the EU. Due to the strongly accelerated growth of road vehicles exports, Slovenia's market shares expanded most significantly in France (up 79%) and Austria, and partly also in Italy and the UK. In the main markets among the new EU members, Slovenia increased its market shares in the Czech and Hungarian markets after the drops seen in 2004, primarily thanks to the growing Slovenian exports of chemical products and metals to these markets. The loss of Slovenia's market share in Germany has carried on this year for the third year in a row. In the main markets outside the EU area the Slovenian market share continued to rise in Croatia while

[34] By an average of 5.6% in the seven months to July.

[35] Germany, Austria, Italy, France, Belgium, the Netherlands, Spain, Great Britain, the Czech Republic, Hungary, Poland, Slovakia, the USA, Croatia and Russia.

having contracted in the USA for the second consecutive year. A drop was also recorded in the Russian market (following a two-year period of growth).

In 2005 as a whole*, the deterioration of Slovenian manufacturing's price and cost competitiveness will be smaller than forecast in spring.* According to the latest estimates, the tolar will appreciate by 0.5% in real terms against the OECD basket of currencies, measured by relative consumer prices (a 1.4% appreciation was projected in spring). With the nominally stable tolar/euro exchange rate (in line with the spring forecast), the divergence from the spring expectations will chiefly be the result of the US dollar's smaller depreciation against the euro[36], given the slightly lower rise in relative consumer prices (0.5% instead of 0.8%). The less significant deterioration of cost competitiveness (0.7%) relative to the spring forecast (1.6%) will be underpinned by the substantially higher productivity growth (4.8%; spring forecast: 3.1%) backed by faster production growth and a slightly stronger drop in employment. The revision of the increase in the real compensation per employee (to 3%; spring forecast: 2.4%) on account of the higher estimate of wage growth is much smaller compared to labour productivity.

In 2006*, the slight deterioration of Slovenian manufacturing's price competitiveness will continue while cost competitiveness will remain at this year's level.* The tolar's real appreciation against the OECD basket of currencies will total 0.7%, assuming a stable tolar/euro exchange rate and the technical assumption of the euro/dollar exchange rate (see Note 36); we also assume that the growth of relative consumer prices will continue to be low (0.8%). Relative unit labour costs in the basket of OECD currencies will be up by just 0.1% because labour productivity growth will strengthen some more (to 5.1%) while the real compensation per employee will remain at this year's level (2.9%).

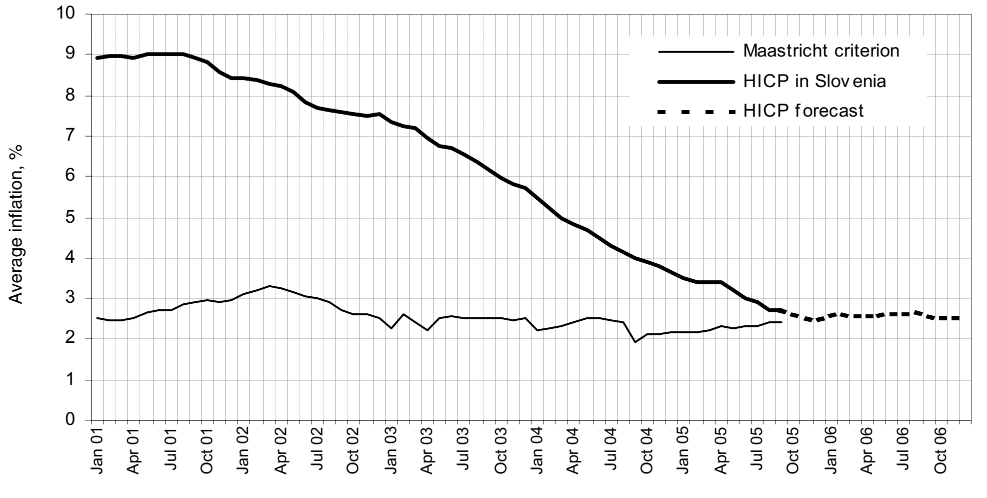
[36] The technical assumption of the euro/dollar exchange rate has been revised to USD 1.256 for EUR 1 (1.306 in spring).

5 Price trends and policy

*The gradual softening of **inflation** has continued in **2005**.* After the decline in the year-on-year price growth (CPI) by 1.4 p.p. to the 3.2% seen in 2004 and following its downswing in the summer months this year, year-on-year inflation climbed slightly again in September when it totalled 3.2%; meanwhile average inflation fell by 0.9 p.p. since December 2004, coming in at 2.7% at the end of September.

As a result, the gap between inflation in Slovenia and the Maastricht inflation criterion has been narrowing (see Figure 9). Average inflation, measured by the harmonised index of consumer prices (HICP) which is used in determining the Maastricht criterion, totalled 2.7% in September. It thus lagged behind the Maastricht criterion as estimated on the basis of the available methodological explanations from EU institutions by a mere 0.3 p.p.

Figure 9: **Average inflation (HICP) in Slovenia and the Maastricht criterion**

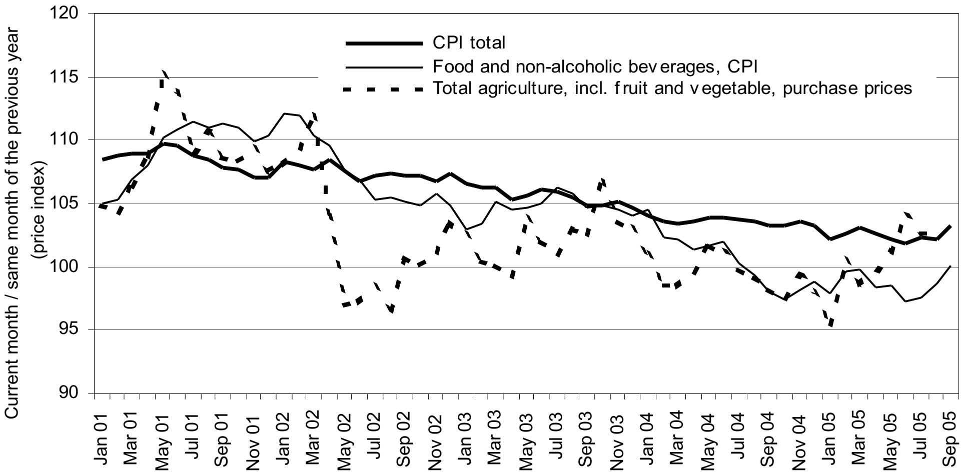


Source of data: Eurostat; forecast by IMAD.

The slower growth of consumer prices was the result of measures adopted by the government and the Bank of Slovenia. Monetary policy contributed to the decline in price growth mainly by stabilising the tolar's exchange rate upon entering the exchange rate mechanism ERM II in June 2004. Other economic policy measures that helped bring inflation down included the prudent application of the restrictive Administered Price Adjustment Plan for 2004-2005, the counter-cyclical adjustment of excise duties, and the application of guidelines adopted in the social agreement. The contribution of administered prices (excluding energy) to inflation has thus decreased by 0.2 p.p. this year, while the raising of excise duties on tobacco and tobacco products has contributed 0.3 p.p. to inflation as the government has continued to align them with the rates agreed in the EU (their harmonisation should be completed at the beginning of 2008). In the past ten months, the growth of market-determined prices fell to 0.6%, administered prices (excluding liquid fuels and gas) were up 2.4%, while prices of liquid fuels and gas rose by 21.5%.

At the same time, the gradual decline of inflation was also supported by other changes related to Slovenia's accession to the EU. These changes were reflected mainly in price falls in the food and beverages market where prices fell by 3.2% from Slovenia's entry to the EU until September 2005 due to the abolition of customs duties and increased competition[37]. To a certain extent these changes also affected the prices of clothing and footwear which dropped by 2.8%.

Figure 10: **Consumer prices (CPI), prices of food in the CPI and producer prices of agricultural products**



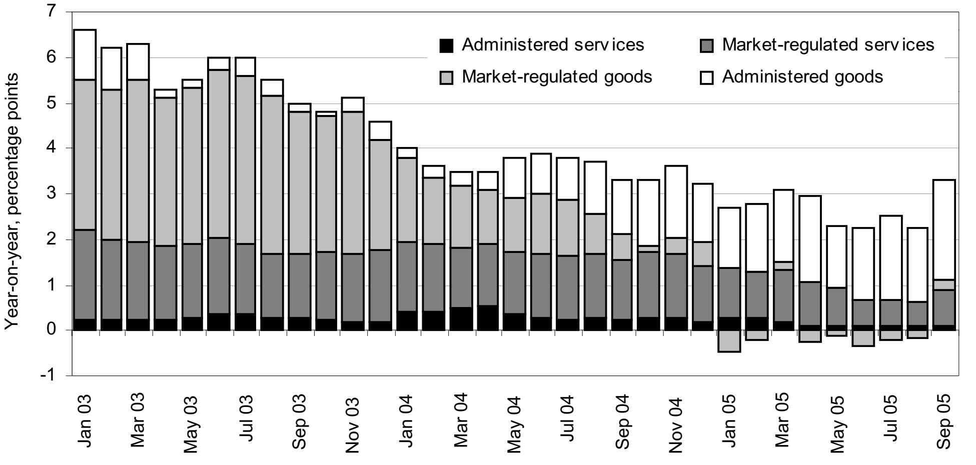
Source of data: SORS.

An even faster softening of inflation was obstructed by the rising oil prices. These ballooned by about 60% in the nine months to September (Brent crude, USD/barrel). The prices of liquid fuels thus contributed 1.7 p.p. to the 2.6% price rise in the first nine months of the year. However, without the counter-cyclical adjustment of excise duties and their reduction to the lowest level still compliant with EU regulations, the contribution of fuel prices to inflation would have been a further 0.5 p.p. higher. Core inflation (excluding food and energy) has thus dipped to below 1.0% this year.

Compared with 2004, ***industrial producer prices*** *have also risen at a slower pace this year.* After their 4.9% rise in 2004, their year-on-year growth declined to 1.9% in September. Among the main groups of prices, intermediate goods recorded the biggest fall in their price growth (by 4.7 p.p. to 2.2.%) but they nevertheless remain the fastest growing group. Its rapid growth in 2004 and the still relatively strong

[37] An additional factor underlying this fall was the purchase prices of agricultural products, which fell by 3.4% from May 2004 to August 2005 against favourable weather conditions.

Figure 11: **Contribution of individual groups to the year-on-year consumer price rise**



Source of data: SORS; calculations and estimates by IMAD.

growth rate observed this year were largely fed by the higher prices of energy and other commodities. These were followed by consumer (1.8%) and investment goods prices (0.8%).

At the end of 2005 *year-on-year* ***inflation*** *is expected to total 2.7% while average inflation should come in at 2.5%.* Due to Slovenia's entry to the EU and the exchange rate mechanism ERM II, price growth softened appreciably in the second half of 2004, totalling just 0.4%, compared to the 2.8% rise in consumer prices still observed in the first half of 2004. Supported by the further application of macroeconomic measures and the still present effects of EU accession, inflation halved in the first half of 2005 over the same period last year, amounting to 1.5%. As a result, year-on-year inflation declined relatively quickly and totalled 1.9% in June. In the third quarter of the year, price growth recorded a relative rise to 1.1% (-0.2% in Q3 of 2004) due to higher prices of liquid fuels, which pushed year-on-year inflation up to 3.2%. The final quarter of the year is expected to record lower price rises than last year and year-on-year inflation should thus dip to 2.7% until the end of the year.

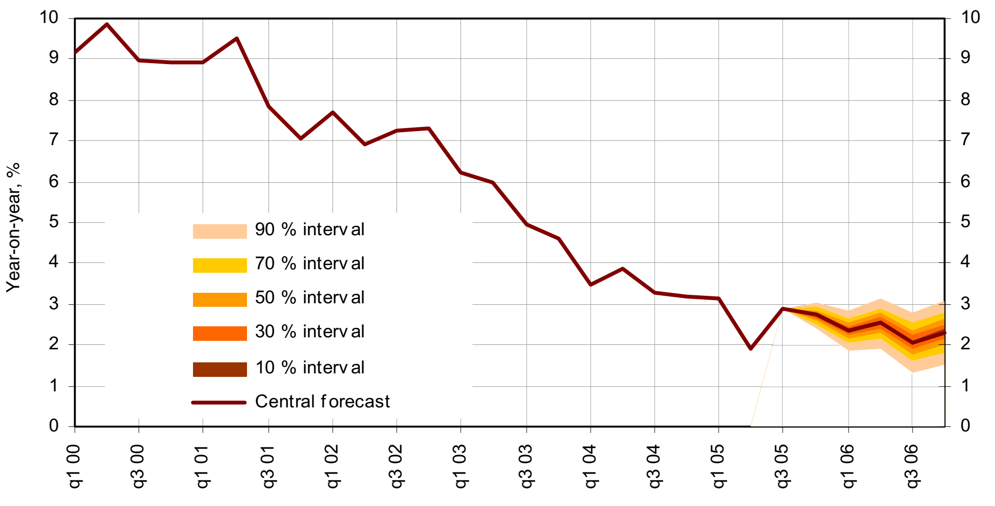
Inflation *is expected to decline further in* ***2006*** *and to stabilise at the achieved level in 2007.* Upholding the key economic policies that helped bring inflation down to a level which has come close to the EU average in the past few months will enable the price rises that depend on these policies to remain at the achieved level in the next two years. Assuming that the Bank of Slovenia will keep the tolar's exchange rate stable throughout the remaining period of Slovenia's participation in the exchange rate mechanism ERM II and the government will support these efforts with its policies (counter-cyclical adjustment of excise duties and implementation of the guidelines adopted in the social agreement), core inflation should remain at a level of around 1.0% in 2006. At the same time, the government will continue pursuing its key guidelines in administered prices policy, so that the rises of these prices will not diverge substantially from the rises of market-determined prices in the next few years. Coupled with the expected reduced inflationary impact of external factors (softening oil prices), this should result in a further decline in inflation in 2006: year-on-year inflation is projected to dip to 2.3% and average inflation should total 2.5%.

The same year-on-year ***price growth*** *as in 2006 is also projected for* ***2007*** *(2.3%) whereas average inflation is expected to total 2.4%.* In 2007, following Slovenia's planned entry to the European Monetary Union (EMU) the government will continue to apply its counter-inflationary macroeconomic policies. The reason is that the relatively higher price rises than in Slovenia's key trading partners could lead to a deterioration in the competitiveness of Slovenia' tradable sector. Drawing on other EMU members' experience with the euro changeover, the government has decided to apply dual pricing prior to adoption of the euro in order to reduce the risk of the euro changeover exerting a significant impact on price rises.

If Slovenia's inflation rate were to remain higher than in its main trading partners after the euro is adopted, the competitiveness of Slovenia's economy would continue slipping. Prices in Slovenia may rise at a faster pace than in its main trading partners due to the faster productivity growth in the Slovenian economy (the Balassa-Samuelson effect) and the still persisting structural imbalances. Therefore, in order to achieve the further sustainable lowering of inflation and hence prevent the deterioration of the economy's competitiveness Slovenia should carry through structural reforms, notably liberalise and ensure competitive conditions within those sectors where prices are still state-regulated or where monopoly suppliers still exist, as well as enhance labour market flexibility.

In line with the Programme for Entering the ERM II and Introducing the Euro, Slovenia will fulfil the ***Maastricht inflation criterion*** *by mid-2006 at the latest.* The

Figure 12: **Central inflation forecast and the probability of expected divergence**



Source of data: SORS; forecast by IMAD.

persistent rises in oil prices and consequently prices in Slovenia and other EU countries are reinforcing the uncertainty as to whether Slovenia can achieve the Maastricht inflation criterion, since their impact on inflation across individual member states is uneven. Nonetheless, the current softening of inflation and particularly of prices that do not significantly depend on external factors is estimated to have been achieved in a sustainable way. Therefore, the gap between the inflation in Slovenia and the Maastricht criterion, which totalled 0.3 p.p. in September, will be eliminated by mid-2006.

*The **risks** of inflation diverging from the central forecast in 2006 are still evenly distributed.* Compared with the previous forecast, the risks of inflation deviating from the central forecast have not changed and remain evenly spread (see Figure 12). If the adopted economic policies continue to be consistently applied, price rises different than those projected may, in our estimate, occur mainly due to shocks from the international environment, notably further oil price fluctuations.

Box 3: **Fulfilment of the Maastricht criteria**

Two years of participation in the exchange rate mechanism ERM II and the fulfilment of Maastricht fiscal and monetary criteria are the preconditions for adopting the euro. The changeover is scheduled for the beginning of 2007[38], which means that the nominal convergence criteria must be met by mid-2006 at the latest. At the moment, Slovenia complies with both fiscal criteria and the interest rate criterion, while it still does not fulfil the inflation criterion. In the country's 15-month participation in the exchange rate mechanism, the tolar exchange rate's oscillations around the central parity have not exceeded 0.15% (the allowed fluctuation rate is ±15%). However, since the exchange rate must be stable for at least two years in order to adopt the euro Slovenia formally still does not meet the exchange rate stability criterion.

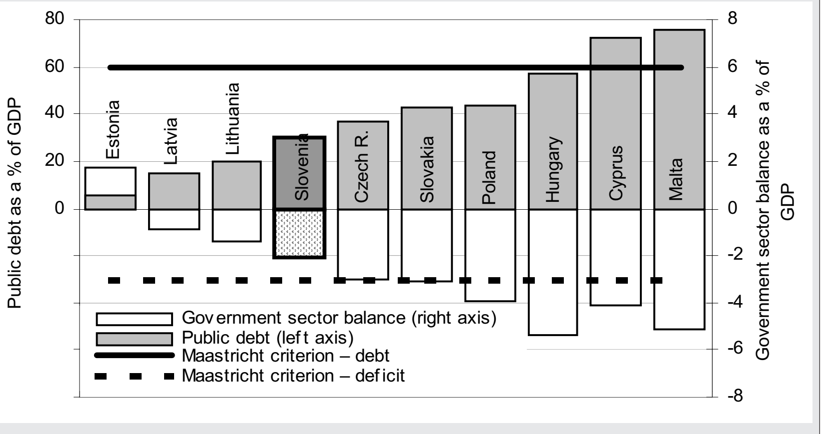
Slovenia currently fulfils the criteria regarding the general government deficit and public debt. Thanks to the propitious macroeconomic environment the general government sector deficit narrowed to 2.1% of GDP in 2004 (the Maastricht criterion is set at 3%), while public debt rose to 29.8% of GDP (the Maastricht criterion totals 60%). In line with the adopted budget and the current developments we expect that Slovenia will also comply with both fiscal criteria in 2005.

The long-term interest rate criterion has also been fulfilled. The Maastricht criterion on the interest rate stood at 5.5% in September this year, while the twelve-month average of the ten-year government bonds' yield-to-maturity in Slovenia was 1.5 p.p. lower.

Slovenia has yet to satisfy the inflation criterion. According to the effective practice for the calculation of the Maastricht inflation requirement this criterion has risen

[38] The reasons and procedures for the earliest possible adoption of the euro are set out in greater detail in the Programme for Entering the ERM II and Introducing the Euro, which was adopted by the government and the Bank of Slovenia in November 2003.

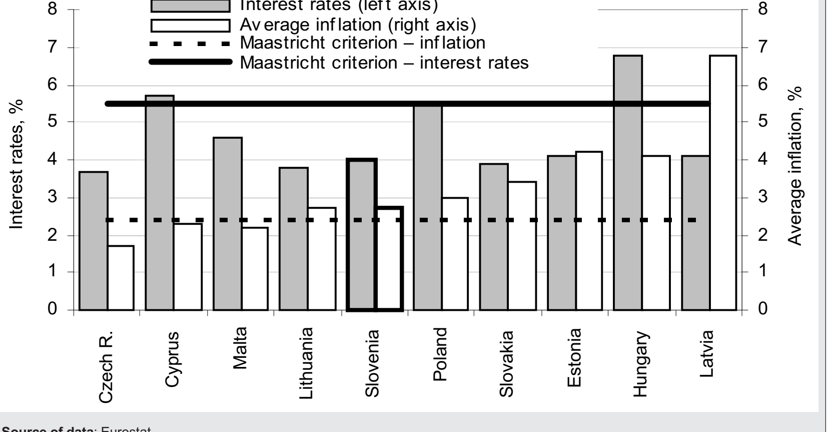
Figure 13: **General government deficit and public debt in the new EU member states**



Source of data: Eurostat.

this year (largely due to the effect of higher oil prices) and totalled 2.4% in September, while average (HICP) inflation in Slovenia was a further 0.3 p.p. above this mark. Since the Maastricht criterion is expected to either remain unchanged or rise in the following months and since average inflation in Slovenia is still in decline (falling by an average of 0.1 p.p. per month), we expect that Slovenia will fulfil the inflation criterion in the first half of 2006 at the latest.

