SLOVENIA: AUTUMN REPORT 2006

Institute of Macroeconomic Analysis and Development
Janez Šušteršič, director

Autumn Report 2006

Editor in Chief:

Lejla FAJIĆ

The Autumn Report 2006 has been prepared by:

Lejla Fajić *(editor in chief, revision of GDP for 2002-2004 and the first annual GDP estimate for 2005, expenditure structure of GDP, fulfilment of the Maastricht criteria, comparison of the IMAD's forecasts with forecasts by other domestic and foreign institutions)*

Marijana Bednaš *(main findings, scenario of economic trends beyond 2008, risks to realisation of the autumn forecast)*

Arjana Brezigar Masten *(macroeconomic forecasting using models of leading indicators, risks to realisation of the autumn forecast)*

Jure Brložnik *(international environment)*

Barbara Ferk *(private consumption)*

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

Slavica Jurančič *(international competitiveness)*

Rotija Kmet Zupančič *(production structure of GDP*)

Jasna Kondža *(general government consumption, general government revenue, expenditure and deficit, revision of the main aggregates of the general government sector 2002-2005)*

Mojca Koprivnikar Šušteršič *(wholesale and retail trade, hotels and restaurants, real estate, renting and business services)*

Mateja Kovač *(agriculture, fishing)*

Gorazd Kovačič *(manufacturing)*

Saša Kovačič *(wages)*

Tomaž Kraigher *(employment and unemployment)*

Janez Kušar *(investment, construction)*

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

Andreja Poje *(public finance flows between Slovenia and the EU)*

Jure Povšnar *(electricity, gas and water supply, mining, transport and communications, impact of oil prices)*

Branka Tavčar *(national accounts)*

Miha Trošt *(price trends and policy)*

Ivanka Zakotnik *(expenditure structure of GDP, gross national disposable income, cost structure of GDP)*

Eva Zver *(public services)*

External collaborators:
Igor Masten *(monetary developments)*

Technical support (graphs, statistical appendix, data processing):
Marjeta Žigman, Bibijana Cirman Naglič, Urška Sodja

Technical editor, DTP: Ema Bertina Kopitar

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List of acronyms and abbreviations used in the Report
AEP – active employment policy; AJPES – Agency for Public Legal Records and Related Services; AP –Agency for Payments; ARC BS – Bank of Slovenia's Analysis and Research Centre; BIS – Bank of International Settlements; BS – Bank of Slovenia; CCIS – Chamber of Commerce and Industry of Slovenia; CPI – Consumer Price Index; DUNZ – Directorate for Administrative Interior Affairs; DURS – Tax Administration of the Republic of Slovenia; EC – European Commission; ECB – European Central Bank; ELES – Elektro Slovenia (Slovenian electricity transmission company); EMU – Economic and Monetary Union; ESS – Employment Service of Slovenia; GDP – gross domestic product; HICP – Harmonised Index of Consumer Prices; IER – Institute for Economic Research; IMF – International Monetary Fund; MF – Ministry of Finance; MMTS – Market Making Trading Segment; NFI – non-monetary financial institutions; NPISH – non-profit institutions serving households; OECD – Organisation for Economic Co-operation and Development; p.p. – percentage points; SITC – Standard International Trade Classification; SKEP – Economic Outlook and Policy Services of the Chamber of Commerce and Industry of Slovenia; SNA – System of National Accounts; SORS – Statistical Office of the Republic of Slovenia; SRE – Statistical Register of Employment; WIIW – Vienna Institute for International Economic Studies; ZPIZ – Pension and Disability Insurance Institute of Slovenia.

Abbreviations of the Standard Classification of Activities (SCA):
A – Agriculture, Hunting, Forestry; B – Fishing; C – Mining and Quarrying; D – Manufacturing; DA – Food Products, Beverages and Tobacco; DB – Textiles and Textile Products; DC – Leather and Leather Products; DD – Wood and Wood Products; DE – Paper, Publishing and Printing; DF – Coke, Petroleum Products and Nuclear Fuel; DG – Chemicals and Chemical Products; DH – Rubber and Plastic Products; DI – Other Non-Metallic Mineral Products; DJ – Metals and Metal Products; DK – Machinery and Equipment; DL – Electrical and Optical Equipment; DM – Transport Equipment; DN – Furniture; E – Electricity, Gas and Water Supply; F – Construction; G – Distributive Trades; H – Hotels and Restaurants; I Transport, Storage and Communications; J – Financial Intermediation; K – Real Estate, Renting and Business Activities; L – Public Administration, Defence, Social Insurance; M – Education; N – Health and Social Work; O – Other Social and Personal Services; P – Private Households with Employed Staff.

Country abbreviations:
AT– Austria, BE – Belgium, BG – Bulgaria, CH – Switzerland, CZ – Czech Republic, CY – Cyprus, DK – Denmark, DE – Germany, ES – Spain, EE – Estonia, GR – Greece, FR – France, FI – Finland, HU – Hungary, IT – Italy, IE – Ireland, JP – Japan, LU – Luxembourg, LT – Lithuania, LV – Latvia, NL – Netherlands, MT – Malta, NO – Norway, PL – Poland, PT – Portugal, RO – Rumania, RU – Russia, SE – Sweden, SI – Slovenia, SK – Slovakia, UK – United Kingdom US – United States of America.

Foreword

The **Autumn Report 2006** provides the analytical background and detailed explanations to the autumn forecast of macroeconomic aggregates for the current and next two years that were adopted by the government on 28 September 2006. The Autumn Report does not revise the autumn forecasts, whose underpinnings are explained in more detail below, but it does comment on data and documents that were released subsequently, in October 2006. The Report also includes an estimate of the main risks to the realisation of forecasts and a scenario of economic developments beyond 2008.

*The **autumn forecast of economic trends** is based on the IMAD's model and expert estimates using the following source data:* (i) first statistical data on economic growth in the first two quarters of 2006, first annual estimate for 2005 and revised data for 2002-2004; as the official quarterly and annual national accounts data were not yet mutually adjusted, the expected 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 2006 and the expected or released international institutions' revisions of their autumn forecasts; (iii) consultations with other institutions that make forecasts for Slovenia, and results of econometric models used in forecasting[1]; and (iv) detailed data on the structure of consumer price trends for this year and revised expectations regarding oil price trends.

The autumn forecasts of economic trends are based on the implemented or adopted economic policy measures and budget realisation for 2006. The forecasts of the government's current and investment consumption in 2007 and 2008 are based on the starting positions for proposed changes to the national budget for 2007 and the draft budget for 2008. In addition to the already enforced phasing out of payroll tax, whose expected positive effects on employment and economic growth were already examined in the spring forecast this year, the autumn forecast 2006 also accounts for the draft amendments to personal and corporate income tax laws that were approved by the government in September 2006.

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[1] In the final phase of its preparation, the IMAD's autumn forecasts of economic trends were presented to other forecasting institutions (ARC BS, SKEP, EIPF – Economic Institute of the Faculty of Law, IER – Institute for Economic Research). The forecasts also take into account the results of the model of leading indicators and the IER's economic model that is designed to evaluate the effects of economic reforms (September 2006).

Main findings of the Autumn Report 2006

Economic growth in the first half of the year totalled 5% and was mainly underpinned by the strong international environment, particularly in EU economies which recorded their highest GDP growth in six years. The robust growth of foreign demand stimulated the production of export-oriented manufacturing industries, notably the chemical and metal industry and the manufacture of electrical and optical equipment. It also accelerated the growth of related services, especially transport and business services, and contributed to the strong growth of investment in machinery and equipment that were additionally invigorated by the previously achieved high capacity utilisation. Domestic factors supported the continued robust growth of housing construction, whereas the second half of the year should see a substantial pick-up in civil engineering. The vigorous economic activity was also reflected in the labour market. Employment rose especially in construction and business services, as well as in hotels and restaurants, transport, financial intermediation, metal and machinery industries and some public services. Most short-term indicators of economic trends and the business climate, both in Slovenia and in the majority of EU countries, suggest that the business cycle reached its peak in the middle of the year and that economies would gradually begin to lose momentum thereafter; however growth has so far remained relatively strong, persisting above last year's levels. Given the expected slight slowdown towards the end of the year, economic growth is forecast to total 4.7% in 2006, 0.5 of a percentage point more than anticipated in spring.

International factors have also had a significant effect on consumer price rises this year. The prices of liquid fuels, which followed the rising oil prices in international markets, contributed 40% to inflation in the first nine months this year and were the main reason for the upward revision of the spring forecast of average inflation from 2.1% to 2.7%. Prices that are not affected by external factors have again risen at a stable rate this year, on average even below the spring expectations. The only group that recorded a somewhat higher increase than projected in spring was food prices. In our estimate, this was on one hand related to the fact that the positive downward effects of EU accession on food prices, notably of non-seasonal products, have started to lose impetus after two years. On the other hand, even the prices of food which are normally prone to seasonal swings have recorded atypical monthly seasonal dynamics this year. Despite these developments, Slovenia fulfilled the Maastricht price stability criterion for the eleventh consecutive month, which shows that the disinflation achieved by co-ordinated economic policies applied over the past three years has been sustainable.