Figure 14: **Inflation and interest rates in new EU member states, September 2005**



Source of data: Eurostat.

6 Labour market

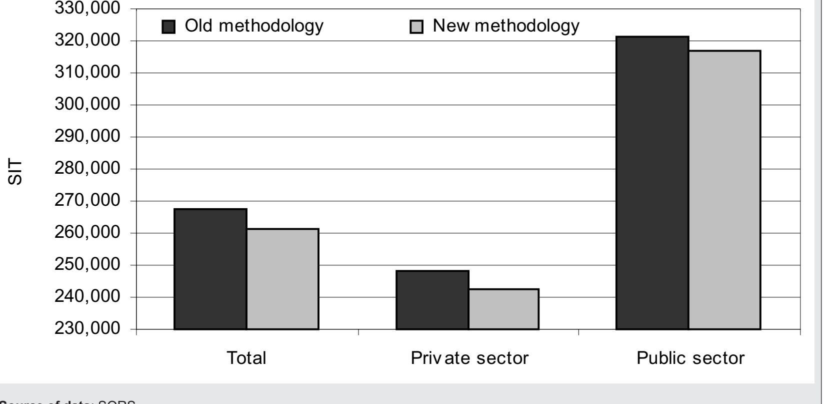
6.1 Wages

Wages policy has been using all available instruments to follow the set macroeconomic guidelines. The most important **wages policy instruments are** the adjustment mechanism for wages and the minimum wage. The method of setting the adjustment mechanism for 2004 and 2005 in the public and private sectors was agreed upon by the social partners. Besides, overall growth in the gross wage per employee in the private sector depends on business results and in the public sector on promotions and wage supplements, which have been paid very frequently recently. The Social Agreement 2003-2005 set out an important long-term **guideline** according to which the growth of the real gross wage per employee should lag behind labour productivity growth by one percentage point. The aim of the social partners was to stimulate investment in development and create new, better quality jobs; moreover, the modest rise in wages also contributed to the slowdown in inflation. According to the available data, the estimated rise in the gross wage has failed to lag behind the estimated labour productivity growth this year, although over a longer period of time this macroeconomic guideline has been achieved.

Box 4: **Methodological changes in collecting data on wages**

A new methodology for collecting gross wages data, which was introduced this year, also affected the calculations of wage levels. As from 2005, all data on paid wages which used to be collected by the Statistical Office of the Republic of Slovenia are being collected by Agency for Public Legal Records and Related Services. Now data on wages comprise all employees and not only employees in companies with more than two employees. As a result of the extended data coverage, the number of wage receivers rose by around 45,000 this year. As the wages of these employees are on average below the Slovenian average, the level of the

Figure 15: **Gross wage per employee in 2004 according to the old and new methodologies**



Source of data: SORS.

average gross wage per employee is slightly lower according to the new methodology. For the sake of better comparability and for the analysis of data for 2005, the SORS also recalculated data on gross wages for 2004 using the new methodology. Based on these recalculations, the gross wage per employee in 2004 was around 2.4% lower than that according to the old methodology. As more than 90% of these additional employees work in the private sector, this difference has been around the same in this sector, whereas in the public sector it was lower (1.3%).

According to the recalculated data on gross wages for 2004, there were around 20,000 more receivers of wages that year, but this number was subject to considerable monthly oscillations. For example, in January 2004 this number was 40,000, but it dropped by 30,000 over the following month. Because of these oscillations in the number of wage receivers in 2004, the growth of the gross wage per employee for 2005 over 2004, in particular in the private sector, needs to be considered with some caution.

*According to the available data, **the real gross wage per employee** rose strongly **in the first half of 2005.*** It was up by 3.6% in the first quarter compared to the same period last year, and by as much as 4.6% in the second quarter. Gross wage growth is expected to be somewhat lower in the second half of the year, which is already showing in the slowdown in growth in June and July, and is set to end up at around 3.2% in 2005, which is almost 1 p.p. above our Spring Report forecast. Thus, the real growth of the gross wage per employee will be the same as the estimated labour productivity growth. The gross wage is seen to rise even more in the private sector (by 3.8%), whilst in the public sector it is to average out at around 1.6%.

*In **the private sector, the adjustment mechanism** set out in the 'Wage Policy Agreement for the Private Sector 2004-2005' has also applied in 2005.* The agreed August adjustment percentage was 2.7% and was paid out as a wage supplement 'amount', thus preventing the possibility of the wage rates in a certain branch, activity or company not being adjusted. The level of the adjustment amount depends on the achieved level of the average gross wage per employee in an activity, but in no case should it be lower than the minimum adjustment amount of SIT 5,100. The social partners in the collective agreements for selected activities may also decide on an adjustment percentage, if their collective agreement provides for a mechanism which applies to all wages (e.g. the collective agreement for cellulose, paper and paper-manufacturing activities). The social partners decided on the method of the 'adjustment amount' to encourage collective agreements to start adjusting all the basic wages and not the wage rates. Last year and this year, many collective agreements have already been amended so as to take into account the basic wage as a basis for adjustment and to incorporate the adjustment amount into the basic wage[39]. In collective agreements, the social partners can also agree on the adjustment which arises from increased labour productivity, taking into account the guideline of the

[39] So far, seven sectoral collective agreements (CA): CA for construction, CA for hotels and restaurants, CA for chemical, CA for forestry, CA for postal, CA for graphic printing and CA for publishing, printing and media activities.

lagging of the gross wage behind labour productivity growth by at least one percentage point. According to the latest data, this year the adjustment amounts have been lower than last year by the same proportion as the adjustment percentage (in 2004, it was 3.2% and in 2005, 2.7%), only in some activities were the amounts the same or even higher[40].

Growth in wages in the private sector *should slow down in the second half of the year and average out at 6.4% in nominal terms and 3.8% in real terms* ***in 2005***. Based on the above information on the agreed adjustment amounts, this year's adjustment-related rise in gross wage in the private sector could be nominally lower than in 2004. However, in the first half of the year, gross wage per employee in this sector was up nominally by as much as 7.4% compared to the same period last year, whilst in 2004 this rise was 6.9% (using the old methodology for collecting gross wages data). The first half of 2005 and 2004 had the same number of working days. This year, there is no additional economic push which could account for this year's rise in gross wage per employee calculated using the statistical data by the new methodology. Given the further deceleration of inflation, the real rise in gross wages in this period has also been very high, reaching as much as 4.8% in the first half of the year compared to the same period last year, whilst in 2004 the real gross wage in the same period (using the old methodology) was up by 3.1%. The June (-1.0%) and July (-0.8%) nominal monthly drops in wages point to a somewhat lower nominal rise in gross wage in the second half of the year. According to our estimations, the nominal rise is seen to reach around 5.5% and the real rise 2.7% in this period compared to last year's (in the second half of 2004, these figures were 6.7% and 3.1%, respectively). Somewhat slower real rise in gross wages in the second half of the year is forecast on the basis of a shorter second half of the year (four working days less than last year), which considerably affects the real rise in gross wages in the private sector. In 2005, gross wage per employee in the private sector is thus expected to rise by 6.4% in nominal and by 3.8% in real terms.

A slowdown in wages growth in the second half of the year is expected also ***in the public sector;*** *wages are expected to be higher by 4.1% in nominal and by 1.6% in real terms* ***in 2005***. In the first half of the year, gross wage per employee in the public sector rose nominally by 4.4% and in real terms by 1.9%. In public administration and health-care, nominal growth was around 3.3% and real growth 0.8%, whilst wages in education grew considerably faster, i.e. by 5.8% and 3.2%, respectively. In the former two activities, the rise was largely a result of promotions, whilst in education, in addition to promotions, it could also be attributed to the July 2004 3% rise in the level of gross wage based on the Annex to the Collective Agreement for Education, which has been fully expressed in this year's real rise in wages in this activity. This July, gross wage in public sector picked up by 1.4% compared to June, thanks to adjustment by 2% agreed upon by social partners for July and based on the Act Amending the Public Sector Wage System Act. Besides, July saw a 3% rise in wages in education, as set out in the above Annex. A slower July monthly rise in gross wage per employee than it should have been according to the adjustment percentage and the Annex is largely a consequence of the smaller working extent,

[40] They were the same in the CA chemicals-3, CA employees-private employers and CA-publishing; they were higher in newspaper media CA and magazines CA.

which means a drop in wages in education by as much as approximately 2%. In the second half of the year, gross wage per employee in the public sector is expected to rise by around 3.7% in nominal and by 1% in real terms compared the same period last year, whilst the whole 2005 is to witness a 4.1% nominal and a 1.6% real growth.

*In **2006,** gross wage per employee is forecast to rise by around 5.2% in nominal and by 2.6% in real terms and will lag by around one percentage point behind the expected 3.5% labour productivity growth*. The method of wage adjustment for private and public sector has not yet been agreed upon by social partners. Real growth in gross wages in the **private sector** will be spurred by strengthening of the economic environment and growth in labour productivity. With the number of working days down by further three days and on the presumption of a similar adjustment mechanism for wages as used so far, gross wage per employee is anticipated to rise by 5.5% in nominal and by 2.9% in real terms. As regards the **public sector**, the negotiations of the social partners on the method of adjustment for 2006 and 2007 have already started. In addition to the adjustment mechanism agreed by the social partners, growth in gross wage per employee will be spurred also by promotions and in the education also by a 3% rise in wages arising from the Annex to the Collective Agreement for Education. Gross wage per employee in the public sector is thus seen to nominally rise by 4.3% and in real terms by 1.8%.

*On the basis of the forecast macroeconomic developments, gross wage per employee is expected to be up by 2.8% **in 2007.*** The lag of real gross wages behind the foreseen labour productivity growth is expected to be slightly smaller, i.e. 0.7 p.p. The real gross wage per employee in the private sector could under the presumption of a favourable economic environment and around the same number of working days (1 day less in 2007) rise by around 3%, and in public sector by around 2%. The slightly higher rise in real gross wages in the private sector than in the public sector can also be attributed to further structural changes regarding employees in the private sector. Namely, more technologically demanding production tends to employ an increasingly more skilled labour force, whilst production requiring unskilled labour is gradually being abolished.

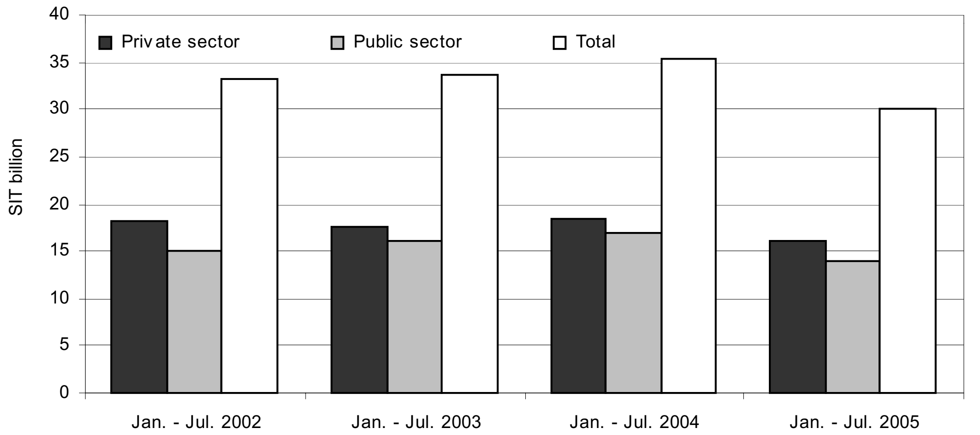
6.1.1 The effects of the changed tax legislation on work-related allowances and remunerations

Work-related allowances and other remuneration, payments based on contracts for work or services and copyright contracts soared in particular at the end of 2004, rising much faster than the total net wage bill. The reasons lie in the new Personal Income Tax Act. Because of its aim to disburden the lowest gross wages, increase tax relief for children and given the principle of tax neutrality, it had to expand the personal income tax base in order to achieve the proportionality of revenues from that tax.

*The new Personal Income Tax Act raised taxes on **payments based on copyright contracts,** thus reducing their tax advantage over wages.* The aim of this measure was to put taxpayers in a more equal position since analyses have shown that the number of receivers of authors' fees increased and that this became one of the methods of tax avoidance. These payments – with higher taxes in sight as from 1

January 2005 – rose markedly towards the end of 2004. In the last three months of 2004, payments based on contracts and authors' fees accounted for 55% of such payments in the first nine months (this ratio was 40% in previous years). The data available for 2005 reveal a slowdown in these payments. In the first seven months, payments based on contracts and authors' fees dropped in nominal terms by 14.8% compared to the same period last year, whilst last year in this period, they were up 5.4%. They were down 12.3% in the private sector and 17.5% in the public sector. Although the public sector employs only a quarter of all employees, it received almost half (46%) of all payments based on contracts and authors' fees. This year, the private sector has featured a shift away from payments based on copyright contracts to wages, in particular to employees who used to receive part of their earnings through authors' fees. This is because the tax burden on both types of remuneration is now similar. The payments based on contracts for work or services and copyright contracts in the private sector represent a mere 3% of the total net wage bill, which is why the proportion of these payments which were transformed to wages could not contribute much to the overall rise in the gross wage per employee.

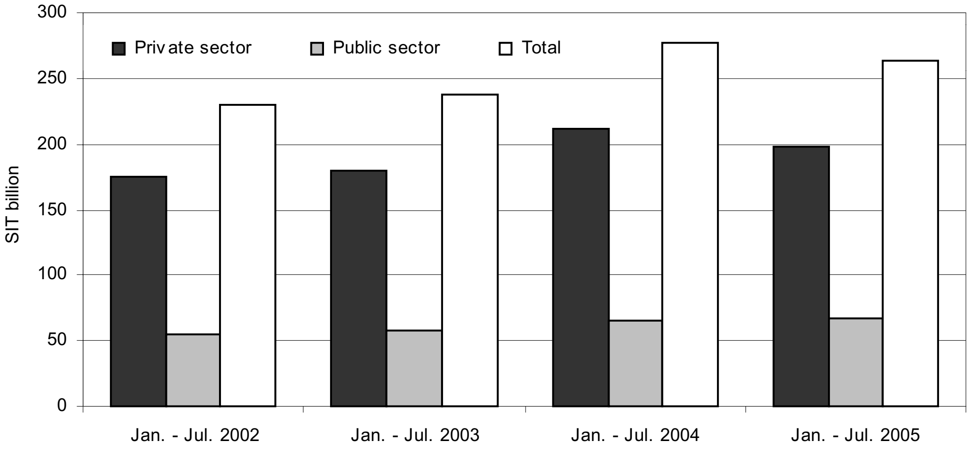
Figure 16: **Payments based on contracts for work or services and copyright contracts by sectors; comparison of payments in the first seven months of the year for the period 2002-2005**



Source of data: AJPES, calculations by IMAD.

The new Personal Income Tax Act also regulates more thoroughly ***work-related allowances and other remuneration,*** *especially in that part of remuneration which does not count as the tax base.* The level of the non-taxable amount of such remuneration is set out in the Personal Income Tax Act and the Decree on the level of work-related allowances and other remuneration which are not included in the tax base. The principle of taxing remuneration above the level of the non-taxable amount in the same manner as wages also applied before but the new Act – pursuant to a certain amendment to the Decree – much more clearly defines the conditions for the non-taxable part so as to prevent any misuse of these remunerations for other purposes (wages). In turn, these remunerations went down to the level which is not taxable by law and in general their movements slowed down. In the first seven months this year, work-related allowances and other remunerations dropped by 4.7% nominally compared to the same period last year. In this same comparison for 2004, they were nominally up by 16.4%. In the private sector, where the oscillations of such remuneration were much more pronounced than in the public sector, they dropped nominally by 6.6%, whilst in the public sector they even picked up slightly in the first seven months (by 1.2%). In the public sector, they represent around a quarter of all remuneration of this type, which corresponds to the share of those employed in this sector in total employment. All in all, work-related allowances and other remuneration represent around one-third of the total net wage bill.

Figure 17: **Work-related allowances and other remuneration by sectors; comparison of payments in the first seven months of the year for the period 2002-2005**



Source of data: AJPES, calculations by IMAD.

Growth in net wages *has been faster than growth in gross wages this year.* The new Personal Income Tax Act mostly disburdened the lowest gross wages and it is estimated that – because of the effect of the reduced personal income tax burden in 2005 – growth of the net wage bill will be around 2 p.p. higher than the growth of the gross wage bill. That is why this year the comparison of the shares of the abovementioned remunerations with the net wage bill is slightly misleading.

6.2 Employment and unemployment

The first half of this year *saw a further* ***rise in the number of employees*** *in companies and organisations and in some categories of the self-employed, whilst a number of independent farmers and those working for the self-employed dropped.* While being relatively high last year, growth in the number of people in informal employment[41]

[41] This is the number of people working either as unpaid assisting family members, under contracts for work or in the grey economy. It is estimated as the difference between the number of people in employment according to the survey and the number of those formally employed.

was much lower this year (see Table 11). The number of people in employment picked up by 0.7% compared to the same period last year according to the labour force survey and monthly statistics, and by 0.8% according to the national accounts methodology[42]. In July, the number of people in employment dropped (by 0.3% from June) which was, however, within the margins of every year's seasonal dismissal of part-time workers before the summer holidays. The year-on-year rise in the number of people in employment was also 0.7% in the first seven months of this year. The national accounts statistics show labour productivity was up 3.2% in the first half of this year compared to the same period last year.

In the first half of 2005, the number of people in employment increased largely in services, whilst it dropped in agriculture, mining and manufacturing. Compared to the first half of 2004, formal employment in agriculture was down by 2,750 people or 6.6%, in mining by 196 or 4.4%, and in manufacturing by 3,350 or 1.4%. Manufacturing witnessed the greatest falls in employment in the textile (-2,267 or 8.8%), food-processing (-924 or 4.5%) and leather industries (-741 or 11.3%). In all other areas, the number of people in employment rose, the most in real estate, renting and business services (around +3,500 or 5.8%). A substantial increase in employment was also observed inconstruction (around +1,700 or 2.8%[43]), and among the services in financial intermediation (2.9%), hotels and restaurants (2.8%), health and social work and other community and personal services (2.7%) as well as in education (2.4%). In addition, some manufacturing sub-sectors saw a rise in employment, i.e. the manufacture of vehicles (+997 or 9.7%), and metal manufacturing (+747 or 1.9%).

***In 2005 employment** is expected to rise more than forecast in spring, but the forecasts for **2006 and 2007** remain unchanged.* This year, growth in employment especially in market-oriented services is expected to exceed the spring forecasts and is seen to reach 2.4% (see Table 13 in the Statistical Appendix). On the other hand, some further laying off in manufacturing is expected which is to contribute to a drop in employment in these activities of 1.6% (spring forecast -0.8%). Given the expected seasonal dynamics and the foreseen economic growth, this year's employment growth (using national accounts methodology) is expected to be around 0.7%, whilst labour productivity is set to grow by 3.2%. In the next two years, the forecast economic growth is to be underpinned by slightly lower employment growth (around 0.5%) and somewhat higher productivity growth (at the long-term average level of around 3.5%).

Unemployment has continued to decrease this year, with the female unemployment rate still being much higher than male unemployment rate. **The number of**

[42] Differences in the methodology of the mentioned three statistics which cause disparities in the data on employment are explained in greater detail in the 2005 Spring Report (Box 4).