The fulfilment of the Maastricht convergence criteria required to adopt the euro, as confirmed by the decision of EU institutions to admit Slovenia to the euro area, was the main short-term economic policy goal that justified the legitimacy of measures adopted by the government and the Bank of Slovenia in the Programme for Entering the ERM II and Adopting the Euro in November 2003. The irrevocable tolar/euro exchange rate was fixed in July 2006 at the level of the central parity (239.640 tolars for 1 euro), which was also used during Slovenia's participation in the exchange rate mechanism ERM II. The nominal exchange rate fluctuated marginally around

the central parity throughout this period. The nominal exchange rate's stability, coupled with the relatively small differences between domestic price rises and rises in the main markets, helped to retain the price competitiveness of Slovenia's manufacturing, while its cost competitiveness even improved owing to robust productivity growth and the reduced tax wedge resulting from the effects of the phased abolition of payroll tax.

Next year, the international environment will see a slight slowdown in economic growth, which will also result in slower growth of Slovenia's exports and, partially, investment. Economic growth will hence decelerate but will remain stronger (4.3%) than we expected in spring. External factors that have crucially determined the dynamics and structure of economic growth and inflation this year will play less of a role next year, while the economic policy measures and legislation adopted by the government in 2006 are expected to produce stronger effects. The planned reduction of personal income tax progressivity will provide an impetus for private consumption, which is projected to accelerate by about 0.3 p.p. but still remain within sustainable macroeconomic limits so as not to exacerbate the risk of the economy overheating. On one hand, this development will be supported by the expected softening of the robust growth of loans because the cutting of interest rates, characteristic of the past four years, has come to a halt in the second half of 2006, mainly as a result of the raising of interest rates in the euro area. On the other hand, the less progressive personal income tax will result in relatively higher income for the group of people with a higher propensity to save. As a result, most of their additional income will flow to savings rather than consumption. The amended Corporate Income Tax Act, which progressively reduces the tax rate from 25% to 20% by 2010 and raises the tax relief for research and development, will still not result in significantly higher investment in 2007 due to the abolition of the general investment relief. The effects of this law will become more visible in 2008. Both in 2006 and the next two years, however, investment activity, along with employment, will continue to benefit from the gradual abolition of payroll tax (adopted in 2005), which will be phased out completely in 2009. The adopted changes in tax legislation are also expected to enhance incentives for employment, which will be additionally reinforced by the legislative changes in the area of unemployment benefits and financial social assistance that have tightened the eligibility criteria and made them more conditional on claimants' readiness to accept offered employment. Combined with the effects of the government's draft law, according to which all social transfers should only be adjusted for consumer price rises in future and no longer tied to wage growth, this will create new incentives for the employment of less qualified people.

Due to the effects of the adopted tax legislation changes on general government revenue in 2007, the proposed amendments to the 2007 budget include the raising of various excise duties. While this measure will enable the government to reduce the general government deficit, it will also cause a temporary increase in inflation. The effect of the planned rises in excise duties is projected to total around 0.6 p.p. As a result, inflation will on average not drop significantly below this year's level in 2007, when the effect of external factors is expected to be minimal, based on the assumed oil price. The main risks to the realisation of the autumn inflation forecast for 2007 are associated with the potential pressures on consumer price rises arising from the launching of the euro at the beginning of the year and the electricity market's

liberalisation in July. The probability of these risks being realised (which would result in 0.4 p.p. higher inflation) is estimated as low and is therefore not included in the baseline forecast. Inflation is projected to gradually ease off towards 2.2% in 2008, which equals the medium-term forecast of consumer price rises. Maintaining Slovenia's price stability and preventing any deterioration in relative prices in comparison with its trading partners will be vital to sustain the competitiveness of Slovenia's economy in the forthcoming years. Apart from safeguarding the counter-inflationary macroeconomic policies, this goal will have to be supported by continued structural reforms, particularly liberalisation and the creation of competitive conditions in sectors that are still state-regulated or monopolised.

1 International environment

*The spring forecasts of **world economic growth in 2006 and 2007** have been revised upwards.* The IMF's autumn forecasts project 5.1% real global GDP growth for this year and 4.9% growth for 2007. The IMF's forecasts of world trade growth are also higher (8.9% and 7.6%, respectively) than in spring. Forecasts of economic trends in the USA, Japan and China remain favourable for this year whereas next year a slowdown is expected in the USA (as a result of high interest rates and effects of the falling prices in the real estate market on domestic consumption) and in Japan, while China's economy is set to continue growing at a robust pace. Contrary to other economic centres, autumn forecasts for economic growth in the EU this year are higher than in spring but they still project a slowdown for 2007. Risks that could result in a more substantial slowdown of global GDP growth, especially in 2007, include high oil prices that might increase cost pressures on prices and force central banks to resort to even more restrictive monetary policies. Another factor that might have an adverse effect on the world economy is the possible stronger slowdown of US GDP growth than projected by the currently prevailing forecasts as a result of even faster cooling of the housing market.

Table 1: **The IMF's forecasts of global economic trends**

	2004	2005	2006		2007	
			Spring (Apr. 06)	**Autumn (Sept. 06)**	**Spring (April 06)**	**Autumn (Sept. 06)**
World economic growth (real growth in %)	5.3	4.9	4.9	5.1	4.7	4.9
World trade in goods and services (real growth in %)	10.6	7.4	8.0	8.9	7.5	7.6
World commodity prices excluding energy* (growth in %)	18.5	10.3	10.2	22.1	-5.5	-4.8
6-month LIBOR** interest rates on USD deposits (%)	1.8	3.8	5.0	5.4	5.1	5.5
6-month LIBOR** interest rates on EUR deposits (%)	2.1	2.2	3.0	3.1	3.4	3.7

Source of data: IMF World Economic Outlook, April 2006, September 2006.
Notes: * weighted average relative to the shares in world exports. ** LIBOR - London interbank offered rate..

*The increase in oil prices seen in Q2 and Q3 this year had an upward effect on the **autumn assumption regarding the average oil price** in 2006, despite the significant drop in September. Given the latest estimates of the oil supply to demand ratio, assumptions for the next two years are also higher than in spring.* During preparation of the spring forecast the price of Brent crude was expected to rise to USD 64/barrel over the year and remain at this level until the end of 2006, and to gradually fall to an average of USD 61.5/barrel in 2007. However, oil prices have risen much more rapidly than expected this year (to USD 69.8/barrel in Q2 and even more in July and August – to USD 74.0/barrel), which resulted in upward revisions of the IMAD's autumn assumptions regarding the average price of Brent crude in 2006 to USD 69/barrel. In September, when the IMAD's autumn forecast was being prepared, oil prices moderated to an average level of USD 63/barrel thanks to favourable conditions (absence of any major hurricanes in oil pumping areas, mitigation of several geopolitical tensions)[2]. Nevertheless, we expect that factors fuelling oil prices

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[2] The price of Brent crude continued to decrease in October, when it averaged out at below USD 60/barrel.

on both the supply and demand sides and their strong sensitivity to one-off events will continue to exist in the future. The autumn forecast therefore assumes that in 2007 and 2008 oil prices will remain at a higher average level than this year (at USD 73/barrel).

Table 2: **IMAD's assumed prices of Brent crude used in the autumn forecast**

	2005	**2006**		**2007**		**2008**
		Spring (Mar. 06)	**Autumn (Sept. 06)**	**Spring (Mar. 06)**	**Autumn (Sept. 06)**	**Autumn (Sept. 06)**
Average oil price per barrel, USD	54.4	63.5	69.0	61.5	73.0	73.0

Source of data: World Bank; IMAD's forecasts.

*The **price rises of other commodities** are estimated to be much higher in 2006 than projected in spring, while the expected decrease in these prices in 2007 will be slightly smaller.* According to the IMF, commodity prices (excluding energy) rose by 18.5% in the seven months to July, fuelled primarily by the surging prices of metals (up 32%) and food (up 10.7%). Due to rapid demand growth and limited supplies, real prices of metals (in USD) reached their highest levels since 1980 this year (the prices of copper, zinc and nickel are rising particularly fast). The IMF projects that prices of metals will surge by 45% in 2006 over 2005. Non-energy commodity prices are expected to moderate somewhat in 2007, largely due to weaker demand reflecting the projected slowdown in world economic expansion.

*Because of the dollar's faster than expected depreciation against the euro, the **technical assumption of the dollar/euro exchange rate** has been revised upwards from spring.* The new rate was determined as a technical assumption for the entire forecasting period on the basis of developments in the last six months (from April to September 2006). In the first eight months of 2006, the euro generally appreciated against the dollar and achieved its highest average monthly value since April 2005 in August this year (USD 1.28 for EUR 1). The assumed euro/dollar rate is therefore slightly higher compared to the spring forecast: 1.248 dollars for 1 euro in 2006 and 1.265 dollars for 1 euro in 2007-2008 (the spring forecast assumed a rate of 1.20 for the whole forecasting period).

*In line with the expectations, the **key interest rates** of the American Federal Reserve and the ECB were raised in 2006.* Between June 2004 and August 2006, the FED's Open Market Committee raised the US leading interest rate 17 times, from 1% to 5.25% in total. The rate remained at this level until the end of October. From December 2005, when the European Central Bank raised its key interest rate (from 2%) for the first time, the ECB's rate was raised four more times until October 2006, to 3.25%. Financial markets are expecting further increases in interest rates only in the euro area, where the ECB's key interest rate could reach 3.5% by the end of 2006.

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

*The adopted **assumptions of international economic trends** used in the IMAD's autumn forecast, presented in Table 3, are based on forecasts that were available by mid-September.* These particularly include the Consensus September forecasts, the OECD September interim report on the economic prospects in OECD countries, the European Commission's September Interim Forecast of economic trends in EU members, the IMF's September economic growth outlook and July's forecasts of the WIIW. Consensus' October forecasts for the euro area and the US are practically equal to the IMAD's assumptions, while the latest World Bank's forecasts project approximately 0.5 p.p. higher economic growth in the Czech Republic in 2006-2007 and in Poland in 2007.