[43] For the sake of comparability, these figures exclude the rise in the number of employed in activity K because of the statistical categorisation of the Slovenian Motorway Company (DARS) in this activity from January to April 2005, and the rise in the number of employees in construction because of the statistical categorisation of DARS in this activity since May 2005. In 2004, DARS was statistically categorised in the public administration, and in mid-2004 it merged with the Company for Motorway Maintenance with around 900 employees, who by then statistically belonged to construction.

Table 11: **Various employment categories in the period 2004-2007**

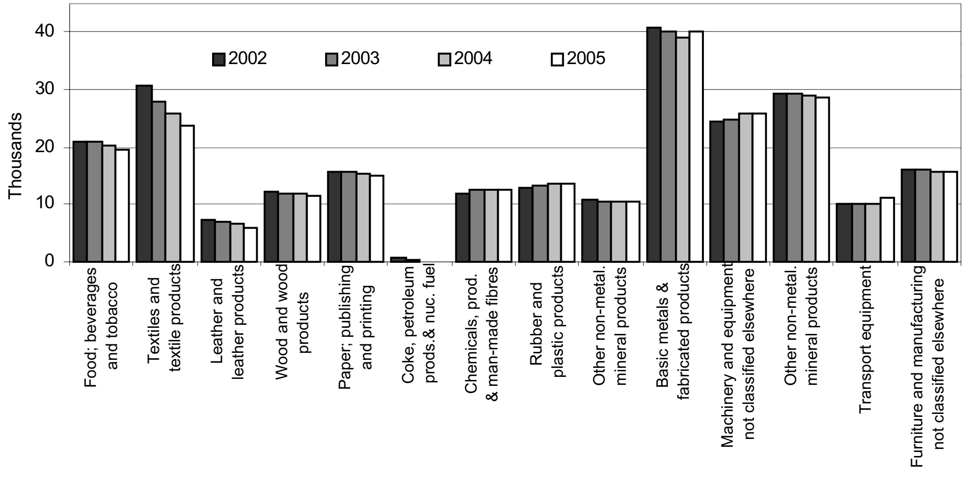
	Growth rates in %				
	2004	I-VI 2005/ I-VI 2004	2005	2006	2007
			estimate	forecast	
People in employment according to labour force survey	**5.1**	**0.7**	**0.2**	**0.5**	**0.5**
Employment according to national accounts methodology	**0.4**	**0.8**	**0.7**	**0.5**	**0.5**
Formal employment	**0.8**	**0.7**	**0.7**	**0.5**	**0.5**
Employees	0.3	1.0	1.0	0.6	0.7
- in enterprises and organisations	0.4	1.2	1.1	0.6	0.7
- activities A-K	-0.4	1.0	0.9	0.3	0.4
- activities L-O	2.7	1.8	1.7	1.6	1.5
- working for the self-employed	-0.8	-0.3	-0.3	0.4	1.1
Formal self-employment	**4.9**	**-2.3**	**-2.1**	**-0.4**	**-1.3**
- small-business sector	-0.6	1.0	0.8	0.7	0.5
- own-account workers	2.1	1.6	1.6	2.4	2.7
- farmers	13.6	-7.2	-6.4	-2.5	-4.9
People in informal employment (estimate)	**41.7**	**0.7**	**-2.5**	**0.5**	**0.5**

Source of data: SORS; calculations, estimates and forecasts by IMAD.

registered unemployed fell to below 90,000 in May and was on average 3.4% lower in the first half of the year than in the same period last year. In July it slightly increased mostly on account of dismissals of part-time workers before the summer holiday break, but it again dropped in August. **The registered unemployment rate fell to** 9.8% by June (from 10.1% at end-2004, and 10.4% in January), and picked up to 10.1% in July. Only the male unemployment rate has been down whilst the female unemployment rate has stagnated at around 12.0% throughout the year. **Survey unemployment** fell even more than registered unemployment, on average by 5.0% in the first half of 2005 over the same period the year before. The survey unemployment rate reached 5.8% in the second quarter of the year, which is the lowest rate since it was measured for the first time in 1993. The female unemployment is also higher than male unemployment according to the labour force survey.

Registered unemployment flows *have also been slowly improving* ***this year,*** *although the number of unemployed aged above 50 years and the unemployed with a higher or high education again increased.* In the first half of the year, 40,000 more people were registered as unemployed, which is 7.0% less than in the same period last year. There were substantially fewer first-time job-seekers (-23.2%), and the number of those who reported losing a job also dropped by 2.9%. Of these, there were 2.3% more people who lost their part-time job and as many as two-thirds more people who lost their job owing to bankruptcy compared to the same period last year (2,097 people, in the same period last year 1,233), and in all other categories of people who lost their job there were 12.9% fewer workers than in the same period last year. On the other hand, 0.4% more unemployed got a job in the first half of the year

Figure 18: **Average number of people in employment in manufacturing, 1st half of the year in the period 2002-2005**



Source of data: SORS.

compared to the same period last year, and there were 36.1% fewer deletions from the registers for reasons other than gaining employment. This year, there were 5.6% more unemployed aged over 50 and 2.9% more unemployed with a high or higher education among the registered unemployed. Also the share of these two categories among the unemployed is rising. The shares of the long-term unemployed, those older than 40 and the female unemployed are also slightly higher than last year; although the number of unemployed from these categories is gradually falling, it is still moving slower than the total number of unemployed.

***Unemployment** has been declining in **most statistical regions**, but it was up in two of them, i.e. Pomurska and South-east Slovenia.* Goriška still records the lowest registered unemployment rate (6.3% on average in the first half of the year), and Pomurska the highest rate (17.5%). In addition, the Zasavska, Podravska, Spodnjeposavska, Savinjska and Koroška regions are witnessing above-average unemployment rates. Regional disparities measured in terms of the variation coefficient remain the same as in the first half of the 2004, after having been slightly down in the second half of 2004.

***This year and over the next two years, the number and rates of registered unemployment** are expected to be slightly higher than as forecast in spring, but the number and rates of **survey unemployment** will be lower.* As the deleting of the unemployed from the registers has been slower than forecast in spring and given the expected usual seasonal dynamics by the end of the year, the average annual number of the registered unemployed is expected to total 91,000 people (2.3% less than last year), while the average annual registered unemployment rate is set to reach 10.0%, up 0.2 p.p. on the spring forecast. The survey unemployment rate is to stand at 6.1%, down 0.1 p.p. from our spring forecast. On the basis of data for the first half of the year, a greater drop in the number of the survey unemployed can be expected than forecast in spring and a considerably smaller drop in the number of the informally employed. The changed unemployment forecasts for 2005 also lead to a changed forecast for 2006 and 2007: registered unemployment rates are thus foreseen to reach 9.6% and 9.2% and the survey unemployment 5.8% and 5.6%, respectively. These unemployment rates will only be attainable if they are underpinned by further employment growth and the successful pursuit of active employment policy measures.

7 Public finances

7.1 General government revenues

2005 *saw some changes in the tax system and instruments which are – together with the general macroeconomic environment – expected to affect the volume and structure of general government revenues.* The new Personal Income Tax Act and the Corporate Income Tax Act fully entered into force, resulting in lower revenues from personal income tax and higher revenues from corporate income tax. The alignment of excise duties on tobacco and tobacco products with the EU directives has continued, as did the adjustment of excise duties on mineral oils with world oil prices, also in line with anti-inflationary goals. The higher threshold for applying payroll tax on wages that was introduced in September 2004 has applied throughout the year and brought down the revenues from this tax source.

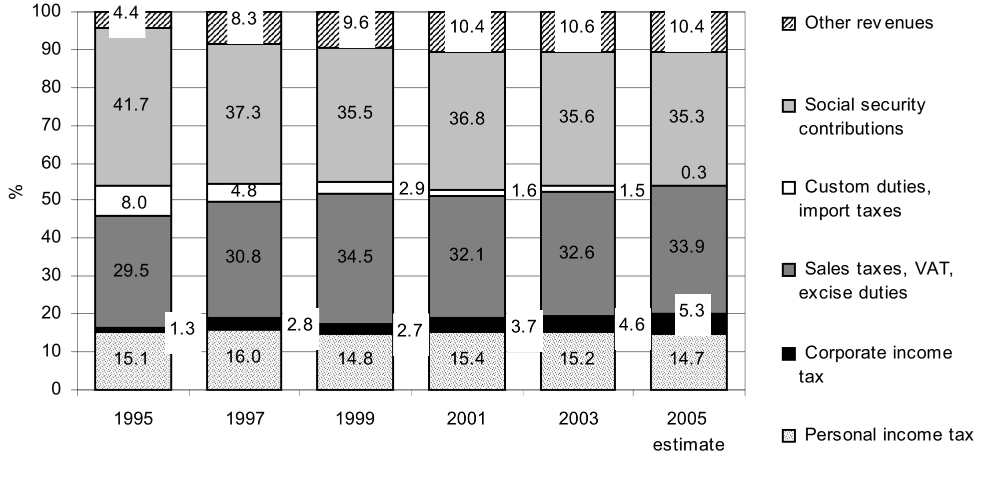
As the autumn forecast shows, and in fact it does not differ essentially from the spring one, **total compulsory levies** are expected to rise in real terms by 4.2% **in 2005** compared to 2004, increasing their proportion in GDP by 0.1 of a structural point to 39.5%.
Revenues from ***value-added tax*** *are to increase slightly faster in real terms than gross domestic product in 2005.* The year-on-year comparison, however, is not entirely relevant as the last year's revenues – owing to some liquidity losses related to Slovenia's entry to the EU – form a slightly too low reference basis. Revenues from value-added tax reached 8.6% of GDP in 2004 and are foreseen to come in at around 9% of GDP in 2005.
After a substantial increase in 2004 (6.2%), the real growth in revenues from ***excise duties*** *is set to slow down slightly in 2005 (4.8%).* Revenues from excise duties on tobacco and tobacco products are, because of their increasing rates and amounts, expected to go up faster than total excise duties (in real terms by 10.2%), whilst revenues from excise duties on mineral oils (up by 3.2%) and on alcohol and alcohol products (up by 1.1%) are to rise below the total. The proportion of excise duties in GDP is not expected to change from last year, i.e. 3.5%.
2005 is to witness only a modest real rise of 1.6% in ***wage-based taxes and contributions,*** *and their share in GDP is expected to shrink by 0.5 of a structural point (to 21.3% of GDP).* Revenues from **social security contributions** are seen to rise faster, i.e. by 3.6% in real terms. As a result of raising the threshold for wage taxation, revenues from **payroll tax** will rise in real terms by only 2.2%. The average burden of this tax is estimated to move down to 4.9% in 2005 (from 5% in 2004). Revenues from **taxes on wages**, comprising the lion's share of personal income tax revenues, will drop in real terms by 3.6% thanks to the new act entering into force. The new Personal Income Tax namely changed the personal income tax scale, which is now fixed for a year in advance and also has one bracket less than the previous act. The lowest personal income tax rate was reduced from 17% to 16%, while the upper rate remained at 50%. According to the new Act, all incomes of physical persons are now taxed (interests, dividends), and the tax relief system has also changed. As revenues from other sub-types of personal income are expected to rise faster[44], total

[44] Notably, income from basic agricultural and forestry activities, property income – largely because of the expansion of the base by interest and dividends in the new act – and the income from mutual funds.

revenues from **personal income tax** should retain the real level from 2004 in 2005. The percentage of personal income tax in GDP is foreseen to shrink from 6.1% in 2004 to 5.9% in 2005.
The amendments to the Corporate Income Tax Act are expected to push up revenues from ***corporate income tax*** *in 2005 compared to the year before (by* 14.3% in real terms). The new Act retains the tax rate but defines anew the basis for tax calculation as well as the forms of tax relief, which will substantially raise the effective tax rate. The proportion of corporate income tax in GDP will increase from 2% in 2004 to 2.2% in 2005.
Revenues from ***other taxes*** (for specific services, for motor vehicles transport) ***and charges*** (environmental, registration, communal, administrative, court) will be maintained at the same level as the year before and their proportion in GDP will shrink from 2.1% in 2004 to 2% in 2005.

Having become a EU member, Slovenia is now entitled to draw funds from the ***European funds,*** *whose anticipated share in GDP in 2005 in the revised budget stands at 1.8%.* Given the limited absorption capacity, a certain time delay has been foreseen (two years) in drawing funds even after 2005.

Figure 19: **Structure of general government revenues**



Source of data: AP, PPA, B-2 form, methodology, calculations and estimates by IMAD.

Given the foreseen macroeconomic environment and the proposed changes to the tax system and instruments, the proportion of compulsory levies in GDP is expected to come down from the estimated 39.5% of GDP in 2005 to around 39.2% ***in 2006****.* The revenues from **value-added tax and excise duties** are expected to rise in line with the forecast GDP growth and more or less retain their current proportion in GDP (around 12.5%). Revenues from **social security contributions** are predicted to keep the contribution rates unchanged and rise in line with the gross wage bill, which will – given the modest rise in the number of wage receivers (0.6% in 2006) and the moderate growth of the wage per employee in the public sector (1.8% in real terms) – lag behind GDP growth. The proportion of social security contributions in GDP is set to narrow from 14.1% in 2005 to 14% in 2006. The proportion of revenues from **personal income tax** in GDP will stabilise at almost 6% of GDP according to the current legislation. The gradual abolition of **payroll tax** is anticipated and will reduce the proportion of these revenues in GDP from 1.8% in 2005 to 1.4% in 2006. Revenues from **corporate income tax** are expected to rise faster than economic growth in 2006, which will raise their proportion in GDP from 2.2% in 2005 to around 2.4% in 2006. Revenues from **other taxes and charges** will rise slightly higher than GDP in 2006 and thus account for 2.1% of GDP (2% in 2005). As anticipated in the proposed 2006 budget, the proportion of funds which Slovenia will draw from the **European funds** will stand at around 1.5% of the forecast GDP.

The proposed ***2007*** budget already implies some changes in the tax system and instruments (gradual abolition of payroll tax, a rise in the value-added tax rate) which, however, have not yet been regulated by law. The forecast compulsory levies thus rest on the assumption that the compulsory levies – along with the gradual abolition of payroll tax – are calculated and paid according to the current system and instruments. Under these assumptions, compulsory levies are to account for around 39.5% of GDP in 2007. European funds in the proposed 2007 budget account for 1.3% of the forecast GDP.

7.2 General government expenditures

7.2.1 State budget

*According to the revised **2005** budget, **budget expenditures,** including the contributions to the EU budget, are expected to account for 26.7% of GDP, up 1.2 of a structural point from 2004.* Excluding payments to the EU budget, expenditures would reach 25.6% of GDP, up 0.7 of a structural point from 2004. As the latest estimates show, budget expenditures will – after some structural adjustments – be generally slightly lower (by around SIT 7 bn) than foreseen in the revised 2005 budget. Total state budget expenditures are estimated to total SIT 1,767 bn, up in real terms by 8% from the year before including the EU contributions, and by 6.2% when excluding these contributions.

In 2005, capital expenditures and capital transfers are expected to expand their proportion in GDP (by 0.4 of a structural point), along with transfers to local government budgets (by 0.2 of a structural point) and expenditures for goods and services and transfers to the Pension Fund (each by 0.1 of a structural point). Transfers to individuals and households and expenditures on external interest payments are to narrow their shares, each by 0.1 of a structural point. The expenditures for domestic interest payments, subsidies and expenditures for wages, contributions and other personnel expenditures in the public administration and public institutes will retain last year's proportions in GDP. Payments to the EU budget will account for around 1.1% of GDP in 2005.

The Government has submitted the proposed 2006 and 2007 budgets to the Parliament. According to the **proposed 2006 budget,** expenditures should amount to SIT 1,857.9 bn in that year, which is – including payments to the EU budget – 5.1% more in nominal terms than in 2005, and excluding the EU payments 5.2%

Table 12: **Structure and percentage of state budget expenditures by economic classification in gross domestic product, in %**

	Structure in %				As % of GDP			
	2004	2005*	2006**	2007**	2004	2005*	2006**	2007**
TOTAL STATE BUDGET EXPENDITURES	100.0	100.0	100.0	100.0	25.5	26.6	26.3	26.0
Current expenditures	28.4	27.3	27.1	27.4	7.3	7.3	7.1	7.1
Of which:								
Wages and other personnel expenditures	13.4	12.7	12.5	12.3	3.4	3.4	3.3	3.2
Expenditures on goods and services	9.0	9.1	9.3	9.5	2.3	2.4	2.4	2.5
Domestic and external interest payments	5.5	5.0	4.5	4.3	1.4	1.3	1.2	1.2
Current transfers	60.3	58.9	58.4	57.6	15.4	15,7	15,3	15.0
Of which:								
Subsidies	4.6	4.7	5.1	5.1	1.2	1.2	1.3	1.3
Transfers to individuals and households	13.5	12.6	11.8	11.3	3.4	3.3	3.1	2.9
Transfers to public institutes	21.5	20.6	20.5	20.4	5.5	5.5	5.4	5.3
Transfers to the Pension Fund	15.0	14.7	14.6	14.8	3.8	3.9	3.8	3.8
Capital expenditures and transfers	8.7	9.6	10.4	10.5	2.2	2.6	2.7	2.7
Payments to the EU budget	2.5	4.1	4.1	4.5	0.7	1.1	1.1	1.2

Sources of data: Ministry of Finance, SORS, calculations by IMAD (revised GDP as of 15 September 2005 used for calculating percentages in GDP). **Notes**: *Estimate of state budget expenditures for 2005 submitted with the proposed 2006 and 2007 budgets. **According to the proposed 2006 and 2007 budgets.

more. They are to account for 26.3% of GDP as estimated in the Autumn Report including the EU payment and 25.2% of GDP when excluding these payments. According to the **proposed 2007 budget,** expenditures are estimated to total SIT 1,954.2 bn, up in nominal terms by 5.2% including the EU payments and 4.8% when excluding these payments. They are to represent 26.0% of GDP as estimated in the Autumn Report, and 24.8% of GDP excluding the EU payments.

7.2.2 Local government budgets

*In **2005 and 2006,** local government budget expenditures are forecast to account for 5.1% of GDP, and in **2007** 5.4% of GDP.* In 2005, local budget expenditures are estimated to stand at SIT 336 bn, up in real terms by 5.6% from 2004. Transfers to individuals and households, and capital transfers have been rising faster than total expenditures, whilst all other expenditures have been rising slower. 2006 is to witness slightly lower growth in the expenditures of local budgets, only to see it rise again in 2007. In 2006 and 2007, largely the capital expenditures and capital transfers are foreseen to rise faster.

7.2.3 Pension and disability insurance

In 2005, *2.9% more funds have been used in real terms for implementing the rights arising from the Act on Pension and Disability Insurance (excluding the health insurance contributions of pensioners) than in 2004, or 12.1% of GDP* (down by

0.1 of a structural point). Given the current legislation and foreseen macroeconomic environment, the percentage of pension and disability insurance expenditures in GDP should also be preserved at approximately the same level in ***2006 and 2007***.

7.2.4 Compulsory health insurance

In 2005, *estimated compulsory health insurance expenditures are to be 2.2% higher in real terms than a year ago and should reach 6.4% of GDP* (down by 0.1 of a structural point from 2004). Although the statutory compulsory health insurance rights have not changed much in 2005, many measures have been taken to control expenditures on medicines and rationalise execution of the health programmes. Expenditures on health services are thus expected to rise by 2.2%, and expenditures on medicines by 4.7% in real terms compared to 2004. 2005 saw a slight slowdown in the growth of sickness leave expenditures, but they were still up by 2.3% (in 2004, 4.3%).

2006 *is to record a further drop in the percentage of compulsory health insurance expenditures in GDP, i.e. by 0.1 of a structural point to 6.3% of GDP – the 2000 level.* According to the forecasts for 2006, compulsory health insurance expenditures are due to rise in real terms by a mere 1.7% (nominally by 4.2%). But to be able to realise this plan, the measures aimed at the further rationalisation of expenditures in compulsory health insurance will have to be stepped up in 2006. According to the projections for **2007,** also based on the foreseen macroeconomic environment, the percentage of these expenditures in GDP is set to further narrow, i.e. by 0.1 of a structural point to 6.2% of GDP.