Table 3: **IMAD's assumptions of economic growth in Slovenia's main trading partners, 2006-2008**

	2005	2006		2007		2008	
		Spring (Mar. 06)	Autumn (Sept. 06)	Spring (Mar. 06)	Autumn (Sept. 06)	Spring (Mar. 06)	Autumn (Sept. 06)
EU	1.7	2.2	2.7	2.0	2.1	2.1	2.1
Euro area	1.4	2.0	2.5	1.8	1.8	1.9	1.9
Germany	0.9	1.6	2.2	1.0	1.1	1.5	1.5
Italy	0.0	1.3	1.7	1.3	1.2	1.5	1.5
Austria	2.0	2.2	2.5	2.0	2.3	2.2	2.3
France	1.2	1.9	2.3	2.0	1.9	2.1	1.9
UK	1.9	2.2	2.7	2.4	2.4	2.3	2.5
Czech Rep.	6.1	4.5	6.0	4.2	5.0	4.3	4.8
Hungary	4.2	4.2	4.0	4.0	2.3	4.0	2.8
Poland	3.2	4.0	5.0	4.2	4.5	4.5	4.7
Croatia	4.3	3.7	4.2	3.8	4.0	3.8	4.0
Bosnia & Herzegovina	5.0	6.0	5.7	6.0	6.0	5.4	6.0
Serbia	6.3	4.0	4.0	4.0	4.0	4.0	4.0
Macedonia	4.0	4.0	3.5	4.0	4.0	4.5	4.0
USA	3.2	3.2	3.2	3.0	2.7	3.1	3.1
Russia	6.4	6.0	6.2	6.0	5.9	5.0	5.5

Sources of data: Eurostat; Consensus Forecasts, May 2006, July 2006, August 2006; WIIW Research Report, July 2006; Eastern Europe Consensus, May 2006, July 2006; European Commission, DG Ecfin - Interim Forecast, September 2006; European Commission, DG Ecfin - Economic Forecasts, Spring 2006, WIFO - Monatsberichte, May 2006; IMF World Economic Outlook, September 2006; OECD Interim Assessment, September 2006; own estimate.

*In the first half of 2006, **economic growth in the euro area** exceeded the spring expectations, which led to upward revisions of the 2006 forecasts. The forecasts for 2007 still project that economic growth will slow down next year while a slight rebound is expected in 2008.* Economic growth in the euro area has been gaining momentum since the second half of 2005. In the first six months this year it even reached the highest rate on record in six years (3% in Q1 and 2% in Q2, year on year, seasonally and working days unadjusted data). The acceleration of economic

growth was underpinned mainly by the stronger growth of domestic demand: acceleration in growth of private consumption was followed by increased investment in Q2. The economies of the euro area are expected to remain vibrant until the end of 2006 amid the continued strong growth of domestic demand. GDP growth in the euro area is forecast to total 2.5% this year, one percentage point more than in 2005. Forecasts of GDP growth have been revised upwards for all of Slovenia's main trading partners, including Italy, where economic growth stagnated in 2005 (see Table 3). Next year we expect a slowdown of economic growth in the euro area due to the combined effect of the further appreciation of the euro against the dollar and the expected cooling of economic growth in the United States, which will dampen the growth of European exports. Looking at internal factors, the more restrictive monetary policy of the European Central Bank and the raising of VAT in Germany at the beginning of 2007 will again weaken the growth of domestic demand, and consequently decelerate GDP growth next year, especially in Germany. In 2008, economic growth is set to rebound slightly, which will also result in slightly higher growth in the euro area than in 2007.

*The economies of Slovenia's main trading partners among the **new EU member states – the Czech Republic, Poland and Hungary** – have continued to grow strongly this year. Except for Hungary, forecasts for the whole 2006-2008 period have been revised upwards although they still project a progressive slowdown for the next two years.* In addition to the continued vigorous growth of exports, domestic demand in these countries has strengthened this year. The Czech economy enjoyed the strongest economic growth in the first half of the year (6.7%, year on year), followed by Poland (5.1% year on year). Forecasts for 2006-2008 for both countries have accordingly been revised upwards (see Table 3). The forecast for Hungary has been scaled down for the entire period, particularly for 2007 and 2008 when the effects of the stabilisation programme adopted in June this year to reduce the high general government deficit are expected to set in.