7.3 General government deficit (according to the GFS – IMF methodology)

According to the consolidated general government account for **2005, the general government deficit**[45] is estimated to account for 1.4% of gross domestic product, the same as in 2004 and 2003.

Table 13: **Consolidated general government revenues and expenditures using the GFS-IMF methodology (as % of GDP)**

	2000	2001	2002[1]	2003	2004	2005	2006	2007
						estimate	forecast	
General government revenues	41.7	42.7	40.6	42.6	42.9	43.6	43.1	43.0
General government expenditures	43.0	44.0	43.5	44.0	44.3	45.0	44.5	44.2
Surplus/deficit	-1.3	-1.3	-2.9	-1.4	-1.4	-1.4	-1.4	-1.2

Sources of data: Ministry of Finance, SORS, calculations by IMAD, proportions in GDP based on the revised GDP as at 15.09.2005.
Note: [1]In 2002, 12-month state budget expenditures were realised by way of 11-month revenues from the value-added tax and excise duties, which aligned the budgetary year with the calendar year and consequently the general government deficit for 2002 rose by the 'levelling budgetary deficit' amounting to 1.5% of GDP.

[45] The general government deficit is defined as the difference between consolidated revenues and expenditures of the state, local budgets, the pension and health funds.

According to the forecasts based on the proposed **2006 and 2007 budgets,** and taking the macroeconomic environment into account, the general government deficit of the consolidated account is also to total 1.4% of GDP in 2006 and drop to 1.2% of GDP in 2007.

7.4 General government sector deficit (according to the ESA-95 methodology)

Since Slovenia's entry to the European Union, the rules of the ***Stability and Growth Pact*** *have also applied in Slovenia, stating that the general government sector deficit should not exceed 3% of GDP.* Within the procedure for establishing the excessive deficit or debt of member states, Slovenia has to submit to the European Commission a Report on the Government Deficit and Debt twice a year. The report is based on the uniform methodology of the European System of Accounts of 1995 (ESA-1995)[46], which has to be consistently respected in all member states. The maximum allowed government deficit (3% of GDP) is at the same time also a Maastricht convergence criterion which Slovenia has to meet to be able to enter the EMU (scheduled for early 2007). While in 2001 Slovenia still failed to meet this criterion, it fulfilled it in the period 2002-2004 and will, according to the preliminary data, also meet it this year.

In 2001 the ***general government sector deficit*** *still represented 3.9% of GDP**,** but it gradually narrowed in the following three years* (see Table 14 and Box 5*)*. In 2002, the figure dropped by 1.2 of a structural point and in 2004 by a further 0.6 of a structural point (to 2.1% of GDP).

According to the Report on the Government Deficit and Debt (September 2005), the government sector deficit is estimated to reach 1.7% of GDP in **2005,** down by 0.4 of a structural point from last year.

Table 14: **Breakdown of the general government sector deficit according to the ESA-1995 methodology, as % of GDP**

	2001	2002	2003	2004	2005 estimate
General government sector deficit (revenues less expenditures)	-3.9	-2.7	-2.7	-2.1	-1.7
Of which:					
Central government	-3.6	-2.3	-2.5	-2.0	-2.4
Local government	0.0	-0.2	0.1	0.1	0.0
Social insurance funds	-0.2	-0.1	-0.1	0.0	0.8

Sources of data: SORS, MF - Reporting on Government Deficits and Debt Levels, September 2005.

[46] Apart from four general government budgets (state and local budgets and pension and health funds), the government sector also covers public funds such as the Capital Fund (KAD) and the Slovenian Indemnity Fund (SOD) as well as public agencies. The ESA-95 methodology is based on a calculation principle, i.e. all revenues and expenditures are covered upon the actual emergence of claims or liabilities, regardless of when they are actually paid.

Box 5: **Revision of the main aggregates of the general government sector**

In August 2005, the SORS published revised data on the main categories of revenues and expenditures of the general government sector and on the current general government sector deficit for the period 2000–2004, which led to a further methodological adjustment with the European System of Accounts 1995 (ESA-1995) and form part of the regular Report on the Government Deficit and Debt.

Under the revision all claims by war victims were registered upon the time of their registration at the court. Therefore, all claims by war victims, for which the state later on issued bonds (RS21, RS39), were included as a one-off amount in the current general government sector deficit for 2001, which raised this deficit that year by 0.8% of GDP.

A further adjustment to the ESA-1995 methodology applied to excluding the revenues from the liquidation of the Agency for Payments from state budget revenues in 2003, which contributed to SIT 14.5 bn or a 0.3% of GDP higher general government sector deficit that year. According to the ESA-1995 methodology, the surpluses from companies' liquidation do not count as current revenues.

The revision also excluded the Housing Fund of the Republic of Slovenia as a market entity from the government sector, which caused the general government sector deficit to drop by around SIT 11.5 bn or 0.2% of GDP in 2003. But in that same year the deficit increased by around SIT 10 bn or 0.2% of GDP because of lower final calculations of revenues from personal income tax and property tax.

All other adjustments were made throughout the period; the general government sector deficit increased all in all by 0.2% to 0.3% of GDP. The adjustments refer to the difference between the cash figures and accrual values of subsidies and gross fixed capital formation. In line with the ESA-1995 methodology, the net payments of matured guarantees of the state for loans taken out by enterprises were also included, which as current transfers of capital to companies raise the general government sector deficit. In this period, the assessment of accrual taxes which will never be paid was also revised. Moreover, the indemnity to the Craftsmen's Pension Fund was added to the government account on the basis of a court decision.

After the revision, the current general government sector deficit rose the most in 2001, by as much as 1.1 p.p. (to 3.9% of GDP), and in 2003 by 0.7 p.p. (to 2.7% of GDP). In 2000 and 2002, the revised current general government sector deficit was up by 0.3 p.p. (in 2000 3.8% of GDP and in 2002 2.7%). In 2004, the general government sector deficit is estimated at 2.1% of GDP, up by 0.2 p.p. from the February 2005 estimate.

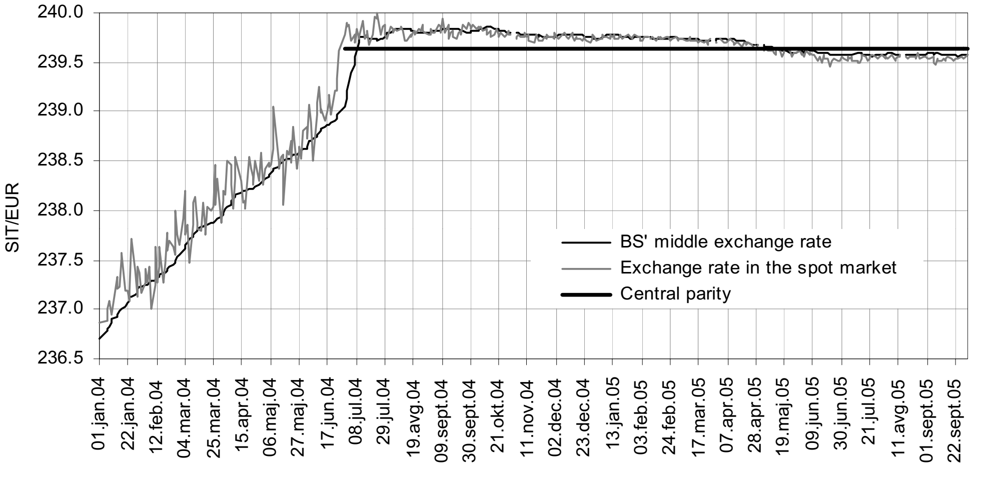
8 Monetary developments and the capital market

8.1 Monetary developments

In 2005 the Bank of Slovenia has continued to ***focus on the adoption of the euro*** *at the beginning of 2007.* The BS maintained the tolar exchange rate's stability, thereby bringing inflation closer to the Maastricht criterion. The fulfilment of this criterion is the sole remaining condition for the euro's adoption in 2007 (also see Box 3). In order to achieve this, the BS has continued to apply instruments that were adopted already before Slovenia joined the ERM II. It continued to use swap deals but did not resort to the possibility of intervening directly by purchasing or selling foreign exchange in the interbank market. At the same time, the BS raised the refinancing interest rate whereas its other interest rates have been left intact since entry to the ERM II.

The ***tolar's nominal exchange rate*** *has fluctuated close to the central parity throughout Slovenia's participation in the exchange rate mechanism ERM II.* After joining the ERM II in June 2004 the tolar's exchange rate oscillated within a narrow band range below the central parity until April 2005. At the end of April this year it swung upwards and has fluctuated above the central parity during the last five months. The exchange rate's divergence from the central parity has not exceeded 0.15% since June 2004 and it remained within a 0.07% fluctuation range in the first nine months this year – both figures are lower than the fluctuations observed prior to ERM II membership. The tolar's real effective exchange rate similarly remains stable as its oscillations are primarily influenced by the US dollar's movements now that inflation rates in Slovenia and the EU are converging. The tolar's real effective exchange rate, measured by the consumer price index, thus depreciated by 0.8% in the nine months to September and appreciated by 0.7% in the last twelve months.

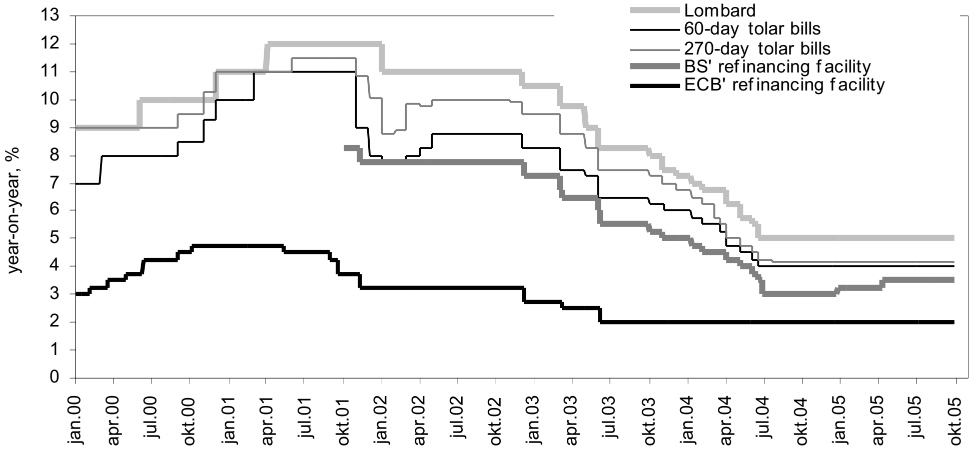
Figure 20: **Stabilisation of the tolar's exchange rate during participation in the ERM II**



Source of data: Bank of Slovenia.

The Bank of Slovenia has raised its refinancing ***interest rate*** *by 0.5 p.p. since joining the ERM II.* Following the entry to the ERM II, the BS raised the interest rate on temporary purchases of foreign exchange twice by 0.25 p.p., in December 2004 and April 2005. By doing so, it also raised its refinancing interest rate which has stood at 3.5% since April and it is thus 1.5 p.p. higher than the European Central Bank's comparable rate that has remained unchanged since June 2003 (see Figure 21). Other key interest rates of the BS have been left intact since entering the ERM II. At the end of September, the interest rate on 60-day tolar bills thus totalled 4.0% and the rate on 270-day tolar bills was 4.2%. In line with interest rate changes in the US market, the BS has only raised the interest rates on its securities denominated in US dollars.

Figure 21: **Dynamics of the key interest rates of the Bank of Slovenia and European Central Bank**



Sources of data: Bank of Slovenia, European Central Bank.

In 2005 the ***growth of monetary aggregates*** *returned to the level seen at the time of entering the ERM II.* After the year-on-year growth of the narrow monetary aggregate M1 strengthened in the second part of 2004 to total 27.8% at the end of the year, in 2005 it has softened slightly and stood at 17.5% at the end of September. A similar swing was also characteristic of the broad monetary aggregate M3: its growth rose to 6.8% by the end of 2004, only to return to the level observed upon entry to the ERM II by the end of September 2005 when it totalled 6.1%. Changes in the ratio between the narrow and broad monetary aggregates growth are explained by macroeconomic changes that were primarily linked to the ERM II membership process and partly to the tax system changes. The dynamics of monetary aggregates in the past few months, however, were underpinned by transactions related to the repayment of government debt.

In the period prior to the euro changeover *the key monetary policy guidelines are not expected to undergo any significant revision.* The BS' primary task, in addition to preserving the exchange rate's stability, should be to finalise the technical and substantive preparations for adopting the euro. In 2005 there is still a notable divergence from the euro area monetary system with regard to the levels of interest rates and the exchange rate control method. The BS will therefore have to align its nominal interest rates with the ECB's comparable rates until the euro is adopted, at the latest. Most likely the BS' interest rates will need to be lowered. At the same time, the BS will also have to eliminate non-compliance with the ECB's monetary regime regarding instruments (swap deals, whose stock still exceeds SIT 250 bn this year) that were, prior to entry to the ERM II, used to control the tolar's depreciation rate and thereafter to ensure the tolar's exchange rate stability.

8.2 Financial flows and the capital market

8.2.1 Household savings in banks and mutual funds

The ***growth of total household savings in banks*** *has been slowing down for the fourth consecutive year and was at its lowest level so far in the first eight months of this year.* The lower growth than in the same period last year can be attributed to the softened growth of tolar demand deposits and foreign currency savings, while the decline in tolar tied deposits has levelled off considerably (see Table 15). The net inflow of total household deposits (including demand deposits) thus achieved the value of SIT 66.2 bn in the eight months to August, which is over one-quarter less in real terms than in the same period of 2004.

Tolar savings *picked up slightly in the first eight months this year after the decline observed in the same period of 2004; at the same time, foreign currency savings softened so that both types of saving were rising at roughly equal rates.* The net inflow of tolar deposits achieved the value of SIT 41.2 bn in this period, i.e. almost 40% 40 % more than a year ago in real terms. This growth was largely generated by the rise in demand deposits (although their contribution was lower than last year). However, the cumulative increase was also underpinned by the lower negative contribution of tolar tied deposits which were down 0.4% in real terms in this period while they dropped by 9.8% in the same period of 2004. The plunge in 2004 was partly due to the release of funds from the National Housing Savings Scheme and the consequent outflow of the saved funds from banks. It seems likely that households changed some of their savings into euros at that time, which might be related to insecurity about Slovenia's entry to the exchange rate mechanism ERM II. After more than a year of participation in the ERM II, however, the stability of the tolar's exchange rate (see Chapter 8.1) has dispelled this anxiety. The growth of foreign currency savings has therefore contracted significantly this year and exceeded only the growth of 2002 when foreign currency deposits were partly transferred to currency, after people changed European currencies into euros. The net flows of foreign currency deposits amounted to SIT 25 bn in the eight months to August, i.e. just over 40% (real terms) of the value recorded in the same period of 2004.

Inflows to the mutual funds managed by domestic administrators *have plummeted this year.* There were several reasons for this development. The main reason seems to relate to the fact that the bulk of the investment of mutual funds managed by domestic administrators still comprises investment in domestic securities, whose

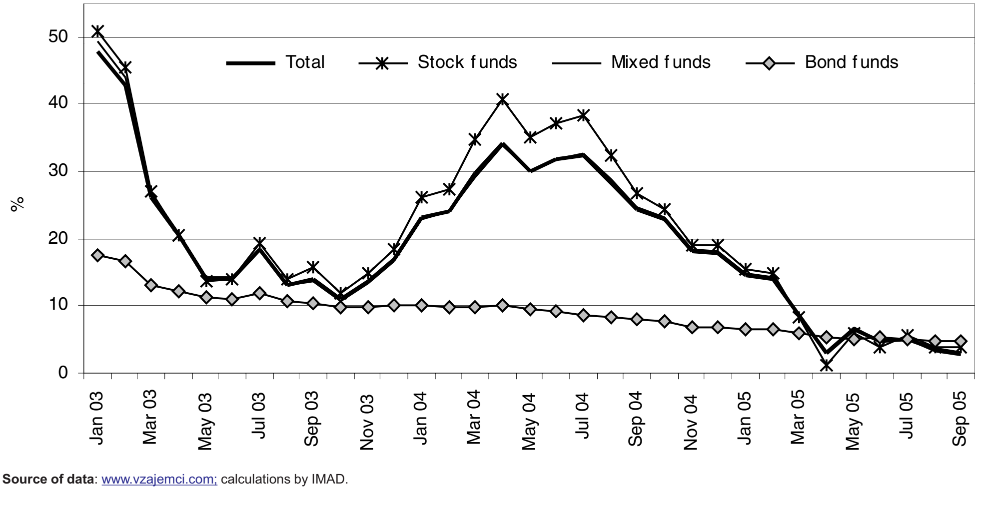
Table 15: **Household savings in banks: stock and real growth rates in August 2005 over December 2004**

	SIT bn	Real growth of savings until the end of August (%)					
	Stock on 31 Aug. 2005	2000	2001	2002	2003	2004	2005
Total savings	**2,407.5**	**9.4**	**9.9**	**2.4**	**3.6**	**2.2**	**1.4**
Tolar savings	**1,463.5**	**9.0**	**10.8**	**5.6**	**4.9**	**-0.4**	**1.3**
Demand deposits	675.6	8.8	4.3	9.8	8.3	16.1	3.5
Short-term deposits	638.7	12.8	12.1	-5.7	4.1	-1.5	-0.5
Long-term deposits	148.4	-5.8	27.3	40.0	0.4	-33.0	-0.1
Foreign currency savings	**944.0**	**9.9**	**8.9**	**-1.2**	**2.0**	**5.4**	**1.4**
Short-term & demand deposits	852.1	6.8	7.7	-1.5	4.3	5.6	1.4
Long-term deposits	91.9	37.5	16.3	1.2	-15.0	4.2	1.5

Source of data: Bank of Slovenia; calculations by IMAD.

value has generally been falling this year. The second significant reason lies in the growing number of foreign mutual funds which, by managing more assets alone, enable greater investment diversification. At the end of September, there were 42 mutual funds managed by domestic administrators in Slovenia which managed assets worth SIT 295 bn. Although this is over 40% more than at the end of 2004, this growth would have totalled just 11.6% without the contribution of an investment company that was restructured into a mutual fund. The net inflows totalled SIT 27 bn in the first nine months of the year, i.e. just 43.5% of the level recorded in the same period last year. Stock mutual funds enjoyed the biggest net inflow. The average weighted return of mutual funds is still slipping at the year-on-year level although at a slower pace than in 2004; in September it reached 3.1% (the interest rate on deposits tied for over one year was 4.1% in September 2004). At the same time, the

Figure 22: **Year-on-year returns of mutual funds managed by Slovenian administrators**



Source of data: www.vzajemci.com; calculations by IMAD.

yield of individual types of mutual funds levelled off considerably (see Figure 22), with the highest having been observed in bond mutual funds (4.8%). The year-on-year return of mutual funds ranged between a 9.7% loss and a 39.4% profit, indicating significant differences in mutual funds' investment policies.

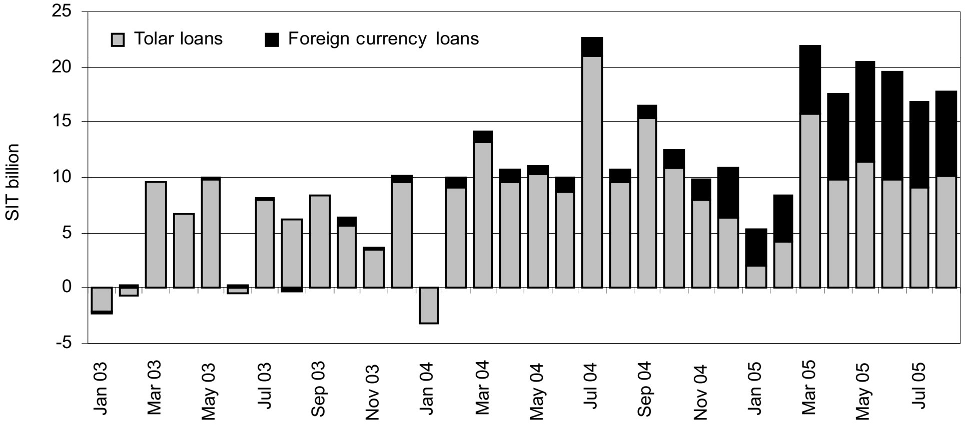
8.2.2 Loans

*The total **lending activity of banks** has been on an upturn this year, mainly thanks to the exceptionally strong growth of foreign currency borrowing, while the volume of tolar lending has moderated.* Foreign currency loans remain more favourable than tolar loans in terms of interest rates since the tolar indexation clause is still commonly used for charging interest on long-term tolar loans. The total net flows thus achieved the value of SIT 427.7 bn, marking an over 30% real rise over the same period of 2004. Within that, tolar loans amounted to just SIT 58.9 bn.

*The main shift in the structure has been observed in **household borrowing**, where the tolar loans that predominated in the past have increasingly been replaced by foreign currency loans, which began rising strongly in 2004 and continued to surge this year* (see Figure 23 and Table 16). The net flows of foreign currency loans achieved the value of SIT 55.1 bn in the first eight months of the year, marking a 6.2-fold real increase from the same period of 2004 and accounting for 43.2% of household borrowing's total net flows. The net flows of tolar loans, on the other hand, amounted to SIT 72.5 bn and fell behind the same period of 2004 level by almost 10%. Foreign currency loans thus equalled close to 10% of the total stock of tolar household loans at the end of August 2005.

***Enterprises and OFO** similarly borrowed more foreign currency while net repaying their tolar loans.* In the first eight months this year they took out loans in a net amount of SIT 289.6 bn, i.e. 43.8% more than in the same period of 2004 in real terms. The net flows of foreign currency loans achieved the level of SIT 306.2 bn, exceeding the real value from the same period of 2004 by almost 60%. The stock of

Figure 23: **Monthly net flows of domestic banks' loans to households**



Source of data: BS; calculations by IMAD.

Table 16: **Domestic banks' loans to enterprises, OFO, households and the government: stock and real growth rates in August 2005 on December 2004**

	SIT bn	Real growth of loans until the end of August (%)					
	Stock on 31 Aug. 2005	2000	2001	2002	2003	2004	2005
Tolar loans	**2,080.8**	**3.0**	**4.4**	**-2.1**	**1.1**	**3.1**	**1.3**
Loans to enterprises and OFO	**1,115.6**	**3.8**	**7.5**	**-4.1**	**-0.3**	**-1.7**	**-3.0**
Short-term, overdrafts and advances	580.5	9.4	9.2	-5.3	-2.2	0.8	-4.8
Long-term	535.1	-2.8	5.3	-2.7	1.8	-4.4	-1.0
Household loans	**829.4**	**3.9**	**1.0**	**0.1**	**2.8**	**9.4**	**7.9**
Short-term, overdrafts and advances	139.7	1.3	3.7	-4.2	-1.4	-1.2	1.3
Long-term	689.7	4.5	0.3	1.3	3.9	12.0	9.4
Government loans	**135.8**	**-11.9**	**-7.4**	**5.9**	**4.1**	**11.0**	**0.7**
Short-term, overdrafts and advances	22.6	-46.9	1.5	20.9	28.5	25.5	406.5
Long-term	113.2	0.2	-12.5	-0.5	-3.0	7.8	-13.2
Foreign currency loans	**1,320.9**	**17.8**	**9.5**	**25.7**	**22.2**	**31.8**	**37.0**
Enterprises and OFO	1,224.3	20.8	18.4	22.5	24.9	28.6	31.7
Households	78.0	4.7	10.5	18.8	9.6	117.9	236.8
Government	18.7	-0.8	-75.2	209.8	-35.4	145.7	63.9

Source of data: BS; calculations by IMAD.
Note: OFO - other financial organisations.

foreign currency loans taken out by enterprises and OFO thus topped the stock of tolar loans at the end of August. Loans from abroad that were until recently more favourable than domestic banks' foreign currency loans still represent a significant share in Slovenian corporate borrowing. According to the BS, however, the differences between interest rates on domestic and foreign banks' loans levelled off in July. The net flows of these loans amounted to SIT 62.3 bn in the seven months to July, i.e. 13.2% more than a year ago in real terms.

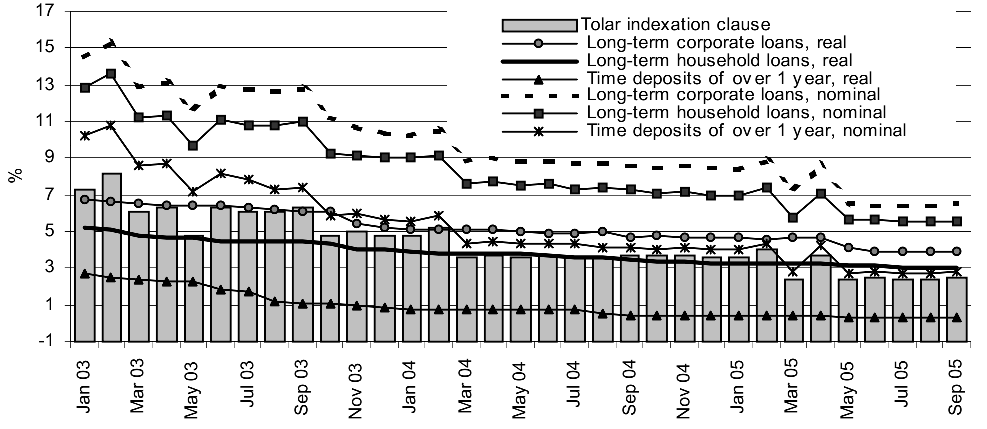
As a result of the robust increase in the level of foreign currency loans and the low growth of bank deposits, banks increased their liquidity by raising their borrowing abroad. In the first seven months they borrowed loans in a net amount of SIT 243.2 bn, i.e. almost triple the amount recorded in the same period of 2004.

8.2.3 Interest rates

The sliding of nominal long-term and short-term interest rates has slowed down considerably in the first nine months (See Figure 24). The largest reduction was observed in long-term interest rates that are still tied to the tolar indexation clause[47], whose value dropped by 1.1 p.p. to 2.5% in the first three quarters of the year.

[47] The oscillations of interest rates were the result of observing the tolar indexation clause, which may vary by over one percentage point when inflation rises or falls. Because of September's high inflation in October 2005 the value of this clause rose to the level from end-2004. We can therefore expect a significant rise in October's interest rates tied to the tolar indexation clause.

Figure 24: **Real and nominal interest rates and the tolar indexation clause**



Sources of data: BS, SORS, Bank Association of Slovenia.

Interest rates on top of the tolar indexation clause fell by slightly less: on corporate loans by 0.8 p.p. to 3.9% and on household loans by 0.3 p.p. to 3%. Among short-term interest rates, a slight fall was observed only in lending rates because after the elimination of indexation on short-term assets and liabilities (in July 2002) these were falling at a much slower pace than deposit interest rates.

8.2.4 Securities market

*After the **indices on the Ljubljana Stock Exchange** enjoyed above-average gains in the previous four years, they fell sharply in the first nine months of this year.* The main SBI20 index fell 8.4% behind the value from end-2004; a similar drop was recorded in the investment funds index (PIX), while the BIO bond index was 0.4% higher than in December 2004.

*Unlike in 2004, the structure of **turnover on the Ljubljana Stock Exchange** experienced a pick-up in turnover in bonds.* Although the total turnover in the nine months to September (including government securities trading through market maker segment) exceeded last year's level by over one-third, bond trading accounted for more than 50% (in 2004: 30.2%) of the total SIT 386.4 bn since bonds are less susceptible to negative trends on the stock exchange. Trading in shares represented just over one-third of the total turnover (54.3% in 2004). Bond trading thus increased almost 1.5-fold compared to the same period of 2004 whereas share trading fell by close to 20%. **The turnover of foreign investors** on the stock exchange amounted to SIT 11.4 bn in the first eight months, which equals the level achieved a year ago.

*The **market capitalisation of all securities** listed on the Ljubljana Stock Exchange fell by 1.3% from the end of 2004 to the end of September 2005.* The drop was substantially offset by the robust rise (22.5%) in the market capitalisation of bonds (generated mainly by sizeable issues of new bonds), while the market capitalisation of shares fell by over 10% in the first three quarters. In addition to the falling prices of shares, this drop was partly underpinned by the withdrawal of some shares from the stock exchange, while basically no new major shares were listed for trading (125 shares were listed on the stock exchange in September, against 142 shares at the end of 2004). The withdrawal of securities from the Ljubljana Stock Exchange should urgently be counterbalanced by listing the shares of several large state-owned enterprises on the stock exchange. This would contribute significantly to the further development of the Slovenian capital market.

In order to improve the liquidity of the secondary government securities market, the Ljubljana Stock Exchange in co-operation with the Ministry of Finance launched trade in a new market segment, the ***Market Maker Trading Segment*** *(MMTS) in September.* Aside from government bonds listed on the official market of the stock exchange, this market also trades in short-term government securities listed on the free market. The value of any transaction conducted on the MMTS must not be lower than SIT 30 m. There are six official market makers (five of which are banks and one is a brokerage company). An important advantage of this trading is that the Ljubljana Stock Exchange does not charge market makers a commission fee, which otherwise totals 0.06% of the transaction value (0.02% for block trades), and this fee is covered by the issuer instead. This new trading opportunity was well received by traders, as indicated by September's turnover in the MMTS that amounted to SIT 68.4 bn, almost 50% more than the average total monthly turnover on the Ljubljana Stock Exchange in the first nine months of the year. Within that, the value of trade in bonds totalled SIT 42.9 bn; the rest were trades in short-term government securities.

9 Scenario of economic trends beyond 2007

The autumn forecast of economic trends until 2007 is based on the policy guidelines and legislative amendments already adopted or put forward by the government in the Budget Memorandum for 2006-2007. The effects of the measures presented within the 'Framework of economic and social reforms to increase welfare in Slovenia', adopted by the government on 3 November 2005, are not included in the autumn forecast covering the period up until 2007 since they had not been adopted by the time these forecasts were being prepared and hence their effects could not be quantified with sufficient accuracy. The government will adopt a comprehensive programme of reforms by the end of 2005 to enable the realisation of the objectives set out in Slovenia's Development Strategy (SDS) in the next medium-term period.

According to this plan, the scenarios of economic development beyond 2007 should follow the target scenario of economic trends for the period covered by the SDS (until 2013) assuming that the strategy is implemented in the optimal way (SDS, June 2005). This period has been divided into three sub-periods relative to the dynamics of economic growth. In the first period (2006-2007), when the short-term measures set out in the SDS are to be carried out and macroeconomic policies will be aimed primarily at stabilising the economy to ensure the fulfilment of the Maastricht convergence criteria, economic growth should remain roughly at the present level while inflation should dip to the Maastricht reference level. Such trends are also to a large extent reflected in the current autumn forecasts for the period until 2007. A breakthrough to a higher level of development is not conceivable until after 2007 (see Table 17) when the reforms will begin to bear their first fruits and stimulate the faster growth of productivity and competitiveness of the economy. The period of accelerated economic growth, ending around 2010, would be followed by a period of a relative slowdown in growth to a level of around 5% which would, provided that the SDS measures are implemented, represent the new potential level of GDP growth, while inflation could come closer to the average European level.

On the supply side, the development breakthrough would require a restructuring of the economy in favour of services (raising the share of services in the structure of value added to 67% by 2013), where the level of knowledge-based services would rise appreciably faster than the level of other services. Simultaneously, the optimal implementation of the SDS measures could also prompt a development breakthrough in Slovenian manufacturing that would boost medium and high-tech industries while the total share of manufacturing industries in GDP's production structure would not increase. The restructuring of manufacturing and the expansion of knowledge-based service activities would be underpinned by the rapid growth of expenditure on research and development and investment in human capital. Economic growth and investment in knowledge would also enable higher employment. In the period of accelerated economic growth, the annual growth of total employment in Slovenia could also exceed 1%, while the target employment rate (70%) could be achieved by 2013. This would, in turn, allow Slovenia to gradually reduce its unemployment, which could approach 3% by the end of the period. On the demand side, more competitive exports of goods and services with higher value added and the internationalisation of production would stimulate the growth of foreign demand and Slovenia's market shares in its main export markets. At the same time, the rising income levels, higher employment and improved entrepreneurial environment would also result in increased private and investment demand. Within investment consumption, the most notable rises would occur in the share of private investment in machinery and equipment, whereas the overall share of investment in GDP would not rise significantly due to the intensive capital deepening in the preceding years. With the accelerated growth of the economy and productivity, wages would gradually rise close to the level of the comparable economies. The real gross wage per employee is expected to rise at a faster pace in the private than in the public sector throughout the entire forecast period.

Table 17: **Key macroeconomic indicators of the target SDS scenario up until 2013**

	Real growth (%) unless indicated otherwise	
	2008-2010	**2011-2013**
Gross domestic product	5.5	5.0
Value added	5.7	5.1
Exports of goods and services	9.7	8.5
Imports of goods and services	9.0	7.7
Private consumption	5.1	4.7
Government consumption	3.5	3.3
Gross fixed capital formation	5.5	4.8
Employment, growth in %	1.3	1.0
Unemployment rate by ILO definition, %	4.4	3.4
Productivity, growth in %	4.2	3.9
Inflation, %	2.5	2.4

Source of data: IMAD's projections.

In the event of the non-implementation of the reforms planned in the SDS, economic growth would not accelerate after 2007 but would remain approximately at the level of the current potential GDP growth (around 3.8%). This would, on one hand, indicate lower export growth rates, meaning that Slovenia would not be able to increase its market shares in the main export markets as the competitiveness of the Slovenian exports would gradually decline due to its comparatively smaller development orientation and the rigid domestic entrepreneurial environment. This would also prevent productivity growing above the current level, and the number of new jobs would be significantly lower so that employment would rise by about 0.4% per year. These developments on the whole would push far away the realisation of the SDS' economic objective, according to which Slovenia should exceed the EU's economic development level and increase its employment in line with the Lisbon strategy goals, which would finally result in a much slower raising of the welfare of Slovenia's citizens.

10 Comparison with forecasts of other domestic and foreign institutions

Forecasts of economic trends for Slovenia differ only marginally. At the end of its preparation the **IMAD's autumn forecast was presented to other forecasters** (the Bank of Slovenia's Analysis and Research Centre, the Economic Outlook and Policy Services (SKEP) of the Chamber of Commerce and Industry (CCIS), the European Commission) and compared with results of the model of leading indicators developed by the School of Business and Economics (EPF) at the University of Maribor. The expectations of these institutions, including those that had still not released their forecasts by then, are similar: slightly lower economic growth in 2005 than in 2004 and a modest acceleration in 2006. Inflation forecasts project a further lowering of inflation and are practically identical. The EPF's econometric model projects a strengthening of industrial activity towards the end of the year, similarly to the IMAD's forecast.

Table 18: **Comparison of published autumn forecasts of economic trends for Slovenia**

	Real growth rates (%) unless indicated otherwise					
	2005	2006	2005	2006	2005	2006
	IMAD		CCIS		IMF	
Gross domestic product	3.9	4.0	4.2	4.0	3.9	4.0
Inflation (Dec/Dec of the previous year, %)	2.7	2.3	-	-	-	-
Inflation (Jan-Dec/Jan-Dec annual average, %)	2.5	2.5	2.6	2.3	2.6	2.5
Exports of goods and services	8.6	7.8	8.3	7.5	-	-
Imports of goods and services	6.0	6.5	7.2	6.5	-	-
Current account balance, % of GDP	-1.6	-0.7	-	-	-1.6	-0.8
Gross capital formation	-0.2	4.0	-	-	-	-
Gross fixed capital formation	4.0	4.5	5.5	5.0	-	-
Private consumption	3.6	3.1	3.2	3.0	-	-
Government consumption	2.5	2.4	3.0	3.0	-	-
Employment according to the SNA (% of growth)	0.4	0.5	0.8	-	-	-
Unemployment rate by ILO (%)	6.2	6.0	6.2	-	-	-

Sources of data: IMAD: autumn forecasts; CCIS: Economic Trends, October 2005; IMF: World Economic Outlook, September 2005.

At the time the Autumn Report was being drafted (October 2005), forecasts for Slovenia had already been released by the SKEP of the Chamber of Commerce and Industry of Slovenia and the Economic Institute of the Faculty of Law. From abroad, the IMF's forecasts were available. The **SKEP**'s forecast of economic growth is higher than the IMAD's for 2005 and equal for 2006. There are some differences in the structure of growth: the SKEP projects more vigorous investment activity and higher government consumption in both years; the growth of private consumption, on the other hand, is expected to be at a slightly lower level (see Table 18). In international trade, the SKEP expects somewhat smaller growth of exports and higher imports this year than projected by the IMAD. For 2006, it again forecasts lower growth of exports while its projected import growth equals the IMAD's figure. The SKEP's forecast of the rise in real wages per employee is marginally lower than the IMAD's (3.0% in 2005 and 2.3% in 2006), while its inflation forecast for 2005 is set 0.1 p.p. above ours. The **IMF**'s forecasts are essentially identical with the IMAD's, both for GDP growth and for the current account. Its inflation forecast for this year is slightly higher. The **Economic Institute of the Faculty of Law (EIPF)** raised its GDP forecast from spring to 4.2% in 2005 and 4.9% in 2006 while making a downward revision to the forecast of the current account deficit, which is now lower than the IMAD's (-0.8% of GDP and -0.5% of GDP, respectively). On the other hand, the EIPF's estimated survey unemployment rate for this and next year has been revised upwards since spring (6.6% and 6.4%). The annual inflation forecast of the EIPF is now identical with the IMAD's projection.

Statistical Appendix

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

real growth rates in %, unless otherwise indicated

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
GROSS DOMESTIC PRODUCT	**4.1**	**2.7**	**3.5**	**2.7**	**4.2**	**3.9**	**4.0**	**4.0**
Structure in value added in %								
Agriculture, forestry, fishing (A+B)	3.2	3.0	3.2	2.6	2.5	2.4	2.2	2.1
Industry and construction (C+D+E+F)	36.2	35.9	35.3	35.6	35.1	34.7	34.4	34.1
- Industry (C+D+E)	30.0	30.1	29.6	29.8	29.5	29.0	28.7	28.4
- Construction F	6.3	5.8	5.7	5.8	5.7	5.7	5.7	5.7
Services (G...P)	60.6	61.1	61.5	61.9	62.3	62.9	63.4	63.8
GDP in SIT m (current prices)	4,300,350	4,799,552	5,355,440	5,813,540	6,251,244	6,651,500	7,074,000	7,522,000
in which FISIM [1]	48,035	37,737	40,723	51,825	60,079	63,921	67,981	72,286
GDP in EUR m	20,974	22,099	23,673	24,876	26,171	27,761	29,524	31,394
GDP in US$ m	19,312	19,772	22,292	28,069	32,494	35,082	37,095	39,444
GDP per capita in EUR	10,543	11,094	11,866	12,461	13,103	13,896	14,772	15,703
GDP per capita in US$	9,703	9,925	11,170	14,057	16,271	17,560	18,560	19,730
GDP per capita (PPS)*	14,600	15,400	16,000	16,500	17,600	18,500	19,600	-
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS								
Exports of goods and services- real [2]	13.2	6.3	6.7	3.1	12.5	8.6	7.8	8.1
Exports of goods	13.2	7.0	6.4	4.4	12.8	9.4	8.1	8.4
Exports of services	13.4	3.2	8.0	-2.5	10.9	4.6	6.5	6.5
Imports of goods and services- real [2]	7.3	3.0	4.8	6.7	13.2	6.0	6.5	7.3
Imports of goods	7.4	3.2	4.4	7.3	14.5	6.3	6.6	7.3
Imports of services	6.8	1.8	7.5	3.0	5.6	4.2	6.2	7.1
Exports of goods & services in EUR m	11,626	12,632	13,522	13,882	15,715	17,608	19,413	21,411
As a % of GDP	55.6	57.2	57.1	55.8	60.2	63.4	65.8	68.2
Imports of goods & services in EUR m	12,364	12,781	13,167	13,884	16,038	17,741	19,430	21,346
As a % of GDP	59.1	57.9	55.8	55.9	61.4	63.9	65.8	68.0
Balance of goods & services in EUR m	-738	-149	355	-2	-323	-133	-17	65
As a % of GDP	-3.5	-0.7	1.4	0.0	-1.2	-0.5	-0.1	0.2
Current account balance in EUR m	-583	38	344	-81	-544	-436	-195	48
As a % of GDP	-2.8	0.2	1.5	-0.3	-2.1	-1.6	-0.7	0.2
Foreign exchange reserves in EUR m	4,705	6,514	7,842	7,703	7,484	-	-	-
External debt in EUR m	9,490	10,403	11,484	13,259	15,278	-	-	-
As a % of GDP	45.2	47.1	48.5	53.3	58.4	-	-	-

Cont. on the next page.