*Forecasts of GDP growth in **the group of former Yugoslav countries** have seen some revisions. Croatia's economic growth is estimated to be higher than projected in spring, the forecasts for Macedonia and Bosnia & Herzegovina have been revised downwards, while the outlook for Serbia remains unchanged. Forecasts for 2007 remain unchanged in all countries except Croatia, where GDP growth will be higher than projected in spring. In 2008 we assume the same growth rates as in 2007.* The Croatian economy recorded the highest growth in two and a half years in Q1 (6.0%) but is projected to slow down until the end of the year and come in at a similar annual level (4.2%) as in 2005. It will also remain close to that level in 2007-2008 (4.0%). Economic growth in BiH will total around 5.7% this year according to the latest forecasts, slightly less than projected in spring mainly due to the current developments in industrial production and retail trade. Growth of the Bosnian economy should be stable at 6% over the next two years. The economic growth forecasts for Macedonia have seen a downward revision (to 3.5%) largely owing to the weak growth of industrial production which makes the prospect of lower economic growth this year than expected in spring highly probable. In the next two years, the economy should continue to grow at a 4% rate. The forecast for Serbia for this year and the next two years remains unchanged relative to the spring forecast (4.0%), projecting a softening of GDP growth over 2005, primarily as a result of lower private and investment consumption.

*The **US economy** will grow at a similar rate as in 2005 this year. Its growth is expected to slow in 2007 and rebound to this year's level in 2008.* Economic growth in the USA was still strong in the first two quarters of 2006 (3.7% and 3.5% respectively, year on year), yet annualised quarterly growth data already suggest a gradual deceleration. The key factors of the slowdown include the high oil prices and consequently higher inflation that led the US Federal Reserve to continue raising its key interest rate, and particularly the substantial softening of housing market indicators, which will have a downward effect on private and investment consumption in the subsequent period. Economic growth in the US is therefore projected to decelerate from 3.2% anticipated this year to 2.7% in 2007 and to rebound somewhat in 2008 (to 3.1%).

2   Gross domestic product

2.1   Revision of GDP data for 2002-2004 and the first annual GDP estimate for 2005

In September 2006, the SORS released **the first annual estimate of gross domestic product for 2005** *and* **a revision for 2002-2004.** *The main revisions to the previously released data were made for 2004 and 2005.* The data revision for 2002 and 2003 brought no changes to nominal GDP or its real growth rate and only resulted in some corrections to individual GDP components (see Table 18a in the Statistical Appendix). The revised estimate of GDP in 2004 in current prices totals SIT 6,272 bn, SIT 20.6 bn more than in the previous estimate, mainly due to higher gross fixed capital formation. The estimated real GDP growth for 2004 was also revised upwards (by 0.2 p.p. to 4.4%). The highest upward revision occurred in the real growth rate of gross fixed capital formation (from 5.9% to 7.9%). According to the first annual estimate, **GDP in current prices** totalled SIT 6,620 bn in 2005, which is SIT 62.4 bn more than in the preliminary estimate based on quarterly national accounts. The difference was largely due to the increase in changes in inventories and valuables. GDP growth in 2005 totalled 4%, 0.1 p.p. more than estimated in the preliminary release, however several substantial revisions were made to the real growth rates of **individual expenditure components of GDP** and their contributions to overall GDP growth. The new estimate of GDP growth in 2005 was improved on the basis of the higher growth of private consumption and the smaller negative contribution of changes in inventories to GDP growth than estimated in the preliminary release. On the other hand, the real growth rates of gross fixed capital formation and of government consumption were lowered, and the positive contribution of external trade to economic growth was also scaled down due to the relatively higher increase seen in the real growth of imports than exports (see Table 4). Looking at **activities** we see that the most significant revisions were made to the

Table 4: **Annual real growth rates of the aggregates by the expenditure structure of GDP, 2004-2005, before and after the revision**

	2004		2005	
	Before the revision	**After the revision**	**Before the revision**	**After the revision**
GROSS DOMESTIC PRODUCT	4.2	4.4	3.9	4.0
Domestic consumption	4.6	4.9	1.6	2.0
Private consumption	3.1	2.6	3.3	3.4
Households	3.3	2.8	3.3	3.6
NPISH	-3.7	-3.7	-0.3	-2.2
Government consumption	2.9	3.4	3.0	2.2
Gross fixed capital formation	5.9	7.9	3.7	1.5
Changes in inventories and valuables*	0.9	1.0	-1.7	-0.6
Exports of goods and services	12.5	12.5	9.2	10.5
Imports of goods and services	13.2	13.4	5.3	7.0
Trade balance*	-0.4	-0.5	2.3	2.0

Source of data: SORS.
Note: *as a contribution to real GDP growth (in percentage points)..

growth of value added in fishing, which was marked up to total 9.5% after the revision (previously -4.2%), in electricity, gas and water supply (6.6%; previous estimate -0.8%), and in transport, storage and communications (9.0% over 4.8%; for other activities see Table 18b in the Statistical Appendix).

2.2 Expenditure structure of gross domestic product

*The Slovenian **economy grew by 5% in the first six months of 2006**.* Quarterly GDP growth was even, 5.1% in Q1 and 4.9% in Q2 in real terms. Exports of goods and services and gross fixed capital formation were the main drivers of economic growth in the first half of the year, having risen by a real 11.6% and 8.9%, respectively, over the same period of 2005. The strong exports and investment also underpinned the acceleration of GDP growth compared to 2005, when the economy grew by 4%, since private consumption growth remained at last year's average level (3.4%) in the first half of 2006. The stronger growth of domestic consumption and exports was matched by faster growth of goods and services imports (10.6%, year on year).