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

real growth rates in %, unless otherwise indicated

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
EMPLOYMENT, WAGES AND PRODUCTIVITY								
Employment in full-time equivalent, growth in %	0.8	0.5	-0.3	-0.2	0.4	0.7	0.5	0.5
Registered unemployed (annual average in thousand)	106.6	101.9	102.6	97.7	92.8	90.7	86.8	82.9
Rate of registered unemployment in %	11.8	11.2	11.3	10.9	10.3	10.0	9.6	9.2
Rate of unemployment by ILO in %	7.0	6.4	6.4	6.7	6.3	6.1	5.8	5.6
Gross wage per employee	1.6	3.2	2.0	1.8	2.0	3.2	2.6	2.8
Labour productivity (GDP per capita)	3.3	2.2	3.8	2.9	3.7	3.2	3.5	3.5
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS								
Final consumption	1.2	2.7	1.8	3.0	3.1	3.3	2.9	3.0
As a % of GDP	76.7	76.6	75.3	75.4	74.9	74.8	74.4	73.9
in which:								
Private consumption	0.7	2.3	1.3	3.4	3.1	3.6	3.1	3.1
As a % of GDP	57.4	56.6	55.5	55.8	55.4	55.3	54.9	54.5
Government consumption	2.6	3.9	3.2	1.6	2.9	2.5	2.4	2.6
As a % of GDP	19.3	20.0	19.7	19.6	19.5	19.5	19.4	19.3
Gross fixed capital formation	1.8	0.4	0.9	7.1	5.9	4.0	4.5	5.0
As a % of GDP	25.6	24.1	22.6	23.3	24.1	24.5	24.7	24.9
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES; GFS - IMF METHODOLOGY								
General government revenue (per cent share, relative to GDP)	41.7	42.7	40.6	42.6	42.9	43.6	43.1	43.0
General government expenditure (per cent share, relative to GDP)	43.0	44.0	43.5	44.0	44.3	45.0	44.5	44.2
Surplus/deficit (per cent share, relative to GDP)	-1.3	-1.3	-2.9	-1.4	-1.4	-1.4	-1.4	-1.2
EXCHANGE RATE AND PRICES								
Average exchange rate SIT/US$ (annual average), BS	222.7	242.7	240.2	207.1	192.4	189.6	190.7	190.7
Average exchange rate SIT/EUR (annual average), BS	205.0	217.2	226.2	233.7	238.9	239.6	239.6	239.6
Effective tolar exchange rate [3]	-1.9	-0.1	2.7	3.7	0.9	0.5	0.7	0.7
Inflation (end of the year)	8.9	7.0	7.2	4.6	3.2	2.7	2.3	2.3
Inflation (annual average)	8.9	8.4	7.5	5.6	3.6	2.5	2.5	2.4

Source of data: SORS, BS, Ministry of Finance, * Eurostat-New Cronos, October 2004, estimates and forecasts by IMAD.
Notes: [1] FISIM; Financial intermediation services indirectly measured, [2] Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets, [3] Growth in index denotes appreciation of tolar and vice versa.

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

SIT million, current prices

		2000	2001	2002	2003	2004	2005 estimate	2006 forecast	2007 forecast
A	Agriculture, hunting, forestry	118,374	123,292	146,949	127,794	136,096	137,129	137,605	137,397
B	Fishing	723	742	854	1,060	903	934	962	991
C	Mining and quarrying	24,922	22,883	22,229	26,378	28,489	28,631	28,669	29,143
D	Manufacturing	988,880	1,111,276	1,210,946	1,332,453	1,406,406	1,475,563	1,549,958	1,632,760
E	Electricity, gas and water supply	102,733	123,594	141,645	147,844	166,900	173,743	187,495	199,388
F	Construction	233,104	243,891	264,710	290,297	308,827	331,687	351,551	373,322
G	Wholesale, retail, trade, repair	412,437	473,454	538,756	592,019	631,270	685,771	737,656	793,457
H	Hotels and restaurants	86,461	96,677	107,183	117,075	123,092	129,825	138,017	146,724
I	Transport, storage, communications	258,432	289,235	321,742	360,735	389,902	422,575	458,306	494,675
J	Financial intermediation	185,313	189,720	212,234	222,434	241,702	256,704	263,254	271,233
K	Real estate, renting and business activities	554,474	628,346	721,283	788,799	863,880	933,035	1,010,859	1,092,020
L	Public administration and com. soc. sec.	230,304	268,712	298,445	333,583	366,389	390,039	412,917	437,130
M	Education	206,337	239,691	263,963	288,351	315,597	340,649	365,654	391,725
N	Health and social work	191,500	217,439	235,140	252,472	270,670	288,877	306,902	324,799
O	Other community and personal activities	132,507	147,687	152,897	165,966	184,470	197,567	210,427	224,550
P	Private households with employed persons	1,369	1,789	1,728	1,336	1,349	1,528	1,650	1,782
1. TOTAL VALUE ADDED, basic prices		3,727,869	4,178,428	4,640,703	5,048,599	5,435,944	5,794,256	6,161,883	6,551,098
2. CORRECTIONS (a-b)		572,481	621,124	714,738	764,941	815,301	857,243	912,117	970,902
a) Taxes on products and services		597,109	646,009	737,786	794,799	846,737	890,501	947,487	1,008,512
b) Subsidies		24,628	24,885	23,048	29,857	31,436	33,258	35,370	37,610
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4,300,350**	**4,799,552**	**5,355,440**	**5,813,540**	**6,251,244**	**6,651,500**	**7,074,000**	**7,522,000**

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

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

structure in %, current prices

		2000	2001	2002	2003	2004	2005	2006	2007
							estimate	forecast	
A	Agriculture, hunting, forestry	2.8	2.6	2.7	2.2	2.2	2.1	1.9	1.8
B	Fishing	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01
C	Mining and quarrying	0.6	0.5	0.4	0.5	0.5	0.4	0.4	0.4
D	Manufacturing	23.0	23.2	22.6	22.9	22.5	22.2	21.9	21.7
E	Electricity, gas and water supply	2.4	2.6	2.6	2.5	2.7	2.6	2.7	2.7
F	Construction	5.4	5.1	4.9	5.0	4.9	5.0	5.0	5.0
G	Wholesale, retail, trade, repair	9.6	9.9	10.1	10.2	10.1	10.3	10.4	10.5
H	Hotels and restaurants	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
I	Transport, storage, communications	6.0	6.0	6.0	6.2	6.2	6.4	6.5	6.6
J	Financial intermediation	4.3	4.0	4.0	3.8	3.9	3.9	3.7	3.6
K	Real estate, renting and business activities	12.9	13.1	13.5	13.6	13.8	14.0	14.3	14.5
L	Public administration and com. soc. sec.	5.4	5.6	5.6	5.7	5.9	5.9	5.8	5.8
M	Education	4.8	5.0	4.9	5.0	5.0	5.1	5.2	5.2
N	Health and social work	4.5	4.5	4.4	4.3	4.3	4.3	4.3	4.3
O	Other community and personal activities	3.1	3.1	2.9	2.9	3.0	3.0	3.0	3.0
P	Private households with employed persons	0.03	0.04	0.03	0.02	0.02	0.02	0.02	0.02
1. TOTAL VALUE ADDED, basic prices		86.7	87.1	86.7	86.8	87.0	87.1	87.1	87.1
2. CORRECTIONS (a-b)		13.3	12.9	13.3	13.2	13.0	12.9	12.9	12.9
a) Taxes on products and services		13.9	13.5	13.8	13.7	13.5	13.4	13.4	13.4
b) Subsidies		0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.5
3. GROSS DOMESTIC PRODUCT (3=1+2)		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
GROSS DOMESTIC PRODUCT		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:									
1. Agriculture, forestry, fishing (A+B)		2.8	2.6	2.8	2.2	2.2	2.1	2.0	1.8
2. Industry and construction (C+D+E+F)		31.4	31.3	30.6	30.9	30.6	30.2	29.9	29.7
- industry (C+D+E)		26.0	26.2	25.7	25.9	25.6	25.2	25.0	24.7
- construction F		5.4	5.1	4.9	5.0	4.8	5.0	5.0	5.0
3. Services (G...P)		52.5	53.2	53.3	53.7	54.2	54.8	55.2	55.5
4. Corrections		13.3	12.9	13.3	13.2	13.0	12.9	12.9	12.9
									as a share in total value added in %
TOTAL VALUE ADDED, basic prices		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:									
1. Agriculture, forestry, fishing (A+B)		3.2	3.0	3.2	2.6	2.5	2.4	2.2	2.1
2. Industry and construction (C+D+E+F)		36.2	35.9	35.3	35.6	35.1	34.7	34.4	34.1
- industry (C+D+E)		30.0	30.1	29.6	29.8	29.5	29.0	28.7	28.4
- construction F		6.3	5.8	5.7	5.8	5.7	5.7	5.7	5.7
3. Services (G...P)		60.6	61.1	61.5	61.9	62.3	62.9	63.4	63.8

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

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

SIT million

		Constant previous year prices					Constant 2004 prices		
		2000	2001	2002	2003	2004	2005	2006	2007
							estimate	forecast	
A	Agriculture, hunting, forestry	109,790	113,613	139,709	123,680	141,539	137,525	138,969	139,733
B	Fishing	563	735	709	896	1,015	903	903	903
C	Mining and quarrying	24,493	23,580	20,980	23,617	27,037	28,205	27,937	28,090
D	Manufacturing	963,075	1,036,651	1,164,763	1,259,492	1,388,935	1,461,256	1,526,281	1,598,780
E	Electricity, gas & water supply	93,360	109,543	131,475	140,256	152,498	165,231	170,271	172,910
F	Construction	220,136	227,751	245,150	274,175	292,853	322,107	332,897	344,715
G	Wholesale, retail, trade, repair	388,901	420,861	489,314	553,700	612,767	656,837	679,497	702,940
H	Hotels and restaurants	82,706	91,938	99,912	110,905	117,501	127,154	132,940	138,989
I	Transport, storage, communications	241,293	267,550	297,719	334,458	363,569	405,693	424,152	441,330
J	Financial intermediation	165,441	190,722	201,104	221,699	255,426	265,873	283,553	303,827
K	Real estate, renting and business activities	514,347	577,120	653,642	742,611	818,961	896,707	937,508	977,352
L	Public administration and com. soc. sec.	215,122	242,720	277,053	311,343	353,074	376,281	385,876	395,716
M	Education	184,487	210,792	246,278	269,600	296,046	324,750	333,680	342,189
N	Health and social work	171,176	196,337	226,148	241,059	261,419	282,850	295,437	307,402
O	Other community and personal activities	130,803	136,297	146,734	158,845	171,961	192,771	201,157	210,310
P	Private households with employed persons	1,529	1,540	1,634	1,163	1,228	1,416	1,423	1,431
1. TOTAL VALUE ADDED, basic prices		3,507,223	3,847,750	4,342,324	4,767,499	5,255,828	5,645,559	5,872,482	6,106,617
2. CORRECTIONS (a-b)		572,454	566,851	622,997	729,865	799,945	849,441	882,518	918,383
a) Taxes on products and services		595,130	591,080	649,495	751,595	831,143	881,549	915,252	951,405
b) Subsidies		22,676	24,228	26,499	21,731	31,199	32,108	32,734	33,022
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4,079,676**	**4,414,601**	**4,965,320**	**5,497,364**	**6,055,773**	**6,495,000**	**6,755,000**	**7,025,000**
TOTAL VALUE ADDED, basic prices		3,507,223	3,847,750	4,342,324	4,767,499	5,255,828	5,645,559	5,872,482	6,106,617
in which:									
1. Agriculture, forestry, fishing (A+B)		110,353	114,348	140,418	124,575	142,554	138,428	139,872	140,636
2. Industry and construction (C+D+E+F)		1,301,065	1,397,525	1,562,367	1,697,540	1,861,323	1,976,798	2,057,386	2,144,495
- industry (C+D+E)		1,080,929	1,169,774	1,317,218	1,423,365	1,568,469	1,654,691	1,724,489	1,799,780
- construction F		220,136	227,751	245,150	274,175	292,853	322,107	332,897	344,715
3. Services (G…P)		2,095,805	2,335,877	2,639,539	2,945,383	3,251,951	3,530,333	3,675,224	3,821,486

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

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

real growth rates in %

		Constant previous year prices					Constant 2004 prices		
		2000	2001	2002	2003	2004	2005	2006	2007
							estimate	forecast	
A	Agriculture, hunting, forestry	0.6	-4.0	13.3	-15.8	10.8	1.0	1.0	0.5
B	Fishing	-2.6	1.6	-4.5	4.9	-4.3	0.0	0.0	0.0
C	Mining and quarrying	-1.2	-5.4	-8.3	6.2	2.5	-1.0	-1.0	0.5
D	Manufacturing	8.9	4.8	4.8	4.0	4.2	3.9	4.4	4.7
E	Electricity, gas & water supply	5.8	6.6	6.4	-1.0	3.1	-1.0	3.0	1.5
F	Construction	0.8	-2.3	0.5	3.6	0.9	4.3	3.3	3.5
G	Wholesale, retail, trade, repair	3.4	2.0	3.3	2.8	3.5	4.0	3.4	3.4
H	Hotels and restaurants	4.1	6.3	3.3	3.5	0.4	3.3	4.5	4.5
I	Transport, storage, communications	2.5	3.5	2.9	4.0	0.8	4.0	4.5	4.0
J	Financial intermediation	4.3	2.9	6.0	4.5	14.8	10.0	6.6	7.1
K	Real estate, renting and business activities	2.4	4.1	4.0	3.0	3.8	3.8	4.5	4.2
L	Public administration & com. soc. sec.	5.3	5.4	3.1	4.3	5.8	2.7	2.5	2.5
M	Education	3.7	2.2	2.7	2.1	2.7	2.9	2.7	2.5
N	Health and social work	3.4	2.5	4.0	2.5	3.5	4.5	4.4	4.0
O	Other community and personal activities	3.5	2.9	-0.6	3.9	3.6	4.5	4.3	4.5
P	Private households with employed persons	11.0	12.5	-8.6	-32.7	-8.1	5.0	0.5	0.5
1. TOTAL VALUE ADDED, basic prices		4.6	3.2	3.9	2.7	4.1	3.9	4.0	4.0
2. CORRECTIONS (a-b)		1.1	-1.0	0.3	2.1	4.6	4.2	3.9	4.1
a) Taxes on products and services		1.2	-1.0	0.5	1.9	4.6	4.1	3.8	3.9
b) Subsidies		1.2	-1.6	6.5	-5.7	4.5	2.1	2.0	0.9
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4.1**	**2.7**	**3.5**	**2.7**	**4.2**	**3.9**	**4.0**	**4.0**
TOTAL VALUE ADDED, basic prices		4.6	3.2	3.9	2.7	4.1	3.9	4.0	4.0
in which:									
1. Agriculture, forestry, fishing (A+B)		-	-	-	-	-	1.0	1.0	0.5
2. Industry and construction (C+D+E+F)		-	-	-	-	-	3.5	4.1	4.2
- industry (C+D+E)		-	-	-	-	-	3.3	4.2	4.4
- construction F		-	-	-	-	-	4.3	3.3	3.5
3. Services (G…P)		-	-	-	-	-	4.2	4.1	4.0

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

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

SIT million, current prices

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
Compensation of employees	**2,275,737**	**2,564,414**	**2,824,112**	**3,044,680**	**3,295,800**	**3,511,915**	**3,716,246**	**3,935,615**
Wages and salaries	2,026,053	2,283,109	2,496,944	2,681,162	2,891,765	3,074,675	3,251,526	3,441,188
Employers' social contributions	249,684	281,305	327,168	363,518	404,035	437,240	464,720	494,427
Taxes on production and imports	**700,668**	**771,895**	**878,945**	**963,120**	**1,029,868**	**1,089,125**	**1,134,276**	**1,181,549**
Taxes on products and services	597,109	646,009	737,786	794,799	846,737	890,501	947,487	1,008,512
Taxes on production	103,559	125,886	141,158	168,321	183,131	198,624	186,789	173,037
Subsidies	**65,704**	**73,526**	**71,703**	**98,810**	**109,903**	**119,727**	**127,332**	**127,874**
Subsidies on products and services	24,628	24,885	23,048	29,857	31,436	33,258	35,370	37,610
Other subsidies	41,075	48,642	48,655	68,953	78,466	86,470	91,962	90,264
Gross operating surplus	**1,048,145**	**1,171,553**	**1,290,498**	**1,468,650**	**1,568,022**	**1,671,795**	**1,810,936**	**1,951,063**
Consumption of fixed capital	661,803	732,240	787,158	808,051	869,105	926,623	1,003,745	1,081,412
Net operating surplus	386,343	439,313	503,340	660,599	698,917	745,172	807,192	869,650
Gross mixed income	**341,503**	**365,215**	**433,589**	**435,901**	**467,457**	**498,394**	**539,874**	**581,649**
Consumption of fixed capital	83,202	90,891	97,598	99,892	102,112	108,870	117,931	127,056
Net mixed income	258,301	274,325	335,991	336,009	365,345	389,524	421,943	454,592
GROSS DOMESTIC PRODUCT	**4,300,350**	**4,799,552**	**5,355,440**	**5,813,540**	**6,251,244**	**6,651,500**	**7,074,000**	**7,522,000**
								structure in %
Compensation of employees	**52.9**	**53.4**	**52.7**	**52.4**	**52.7**	**52.8**	**52.5**	**52.3**
Wages and salaries	47.1	47.6	46.6	46.1	46.3	46.2	46.0	45.7
Employers' social contributions	5.8	5.9	6.1	6.3	6.5	6.6	6.6	6.6
Taxes on production and imports	**16.3**	**16.1**	**16.4**	**16.6**	**16.5**	**16.4**	**16.0**	**15.7**
Taxes on products and services	13.9	13.5	13.8	13.7	13.5	13.4	13.4	13.4
Taxes on production	2.4	2.6	2.6	2.9	2.9	3.0	2.6	2.3
Subsidies	**1.5**	**1.5**	**1.3**	**1.7**	**1.8**	**1.8**	**1.8**	**1.7**
Subsidies on products and services	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Other subsidies	1.0	1.0	0.9	1.2	1.3	1.3	1.3	1.2
Gross operating surplus	**24.4**	**24.4**	**24.1**	**25.3**	**25.1**	**25.1**	**25.6**	**25.9**
Consumption of fixed capital	15.4	15.3	14.7	13.9	13.9	13.9	14.2	14.4
Net operating surplus	9.0	9.2	9.4	11.4	11.2	11.2	11.4	11.6
Gross mixed income	**7.9**	**7.6**	**8.1**	**7.5**	**7.5**	**7.5**	**7.6**	**7.7**
Consumption of fixed capital	1.9	1.9	1.8	1.7	1.6	1.6	1.7	1.7
Net mixed income	6.0	5.7	6.3	5.8	5.8	5.9	6.0	6.0
GROSS DOMESTIC PRODUCT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