According to the autumn forecast, economic growth *will total 4.7% **in 2006**, 0.5 of a percentage point more than projected in spring.* The upward revision is principally the result of the strong economic growth in the first half of 2006. GDP growth will ease off somewhat in the second half of the year but still remain above the spring projection. Supported by higher GDP growth in most of Slovenia's main trading partners, exports are set to rise by a real 9.9%, 1.7 p.p. more than expected in spring. In the regional structure of exports, the share of EU countries will expand further on the back of their growing economies (see Chapter 3.1). The autumn estimate of domestic consumption's contribution to economic growth (4 p.p.) is now also 0.2 p.p. higher than in spring, mainly due to the higher estimated growth of gross fixed capital formation. Based on the booming growth of investment in transport equipment and other machinery and equipment seen in the first half of the year, and on the anticipated acceleration in civil engineering works in the second half, the real growth of gross fixed capital formation (8.6%) is expected to be well

Table 5: **Growth of expenditure aggregates of GDP**

| | Real growth rates in % | | | | | | | |
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
						Estimate	Forecast	
GROSS DOMESTIC PRODUCT	2.7	3.5	2.7	4.4	4.0	4.7	4.3	4.2
Domestic consumption	0.9	2.4	4.7	4.9	2.0	4.1	3.8	3.6
Private consumption	2.3	1.3	3.4	2.6	3.4	3.3	3.6	3.6
Government consumption	3.9	3.2	1.6	3.4	2.2	2.8	2.5	2.8
Gross fixed capital formation	0.4	0.9	7.1	7.9	1.5	8.6	5.5	4.5
Exports of goods and services	6.3	6.7	3.1	12.5	10.5	9.9	8.3	8.5
Imports of goods and services	3.0	4.8	6.7	13.4	7.0	9.1	7.7	7.7

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

above the spring estimate this year (6%; see Chapter 3.3). Despite the slightly lower real growth of the gross wage bill than expected in spring and despite the upward revision to private consumption growth for 2005, the forecast of private consumption's real growth remains unchanged (3.3%) based on, among other things, the growth achieved in the first half of the year and the dynamics of current indicators (see Chapter 3.2). The autumn forecast of government consumption growth is slightly higher than in spring (by 0.1 p.p.; see Chapter 3.4). The higher estimated exports and domestic consumption will also be matched by higher imports of goods and services in 2006 than forecast in spring (revised upwards from 7.6% to 9.1%). The contribution of changes in inventories was negative in the first half of 2006 (-0.5 p.p.); their annual contribution is thus expected to total around -0.4 p.p. (compared to the slight positive contribution of 0.1 p.p. that was still projected in spring).

In 2007, economic growth is projected to slow down to 4.3%. The slightly higher economic growth than estimated in spring largely reflects the expected stronger growth of exports and private consumption. While the anticipated economic slowdown in the international environment will be reflected in weaker growth of goods and services exports than this year, it will still be higher (8.3%) than projected in spring (7.9%) thanks to the positive carry-over of this year's favourable export flows. The contribution of external trade will be positive (0.5 p.p.) as imports are estimated to grow by a real 7.7%. In domestic demand, private consumption is expected to be higher (3.6%), taking into account the projected positive effects of lower personal income tax rates on one hand and the restrictive impact of higher interest rates on the other (see Chapter 3.2). The forecast of gross fixed capital formation growth (5.5%) projects a continuation of growth in housing investment and motorway construction and a slowdown in the growth of investment in machinery and equipment (see Chapter 3.3).

Real GDP growth in 2008 (4.2%) will remain at a similar level as in 2007 (4.3%). Assuming a rebound in economic growth in Slovenia's main trading partners in

Table 6: **Contributions to GDP growth**

	In percentage points							
	2001	**2002**	**2003**	**2004**	**2005**	**2006** Estim.	**2007** Forecast	**2008** Forecast
GROSS DOMESTIC PRODUCT, real growth in %	2.7	3.5	2.7	4.4	4.0	4.7	4.3	4.2
Goods and services balance (exports-imports)	1.7	1.1	-2.0	-0.5	2.0	0.6	0.5	0.6
Exports of goods and services	3.5	3.8	1.9	7.0	6.3	6.3	5.6	5.9
Imports of goods and services	-1.8	-2.8	-3.9	-7.5	-4.3	-5.7	-5.1	-5.3
Domestic consumption, total	1.0	2.4	4.7	4.9	2.0	4.1	3.8	3.6
Private consumption	1.3	0.8	1.9	1.5	1.9	1.8	2.0	1.9
Government consumption	0.7	0.6	0.3	0.7	0.4	0.5	0.5	0.5
Gross fixed capital formation	0.1	0.2	1.7	1.8	0.4	2.1	1.4	1.1
Changes in inventories and valuables	-1.2	0.8	0.8	1.0	-0.6	-0.4	0.0	0.0