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

SIT million, current prices

		2000	2001	2002	2003	2004	2005	2006	2007
							estimate	forecast	
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**4,300,350**	**4,799,552**	**5,355,440**	**5,813,540**	**6,251,244**	**6,651,500**	**7,074,000**	**7,522,000**
2	EXPORTS OF GOODS AND SERVICES	2,390,328	2,745,667	3,059,976	3,246,747	3,761,522	4,218,861	4,651,323	5,130,152
3	IMPORTS OF GOODS AND SERVICES	2,539,626	2,780,830	2,986,173	3,251,114	3,837,032	4,250,840	4,655,371	5,114,470
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-149,298	-35,163	73,803	-4,367	-75,510	-31,979	-4,048	15,682
5	TOTAL DOMESTIC DEMAND (5=6+9)	4,449,648	4,834,715	5,281,636	5,817,907	6,326,754	6,683,480	7,078,048	7,506,318
6	FINAL CONSUMPTION (6=7+8)	3,297,482	3,676,235	4,030,681	4,381,303	4,680,583	4,975,566	5,259,561	5,557,312
7	PRIVATE CONSUMPTION	2,467,667	2,718,270	2,973,195	3,242,175	3,461,491	3,677,233	3,885,925	4,102,631
	- households	2,415,081	2,657,823	2,903,381	3,167,384	3,386,182	3,595,787	3,799,937	4,011,761
	- non-profit institutions	52,586	60,447	69,814	74,791	75,309	81,447	85,987	90,870
8	GOVERNMENT CONSUMPTION (individual and collective)	829,816	957,965	1,057,486	1,139,128	1,219,092	1,298,333	1,373,636	1,454,681
9	GROSS CAPITAL FORMATION (9=10+11)	1,152,165	1,158,480	1,250,957	1,436,604	1,646,171	1,707,913	1,818,488	1,949,006
10	GROSS FIXED CAPITAL FORMATION	1,098,894	1,158,679	1,211,519	1,353,058	1,506,015	1,630,472	1,743,882	1,872,275
11	CHANGES IN INVENTORIES AND VALUABLES	53,271	-199	39,438	83,547	140,156	77,441	74,606	76,731
									structure in %
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	EXPORTS OF GOODS AND SERVICES	55.6	57.2	57.1	55.8	60.2	63.4	65.8	68.2
3	IMPORTS OF GOODS AND SERVICES	59.1	57.9	55.8	55.9	61.4	63.9	65.8	68.0
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-3.5	-0.7	1.4	-0.1	-1.2	-0.5	-0.1	0.2
5	TOTAL DOMESTIC DEMAND (5=6+9)	103.5	100.7	98.6	100.1	101.2	100.5	100.1	99.8
6	FINAL CONSUMPTION (6=7+8)	76.7	76.6	75.3	75.4	74.9	74.8	74.4	73.9
7	PRIVATE CONSUMPTION	57.4	56.6	55.5	55.8	55.4	55.3	54.9	54.5
	- households	56.2	55.4	54.2	54.5	54.2	54.1	53.7	53.3
	- non-profit institutions	1.2	1.3	1.3	1.3	1.2	1.2	1.2	1.2
8	GOVERNMENT CONSUMPTION (individual and collective)	19.3	20.0	19.7	19.6	19.5	19.5	19.4	19.3
9	GROSS CAPITAL FORMATION (9=10+11)	26.8	24.1	23.4	24.7	26.3	25.7	25.7	25.9
10	GROSS FIXED CAPITAL FORMATION	25.6	24.1	22.6	23.3	24.1	24.5	24.7	24.9
11	CHANGES IN INVENTORIES AND VALUABLES	1.2	0.0	0.7	1.4	2.2	1.2	1.1	1.0

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

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

SIT million

		Constant previous year prices					Constant 2004 prices		
		2000	2001	2002	2003	2004	2005	2006	2007
							estimate	forecast	
1	GROSS DOMESTIC PRODUCT (1=4+5)	4,079,676	4,414,601	4,965,320	5,497,364	6,055,773	6,495,000	6,755,000	7,025,000
2	EXPORTS OF GOODS AND SERVICES	2,167,682	2,540,812	2,930,001	3,155,864	3,652,367	4,083,140	4,402,666	4,758,350
3	IMPORTS OF GOODS AND SERVICES	2,230,383	2,616,276	2,913,648	3,186,507	3,681,409	4,068,233	4,334,645	4,649,969
4	*EXTERNAL BALANCE OF GOODS AND SERVICES* (4=2-3)	-62,701	-75,464	16,353	-30,642	-29,043	14,906	68,021	108,380
5	TOTAL DOMESTIC DEMAND (5=6+9)	4,142,378	4,490,065	4,948,967	5,528,006	6,084,815	6,480,094	6,686,980	6,916,619
6	FINAL CONSUMPTION (6=7+8)	3,042,054	3,387,059	3,743,649	4,150,511	4,515,676	4,836,728	4,977,445	5,124,943
7	PRIVATE CONSUMPTION	2,287,851	2,525,157	2,754,891	3,075,589	3,343,496	3,587,159	3,697,886	3,812,116
	- households	2,240,139	2,470,027	2,691,330	3,005,173	3,271,483	3,508,085	3,616,835	3,728,957
	- non-profit institutions	47,713	55,130	63,561	70,417	72,013	79,074	81,051	83,159
8	GOVERNMENT CONSUMPTION (individual and collective)	754,203	861,902	988,758	1,074,922	1,172,180	1,249,569	1,279,559	1,312,827
9	GROSS CAPITAL FORMATION (9=10+11)	1,100,323	1,103,006	1,205,317	1,377,495	1,569,140	1,643,366	1,709,534	1,791,676
10	GROSS FIXED CAPITAL FORMATION	1,051,703	1,103,046	1,169,330	1,296,953	1,432,502	1,566,256	1,636,737	1,718,574
11	CHANGES IN INVENTORIES AND VALUABLES[1]	48,620	-39	35,988	80,542	136,637	77,110	72,797	73,102
									real growth rates in %
1	GROSS DOMESTIC PRODUCT (1=4+5)	4.1	2.7	3.5	2.7	4.2	3.9	4.0	4.0
2	EXPORTS OF GOODS AND SERVICES	13.2	6.3	6.7	3.1	12.5	8.6	7.8	8.1
3	IMPORTS OF GOODS AND SERVICES	7.3	3.0	4.8	6.7	13.2	6.0	6.5	7.3
4	*EXTERNAL BALANCE OF GOODS AND SERVICES[1]*	*2.6*	*1.7*	*1.1*	*-2.0*	*-0.4*	*1.4*	*0.8*	*0.6*
5	TOTAL DOMESTIC DEMAND (5=6+9)	1.4	0.9	2.4	4.7	4.6	2.4	3.2	3.4
6	FINAL CONSUMPTION (6=7+8)	1.2	2.7	1.8	3.0	3.1	3.3	2.9	3.0
7	PRIVATE CONSUMPTION	0.7	2.3	1.3	3.4	3.1	3.6	3.1	3.1
	- households	0.7	2.3	1.3	3.5	3.3	3.6	3.1	3.1
	- non-profit institutions	3.1	4.8	5.2	0.9	-3.7	5.0	2.5	2.6
8	GOVERNMENT CONSUMPTION (individual and collective)	2.6	3.9	3.2	1.6	2.9	2.5	2.4	2.6
9	GROSS CAPITAL FORMATION	2.2	-4.3	4.0	10.1	9.2	-0.2	4.0	4.8
10	GROSS FIXED CAPITAL FORMATION	1.8	0.4	0.9	7.1	5.9	4.0	4.5	5.0
11	*CHANGES IN INVENTORIES AND VALUABLES[1]*	*0.1*	*-1.2*	*0.8*	*0.8*	*0.9*	*-1.0*	*-0.1*	*0.0*

Source of data: SORS, BS, estimates and forecasts by IMAD.
Note: [1]Contribution to real GDP growth (percentage points).

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

SIT million, current price

		2000	2001	2002	2003	2004	2005	2006	2007
							estimate	forecast	
1	**GROSS DOMESTIC PRODUCT**	4,300,350	4,799,552	5,355,440	5,813,540	6,251,244	6,651,500	7,074,000	7,522,000
2	Net primary incomes from the rest of the world	4,480	12,461	-27,640	-36,137	-57,705	-63,111	-65,411	-69,005
3	GROSS NATIONAL INCOME (3=1+2)	4,304,830	4,812,013	5,327,800	5,777,403	6,193,539	6,588,389	7,008,589	7,452,995
4	Net current transfers from the rest of the world	25,746	31,166	32,180	21,955	10,241	-9,366	22,786	64,908
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	4,330,577	4,843,179	5,359,980	5,799,357	6,203,780	6,579,022	7,031,375	7,517,903
6	FINAL CONSUMPTION EXPENDITURE	3,297,483	3,676,235	4,030,680	4,381,303	4,680,583	4,975,566	5,259,561	5,557,312
	- private consumption	2,467,667	2,718,270	2,973,195	3,242,175	3,461,491	3,677,233	3,885,925	4,102,631
	- government consumption	829,816	957,965	1,057,486	1,139,128	1,219,092	1,298,333	1,373,636	1,454,681
7	GROSS SAVING (7=5-6)	1,033,094	1,166,944	1,329,299	1,418,055	1,523,197	1,603,456	1,771,815	1,960,591
8	GROSS CAPITAL FORMATION	1,152,166	1,158,480	1,250,957	1,436,604	1,646,171	1,707,913	1,818,488	1,949,006
	in which:								
	- gross fixed capital formation	1,098,894	1,158,679	1,211,519	1,353,058	1,506,015	1,630,472	1,743,882	1,872,275
	- changes in inventories and valuables	53,271	-199	39,438	83,547	140,156	77,441	74,606	76,731
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-119,071	8,464	78,343	-18,549	-122,975	-104,457	-46,673	11,585
									structure in %
1	**GROSS DOMESTIC PRODUCT**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	Net primary incomes from the rest of the world	0.1	0.3	-0.5	-0.6	-0.9	-0.9	-0.9	-0.9
3	GROSS NATIONAL INCOME (3=1+2)	100.1	100.3	99.5	99.4	99.1	99.1	99.1	99.1
4	Net current transfers from the rest of the world	0.6	0.6	0.6	0.4	0.1	-0.1	0.3	0.9
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	100.7	100.9	100.1	99.8	99.2	98.9	99.4	99.9
6	FINAL CONSUMPTION EXPENDITURE	76.7	76.6	75.3	75.4	74.9	74.8	74.4	73.9
	- private consumption	57.4	56.6	55.5	55.8	55.4	55.3	54.9	54.5
	- government consumption	19.3	20.0	19.7	19.6	19.5	19.5	19.4	19.3
7	GROSS SAVING (7=5-6)	24.0	24.3	24.8	24.4	24.3	24.1	25.0	26.1
8	GROSS CAPITAL FORMATION	26.8	24.1	23.4	24.7	26.3	25.7	25.7	25.9
	in which:								
	- gross fixed capital formation	25.6	24.1	22.6	23.3	24.1	24.5	24.7	24.9
	- changes in inventories and valuables	1.2	0.0	0.7	1.4	2.2	1.2	1.1	1.0
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-2.8	0.2	1.5	-0.3	-2.0	-1.6	-0.7	0.2

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

Table 8: **Balance of payments**

EUR million

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
I. CURRENT ACCOUNT	-583	38	344	-81	-544	-436	-195	48
1. TRADE BALANCE	-1,227	-684	-265	-543	-1,009	-885	-840	-812
1.1. Exports of goods F.O.B.	9,574	10,454	11,082	11,417	12,933	14,587	16,131	17,854
1.2. Imports of goods F.O.B.	10,801	11,139	11,347	11,960	13,942	15,472	16,971	18,666
2. SERVICES	489	536	620	541	686	751	823	877
2.1. Exports	2,052	2,178	2,440	2,465	2,782	3,021	3,281	3,558
- Transport	534	559	635	680	808	910	1,003	1,103
- Travel	1,045	1,105	1,143	1,186	1,312	1,403	1,495	1,592
- Other	473	514	663	599	662	708	783	863
2.2. Imports	1,562	1,642	1,820	1,924	2,096	2,269	2,458	2,680
- Transport	385	356	385	419	485	500	532	570
- Travel	556	601	635	664	706	730	767	818
- Other	621	685	800	841	906	1,040	1,158	1,292
1-2. BALANCE OF GOODS AND SERVICES	-738	-149	355	-2	-323	-133	-17	65
Exports	11,626	12,632	13,522	13,882	15,715	17,608	19.413	21.411
Imports	12,364	12,781	13,167	13,884	16,038	17,741	19,430	21,346
3. INCOME	29	43	-153	-173	-250	-263	-273	-288
3.1. Receipts	471	511	491	542	583	660	709	750
- Labour income	204	197	206	219	220	214	220	225
- Investment income	268	314	286	323	363	446	489	525
3.2. Expenditures	442	468	645	715	833	923	982	1,038
- Labour expenditures	29	30	36	43	46	50	53	58
- Investment expenditures	413	438	608	673	786	873	929	980
4. CURRENT TRANSFERS	125	144	142	94	29	-39	95	271
4.1. Receipts	371	436	478	448	543	627	785	1,031
4.2. Expenditure	245	293	336	354	515	666	690	760
II. CAPITAL AND FINANCIAL ACCOUNT	542	-148	-145	-12	638	-	-	-
A. CAPITAL ACCOUNT	4	-4	-164	-165	-105	-	-	-
1. Capital transfers	1	1	-163	-164	-106	-	-	-
2. Non-produced non-financial assets	3	-5	-1	-2	0	-	-	-
B. FINANCIAL ACCOUNT	538	-144	19	154	743	-	-	-
1. Direct investment	77	251	1,538	-118	221	-	-	-
- Foreign in Slovenia	149	412	1,700	300	662	-	-	-
- Domestic abroad	-72	-161	-162	-418	-442	-	-	-
2. Portfolio investment	185	80	-69	-223	-575	-	-	-
3. Financial derivatives	0	0	0	0	-2	-	-	-
4. Other investment	462	964	435	759	843	-	-	-
4.1. Assets	-576	248	-668	-825	-1,408	-	-	-
4.2. Liabilities	1,038	716	1,102	1,584	2,251	-	-	-
5. International reserves (BS)	-187	-1,439	-1,885	-264	256	-	-	-
III. STATISTICAL ERROR	41	110	-199	93	-94	-	-	-

Source of data: SORS, BS, estimates and forecasts by IMAD.
Note: Balance of payment statistics (exports F.O.B., imports F.O.B.).

Table 9: **Indicators of international competitiveness**

annual growth rates in %

	2000	2001	2002	2003	2004	2005 estimate	2006 forecast
Effective exchange rate [1]							
Nominal	-8.1	-5.8	-2.9	-0.2	-0.7	0.0	-0.1
Real [2]	-1.9	-0.1	2.7	3.7	0.9	0.5	0.7
Unit labour costs in manufactoring [3]							
In SIT nominal	4.0	7.5	6.4	3.3	1.5	0.8	0.4
In the basket of currencies [4]	-4.4	1.2	3.2	3.1	0.9	0.8	0.3
In the basket of currencies - relative [5]	-3.3	-0.9	3.0	3.0	3.3	0.7	-0.1
Components [4]							
Compensation of employees - real [6]	2.6	1.8	2.3	1.2	3.9	3.0	2.9
Net wages and other remunerations	1.9	0.8	1.6	0.3	4.2	4.4	2.7
Tax burden on wages [7]	0.6	0.6	0.4	0.3	0.1	-1.9	0.3
Labour productivity	7.4	2.7	3.4	3.4	6.0	4.8	5.1
Prices/effective exchange rate	0.1	2.1	4.3	5.4	2.9	2.5	2.4

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

Table 10a: **Consolidated general government revenues; GFS – IMF Methodology**

SIT million, current prices

	CONSOLIDATED GENERAL GOVERNMENT REVENUES	2000	2001	2002	2003	2004
I.	**TOTAL GENERAL GOVERNMENT REVENUES**	**1,793,415**	**2,048,225**	**2,176,399**	**2,477,424**	**2,683,052**
	TAX REVENUES	**1,666,285**	**1,878,783**	**2,002,134**	**2,291,070**	**2,446,894**
	TAXES ON INCOME AND PROFIT	311,429	357,877	395,045	460,520	506,878
	Personal income tax	259,634	289,102	319,822	353,126	382,523
	Corporate income tax	51,795	68,775	75,223	107,394	124,355
	SOCIAL SECURITY CONTRIBUTIONS	619,265	701,347	774,355	839,216	899,400
	TAXSES ON PAYROLL AND WORKFORCE	68,071	83,369	93,897	107,424	117,676
	Payroll tax	63,849	79,031	88,994	102,968	113,189
	Tax on contracting work	4,222	4,338	4,903	4,456	4,487
	TAXES ON PROPERTY	26,513	32,965	34,428	34,419	39,513
	DOMESTIC TAXES ON GOODS AND SERVICES	602,895	673,380	672,703	814,577	856,604
	TAXES ON INTERN. TRADE AND TRANSACTIONS	38,089	29,607	31,341	34,653	19,339
	OTHER TAXES	23	238	365	261	7,484
	NON-TAX REVENUES	**110,035**	**148,455**	**144,877**	**157,113**	**169,522**
	CAPITAL REVENUES, VOLONTARY DONATIONS	**17,095**	**20,987**	**29,388**	**29,241**	**22,798**
	RECEIPTS FROM THE EU BUDGET	**-**	**-**	**-**	**-**	**43,838**
		per cent share relative to GDP				
	TOTAL GENERAL GOVERNMENT REVENUES	**41.7**	**42.7**	**40.6**	**42.6**	**42.9**
	TAX REVENUES	**38.7**	**39.1**	**37.4**	**39.4**	**39.1**
	TAXES ON INCOME AND PROFIT	7.2	7.5	7.4	7.9	8.1
	Personal income tax	6.0	6.0	6.0	6.1	6.1
	Corporate income tax	1.2	1.4	1.4	1.8	2.0
	SOCIAL SECURITY CONTRIBUTIONS	14.4	14.6	14.5	14.4	14.4
	TAXSES ON PAYROLL AND WORKFORCE	1.6	1.7	1.8	1.8	1.9
	Payroll tax	1.5	1.6	1.7	1.8	1.8
	Tax on contracting work	0.1	0.1	0.1	0.1	0.1
	TAXES ON PROPERTY	0.6	0.7	0.6	0.6	0.6
	DOMESTIC TAXES ON GOODS AND SERVICES	14.0	14.0	12.6	14.0	13.7
	TAXES ON INTERN. TRADE AND TRANSACTIONS	0.9	0.6	0.6	0.6	0.3
	OTHER TAXES	0.0	0.0	0.0	0.0	0.1
	NON-TAX REVENUES	**2.6**	**3.1**	**2.7**	**2.7**	**2.7**
	CAPITAL REVENUES, VOLONTARY DONATIONS	**0.4**	**0.4**	**0.5**	**0.5**	**0.4**
	RECEIPTS FROM THE EU BUDGET	**-**	**-**	**-**	**-**	**0.7**

Cont. on the next page.

Table 10b: **Consolidated general government expenditure; GFS – IMF Methodology**

SIT million, current prices

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	2000	2001	2002	2003	2004
II.	**TOTAL EXPENDITURE**	**1,848,249**	**2,111,416**	**2,332,423**	**2,555,893**	**2,768,430**
	CURRENT EXPENDITURE	**363,785**	**431,647**	**477,431**	**522,778**	**536,739**
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	152,929	180,226	202,198	227,022	242,268
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	149,900	178,612	191,705	203,095	202,538
	INTEREST PAYMENTS	60,956	72,809	83,528	92,661	91,933
	CURRENT TRANSFERS	**1,313,519**	**1,480,824**	**1,648,085**	**1,800,113**	**1,947,285**
	SUBSIDIES	58,951	63,161	60,435	69,470	77,571
	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	731,077	821,358	910,392	986,100	1,053,417
	CURRENT TRANSFERS TO PUBLIC INSTITUTIONS AND PUBLIC UTILITIES	487,432	563,780	631,249	684,098	742,774
	OTHER CURRENT DOMESTIC TRANSFERS	36,059	32,525	46,009	60,445	73,523
	CAPITAL EXPENDITURE TOTAL	**170,945**	**198,945**	**206,907**	**233,002**	**243,769**
	CAPITAL EXPENDITURE	111,003	127,996	128,733	142,131	151,305
	CAPITAL TRANSFERS	59,942	70,949	78,174	90,871	92,464
	PAYMENTS TO THE EU BUDGET	-	-	-	-	40,637
III.	**SURPLUS / DEFICIT (I. - II.)**	**-54,834**	**-63,191**	**-156,024**	**-78,469**	**-85,378**
		per cent share relative to GDP				
II.	**TOTAL EXPENDITURE**	**43.0**	**44.0**	**43.5**	**44.0**	**44.3**
	CURRENT EXPENDITURE	**8.5**	**9.0**	**8.9**	**9.0**	**8.6**
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	3.6	3.8	3.8	3.9	3.9
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.5	3.7	3.6	3.5	3.2
	INTEREST PAYMENTS	1.4	1.5	1.5	1.6	1.5
	CURRENT TRANSFERS	**30.5**	**30.9**	**30.8**	**31.0**	**31.2**
	SUBSIDIES	1.4	1.3	1.1	1.2	1.2
	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.0	17.1	17.0	17.0	16.9
	CURRENT TRANSFERS TO PUBLIC INSTITUTIONS AND PUBLIC UTILITIES	11.3	11.7	11.8	11.8	11.9
	OTHER CURRENT DOMESTIC TRANSFERS	0.8	0.7	0.9	1.0	1.2
	CAPITAL EXPENDITURE TOTAL	**4.0**	**4.1**	**3.9**	**4.0**	**3.9**
	CAPITAL EXPENDITURE	2.6	2.7	2.4	2.4	2.4
	CAPITAL TRANSFERS	1.4	1.5	1.5	1.6	1.5
	PAYMENTS TO THE EU BUDGET	**-**	**-**	**-**	**-**	**0.7**
III.	**SURPLUS / DEFICIT (I. - II.)**	**-1.3**	**-1.3**	**-2.9**	**-1.4**	**-1.4**

Source of data: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia, calculations by IMAD - the calculations of GDP shares are based on the SORS' release of 15 September 2005.

Table 11: **Population and labour force**

numbers in thousand, indicators and growth rates in percents

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
POPULATION (in thousand)	**1990.3**	**1992.0**	**1995.7**	**1996.8**	**1997.0**	**1997.8**	**1998.6**	**1999.2**
Age structure (in perc.s): 0–14 years	15.9	15.6	15.2	14.8	14.5	14.2	14.0	13.8
15–64 years	70.1	70.1	70.2	70.4	70.4	70.4	70.3	70.2
65 years & more	14.0	14.3	14.6	14.9	15.2	15.4	15.7	16.0
LABOUR FORCE (A) (A=B+C1)	**968.0**	**979.0**	**971.0**	**962.0**	**1007.0**	**1006.6**	**1008.1**	**1011.5**
Persons in employment (B)	**901.0**	**916.0**	**910.0**	**897.0**	**943.0**	**945.0**	**949.7**	**954.4**
Persons in paid employment (B1)	715.4	722.1	721.4	722.1	724.4	731.5	735.9	741.1
Formally self-employed persons (B2)	85.1	84.2	87.3	79.2	83.1	81.4	81.1	80.0
Informally employed (B3=B-B1-B2)	100.5	109.7	101.3	95.6	135.5	132.1	132.7	133.4
Survey unemployed - ILO standard (C1)	**68.0**	**63.0**	**62.0**	**64.0**	**64.0**	**61.6**	**58.4**	**57.1**
Registered unemployed persons (C2)	**106.6**	**101.9**	**102.6**	**97.7**	**92.8**	**90.7**	**86.8**	**82.9**
LABOUR MARKET INDICATORS %								
Participation rate (65 years and more)	**67.8**	**68.3**	**67.8**	**67.1**	**69.8**	**69.8**	**70.0**	**70.4**
men	72.2	73.1	72.5	72.0	74.5	74.1	74.3	74.7
women	63.2	63.5	63.0	62.1	65.0	65.3	65.5	65.9
Participation rate (65 years and more)	8.3	8.2	7.2	6.2	8.6	8.4	7.9	7.6
Employment rate (15-64 years)	**62.9**	**63.9**	**63.4**	**62.6**	**65.3**	**65.4**	**65.8**	**66.3**
men	67.2	68.7	68.2	67.4	70.0	71.4	71.7	72.2
women	58.5	58.9	58.6	57.6	60.5	61.2	61.6	62.1
Employment rate (55-64 years)	22.5	25.0	24.4	23.5	29.0	30.6	32.1	33.6
Unemploy. rate - ILO definition (C1/A)	**7.0**	**6.4**	**6.4**	**6.7**	**6.3**	**6.1**	**5.8**	**5.6**
men	6.8	5.9	5.9	6.4	5.9	5.8	5.5	5.3
women	7.3	7.0	6.8	7.1	6.9	6.5	6.2	6.0
young people (15-24 years)	16.8	18.1	16.7	17.4	16.2	15.7	14.9	14.5
Registered unemployed rate (C2/(B1+B2+C2))	**11.8**	**11.2**	**11.3**	**10.9**	**10.3**	**10.0**	**9.6**	**9.2**
men	10.6	10.1	10.0	9.4	8.8	8.6	8.4	8.2
women	13.1	12.6	12.7	12.6	12.1	11.8	11.1	10.4
Structure of persons in employment according to Survey								
in agriculture	9.8	10.2	9.1	8.3	9.7	9.9	9.7	9.5
in industry and construction	37.4	37.9	38.2	37.3	36.0	36.1	35.6	35.2
in services	50.9	50.2	51.4	53.0	52.4	54.0	54.7	55.4
ANNUAL GROWTH RATES (%)								
Persons in employment (according to Survey)	**1.7**	**1.7**	**-0.7**	**-1.4**	**5.1**	**0.2**	**0.5**	**0.5**
Persons in paid employment	1.8	0.9	-0.1	0.1	0.3	1.0	0.6	0.7
Formally self-employed persons	-2.7	-1.1	3.6	-9.2	4.9	-2.1	-0.4	-1.3
Informally employed	-21.2	9.1	-7.6	-5.6	41.7	-2.5	0.5	0.5
Registered unemployed	**-10.4**	**-4.5**	**0.8**	**-4.8**	**-5.0**	**-2.3**	**-4.3**	**-4.5**
Labour force according to Survey	0.9	1.1	-0.8	-0.9	4.7	0.0	0.2	0.3
Working age population	0.5	0.1	0.3	0.3	0.0	0.0	0.0	-0.1
Population	**0.2**	**0.1**	**0.2**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Population, 65 years and more	2.2	2.4	2.5	1.7	2.0	1.8	1.7	1.8

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

Table 12: **Labour force flows**

numbers in thousand, indicators and growth rates in percents

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
FORMAL LABOUR FORCE, year-end (in thousand)	**906.5**	**909.2**	**906.9**	**870.7**	**898.2**	**901.6**	**901.2**	**901.8**
Formal employment	801.9	804.9	807.3	800.7	807.4	811.9	816.0	820.1
Registered unemployment	104.6	104.3	99.6	96.0	90.7	89.7	85.2	81.7
Registered unemployment rate, end of year (%)	**11.5**	**11.5**	**11.0**	**11.0**	**10.1**	**9.9**	**9.5**	**9.1**
New first-time job seekers	**24.9**	**21.3**	**25.4**	**22.1**	**21.9**	**24.3**	**23.3**	**23.3**
of whom became unemployed	20.5	21.9	21.4	25.4	26.0	22.4	22.5	21.5
- in % of the generation	82.4	102.6	84.3	115.1	118.7	91.9	96.8	92.0
Additional number of work permits for foreigners	**2.9**	**-6.4**	**2.1**	**3.5**	**-0.5**	**0.0**	**0.4**	**-0.2**
- share of foreigners in formally active population	4.6	4.3	4.0	4.5	4.4	4.2	4.2	4.2
Employed having lost their jobs	**61.8**	**65.8**	**66.0**	**68.8**	**69.6**	**69.2**	**68.6**	**67.6**
- on 100 persons in formal employment	7.7	8.2	8.2	8.6	8.6	8.5	8.4	8.2
Registered unemployed having found a job	**60.2**	**52.7**	**52.2**	**50.5**	**54.3**	**57.3**	**61.3**	**61.5**
- on 100 persons in formal employment	7.5	6.5	6.5	6.3	6.7	7.1	7.5	7.5
Retirements (-)	**14.8**	**14.6**	**14.8**	**15.1**	**15.4**	**11.8**	**13.4**	**13.2**
of which: registered unemployed persons	7.0	7.6	6.9	5.0	4.3	3.2	3.2	2.8
Deaths (-)	**2.6**	**2.7**	**2.6**	**2.6**	**2.5**	**2.5**	**2.5**	**2.5**
Other inflows into formal labour force (net)	**-18.8**	**5.1**	**-12.5**	**-44.0**	**23.9**	**-6.6**	**-8.1**	**-6.9**
of which: other persons who found a job (net)	5.8	32.5	20.2	24.0	40.0	25.3	22.7	21.1
other deleted from unemployment registers (-)	24.6	27.4	32.8	42.1	42.0	31.8	30.8	28.0
- on 100 registered unemployed	23.1	26.9	31.9	43.1	45.2	35.1	35.5	33.7
Education structure of school-leavers coming to the labour market (in %)								
- with lower education or less	28.9	18.0	22.0	13.8	14.8	11.0	9.7	9.9
- with vocational secondary education	18.5	19.4	15.6	18.2	17.5	15.7	17.2	15.6
- with general or tehnical secondary education	26.0	31.3	30.3	31.8	30.7	38.1	37.6	35.8
- full-time graduates	26.6	31.3	32.2	36.2	37.1	35.2	35.6	38.7

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

Table 13: **Employment (according to the national accounts methodology) and productivity**

	2000	2001	2002	2003	2004	2005	2006	2007
						estimate	forecast	
PERSONS IN EMPLOYMENT (full-time equivalent) in thousand*	**894.8**	**898.9**	**912.5**	**910.5**	**914.3**	**920.7**	**925.3**	**929.9**
Annual growth rate (in %), Total**	**0.8**	**0.5**	**-0.3**	**-0.2**	**0.4**	**0.7**	**0.5**	**0.5**
Production activities (A-F)	**-0.2**	**-0.7**	**-1.9**	**-1.8**	**-1.3**	**-1.1**	**-1.2**	**-1.1**
Mainly market-oriented services (G-K)**	**2.4**	**1.3**	**1.5**	**0.6**	**1.5**	**2.4**	**2.0**	**1.9**
Public & personal services (L-P)	**0.8**	**2.0**	**0.8**	**2.2**	**2.7**	**2.1**	**1.6**	**1.5**
A Agriculture, hunting, forestry	-3.2	-3.3	-2.7	-1.8	-2.3	-2.7	-2.2	-2.7
B Fishing	-3.7	-2.5	42.2	0.0	0.0	0.0	-0.1	-0.1
C Mining and quarrying	-15.9	-6.8	-6.6	-3.8	-10.3	-5.8	-6.6	-5.2
D Manufacturing	0.0	0.4	-1.9	-2.2	-0.8	-1.6	-1.5	-1.2
E Electricity, gas and water supply	-3.6	-0.5	0.2	-0.6	-1.7	0.6	-1.7	-3.2
F Construction	6.6	0.0	-1.0	-0.2	-0.6	2.9	1.8	2.0
G Wholesale, retail, trade, repair	1.5	-0.3	0.6	-0.1	0.1	0.4	0.0	-0.1
H Hotels and restaurants	7.3	-0.5	-0.6	-0.7	0.3	2.6	1.9	1.8
I Transport, storage, communications	1.3	1.5	1.3	-0.4	-1.5	1.2	1.4	0.8
J Financial intermediation	4.0	2.6	1.8	-0.7	2.4	3.7	1.9	2.5
K Real estate, renting & business activities**	2.1	4.4	4.0	3.0	5.2	5.0	4.7	4.6
L Public administration & com. soc. sec.	4.2	3.5	2.8	3.9	4.9	0.2	0.5	0.5
M Education	1.9	1.4	1.7	1.4	1.6	2.3	1.5	1.3
N Health and social work	0.5	1.7	2.3	2.4	3.0	3.9	3.0	2.7
O Other community and personal activities	-5.4	1.0	-5.9	1.5	0.7	1.8	1.5	1.7
P Private households with employed persons	11.1	12.2	-10.3	-34.3	-7.3	5.1	3.3	3.3
LABOUR PRODUCTIVITY								
a) GDP per person in employment								
SIT million (current prices)	4.8	6.5	5.9	6.4	6.8	7.2	7.6	8.1
in EUR (current prices)	23,440	30,116	25,943	27,321	28,624	30,139	31894	33,745
Real annual growth (in %)***	3.3	2.2	3.8	2.9	3.7	3.2	3.5	3.5
b) Value added per person in employment								
SIT million (current prices)	4.2	5.7	5.1	5.5	5.9	6.3	6.6	7.0
in EUR (current prices)	20,320	26,219	22,481	23,726	24,891	26,208	27,735	29,344
Real annual growth (in %)***	**3.8**	**2.7**	**4.2**	**3.0**	**3.7**	**3.2**	**3.5**	**3.4**
Total A:K	**2.4**	**3.1**	**2.6**	**3.5**	**4.3**	**3.6**	**4.0**	**3.9**
Agriculture and Fishing (A+B)	3.5	-0.7	16.2	-14.1	13.3	3.8	3.2	3.2
Industry and contruction (C-F)	4.3	3.4	5.9	5.4	4.6	4.2	5.0	4.9
Mainly market oriented services (G-K)	-0.7	2.1	2.3	2.6	2.7	2.2	2.4	2.3
Public & personal services (L-P)	**3.0**	**1.4**	**1.7**	**0.9**	**1.3**	**1.4**	**1.6**	**1.7**

Source of data: SORS, calculations, estimates and forecasts by IMAD.
Note: * contract-based employment has been included since January 2002, ** the increase due to inclusion of contract-based work is not taken into account in the year 2002, *** real growth rates in SIT.

Table 14a: **Expenditure structure of GDP in 2000-2004, before and after revision**

SIT million, current prices

	2000	2001	2002	2003	2004
Gross domestic product					
a. Former value	4,252,315	4,761,815	5,314,494	5,747,167	6,191,161
b. New value	4,300,350	4,799,552	5,355,440	5,813,540	6,251,244
c. Change (c=b-a)	*48,035*	*37,737*	*40,946*	*66,372*	*60,083*
Households consumption					
a. Former value	2,373,578	2,621,790	2,830,439	3,053,907	3,261,294
b. New value	2,415,081	2,657,823	2,903,381	3,167,384	3,386,182
c. Change (c=b-a)	*41,503*	*36,033*	*72,942*	*113,477*	*124,887*
NPISHs consumpion					
a. Former value	52,461	60,259	69,572	74,070	80,549
b. New value	52,586	60,447	69,814	74,791	75,309
c. Change (c=b-a)	*125*	*187*	*241*	*721*	*-5,240*
General government consumtion					
a. Former value	843,466	974,689	1,073,036	1,165,984	1,227,263
b. New value	829,816	957,965	1,057,486	1,139,128	1,219,092
c. Change (c=b-a)	*-13,650*	*-16,723*	*-15,549*	*-26,856*	*-8,170*
Gross fixed capital formation					
a. Former value	1,066,779	1,164,431	1,239,153	1,373,343	1,529,058
b. New value	1,098,894	1,158,679	1,211,519	1,353,058	1,506,015
c. Change (c=b-a)	*32,115*	*-5,752*	*-27,635*	*-20,285*	*-23,043*
Changes in inventories and valuables					
a. Former value	66,857	-27,320	23,698	81,698	130,691
b. New value	53,271	-199	39,438	83,547	140,156
c. Change (c=b-a)	*-13,586*	*27,121*	*15,740*	*1,848*	*9,465*
Exports of goods and services					
a. Former value	2,387,289	2,744,468	3,060,345	3,245,428	3,710,849
b. New value	2,390,328	2,745,667	3,059,976	3,246,747	3,761,522
c. Change (c=b-a)	*3,039*	*1,199*	*-368*	*1,320*	*50,673*
Imports of goods and services					
a. Former value	2,538,115	2,776,503	2,981,749	3,247,262	3,748,543
b. New value	2,539,626	2,780,830	2,986,173	3,251,114	3,837,032
c. Change (c=b-a)	*1,511*	*4,327*	*4,424*	*3,853*	*88,489*
FISIM allocated by users, 2000-2004					
FISIM Total	48,036	37,738	40,723	51,824	60,079
Households	41,503	36,033	40,483	47,633	52,196
NPISH	125	187	241	721	819
General government	4,880	4,646	6,598	7,274	6,635
Exports of goods and services	3,039	1,199	-370	1,504	5,476
Imports of goods and services	1,511	4,327	6,229	5,308	5,047

Cont. on the next page.

Table 14b: **Expenditure structure of GDP in 2000-2004, before and after revision**

Annual real growth rates of main aggregates in %	2000	2001	2002	2003	2004
a. FORMER VALUE					
Gross domestic product	3.9	2.7	3.3	2.5	4.6
Domestic consumption [1]	1.4	0.9	2.3	4.7	4.7
Private consumption [2]	0.4	2.3	0.3	2.7	3.5
Government consumption	2.3	3.9	1.7	2.6	1.7
Gross fixed capital formation	0.6	4.1	3.1	6.3	6.8
Exports of goods and services	13.0	6.3	6.7	3.2	12.6
Imports of goods and services	7.6	3.0	4.9	6.8	12.4
b. NEW VALUE					
Gross domestic product	4.1	2.7	3.5	2.7	4.2
Domestic consumption [1]	1.4	0.9	2.4	4.7	4.6
Private consumption [2]	0.7	2.3	1.3	3.4	3.1
Government consumption	2.6	3.9	3.2	1.6	2.9
Gross fixed capital formation	1.8	0.4	0.9	7.1	5.9
Exports of goods and services	13.2	6.3	6.7	3.1	12.5
Imports of goods and services	7.3	3.0	4.8	6.7	13.2

Implicit GDP price indices, previous year = 100	2000	2001	2002	2003	2004
a. FORMER VALUE					
Implicit GDP deflator	105.6	109.1	108.0	105.5	103.0
Domestic consumption	107.6	107.9	106.8	104.9	103.5
Private consumption [1]	108.3	108.0	107.8	105.0	103.2
General government consumption	110.2	111.2	108.3	105.9	103.5
Gross capital formation	104.5	104.8	103.4	104.3	104.6
Terms of trade	97.1	101.9	102.0	100.7	98.8
Exports of goods and services	110.5	108.2	104.5	102.8	101.5
Imports of goods and services	113.8	106.2	102.4	102.0	102.7
b. NEW VALUE					
Implicit GDP deflator	105.4	108.7	107.9	105.8	103.2
Domestic consumption	107.4	107.7	106.7	105.2	104.0
Private consumption [1]	107.9	107.6	107.9	105.4	103.5
General government consumption	110.0	111.1	107.0	106.0	104.0
Gross capital formation	104.5	105.0	103.6	104.3	105.1
Terms of trade	96.8	101.7	101.9	100.8	98.8
Exports of goods and services	110.3	108.1	104.4	102.9	103.0
Imports of goods and services	113.9	106.3	102.5	102.0	104.2

Source of data: SORS, calculations by IMAD.
Notes: [1]Together with changes in inventories, [2]Households and NPISHs consumption.
The FISIM are financial intermidiation services indirectly measured, NPISH are non-profit institutions serving households.

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