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

2008, exports will grow by a real 8.5%. Compared with 2007, the growth of gross fixed capital formation will decelerate further as the vigorous housing construction seen in the preceding years is expected to ease off as a result of a higher VAT rate that will be imposed on new housing. On the other hand, stimuli for investment are expected to come from the continued growth of civil engineering construction (based on plans of the Motorway Company in the Republic of Slovenia), higher funds from the EU and a further easing of the corporate tax burden through phasing out payroll tax and reducing corporate income tax. The growth of private consumption should again achieve 3.6% in 2008, partly boosted by the purchases of durables and semi-durables that will follow the boom in the acquisition of homes in the preceding period.

Table 7: **Expenditure structure of GDP**

	Structure in %, current prices							
	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Goods and services balance (exports-imports)	-0.7	1.4	-0.1	-1.2	-0.5	-0.7	0.0	0.2
Domestic consumption, total	100.7	98.6	100.1	101.2	100.5	100.7	100.0	99.8
Private consumption	56.6	55.5	55.8	54.8	54.9	54.6	54.0	53.7
Government consumption	20.0	19.7	19.6	19.6	19.6	19.4	19.2	19.2
Gross fixed capital formation	24.1	22.6	23.3	24.5	24.4	25.4	25.6	25.8
Changes in inventories and valuables	0.0	0.7	1.4	2.3	1.6	1.2	1.1	1.1

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

Box 1: **Macroeconomic forecasting using models of leading indicators**

The IMAD checks its forecasts of GDP by expenditure, industrial production and inflation using its own model of leading indicators. The model is based on the diffusion index method that was developed by Stock and Watson (1998) and adapted for the IMAD's purposes by Igor Masten from the Faculty of Economics in Ljubljana. Because of the transition period, the spans of time series available for Slovenia are relatively short. Straightforward forecasting tools with a simple and precise structure using a maximum of available data are therefore most efficient. Dynamic factor models meet these requirements. Based on all series available in a given period, these models identify the leading trends in the development of an economy and use them to produce robust forecasts. This method is neutral regarding the structure of the economy and allows maximum data exploitation. One of the distinct advantages of this methodology is that it allows the use of time series at different time spans, frequencies and vintages.

The model, actually composed of a set of models, is designed flexibly: it tests the appropriateness of forecasts using 112 equations for each variable. All models are

specified and estimated as a linear projection of an *h*-step-ahead leading variable, y^h_{t+h}, onto *t*-dated predictors that include lagged values, and onto lags of independent variables. The factors can be extracted from the balanced panel or the unbalanced panel. All forecasting equations also permit the application of the intercept correction method to make the forecasts robust to structural breaks in the process of the forecasting variable. The selection of the model specification for all sets of models is based on the Bayesian information criteria.

The forecasts comparison of models is conducted in a simulated out-of-sample framework, where all statistical calculations are done using a fullyrecursive methodology. The best model is selected on the basis of a relative out-of-sample average mean square error relative to the base autoregressive model. The two other non-factor-based forecasts compared are: (i) the autoregressive forecast with second differencing; and (ii) the autoregressive forecast with intercept correction.

The forecast horizon of the currently applied version of models covers the years 2006 and 2007. Forecasts are made using a large number of models, which helps us to estimate the uncertainty in forecasting individual variables. Forecasts generated with this model primarily serve the IMAD to double-check its official forecasts, which are presented as point forecasts and obtained by applying a combination of econometric and expert methods. We find that all the point forecasts presented in the IMAD's Autumn Forecast of Economic Trends fall within the range defined by the various equations of the leading indicators model and other time series models.

The GDP model predicts 5.3% growth of GDP in 2006 and 4.5% growth in 2007. Due to the characteristics of the model, the relatively high forecast for this year is largely related to the strong economic growth in the second quarter. According to seasonally adjusted data, GDP rose by 2.8% in Q2 over Q1 (in annualised terms this is more than 10%), which was the highest growth since 1999. Final household consumption is set to increase by 3.3% in 2006 and by 3.1% in 2007. The divergence from the IMAD's autumn forecast for 2007, which totals 3.6%, is mainly attributable to the expected positive effects of amended tax legislation on household consumption, which cannot be included in model-based forecasts. The forecasts for gross fixed capital formation concentrate around 8.4% for 2006 and around 7.3% in 2007. The divergence from the autumn forecast for 2007 (5.5%) can be partly explained by the changes in tax legislation, which are not taken into account in model-based forecasts, and partly by the anticipated cooling of economic growth in the international environment, which is also not explicitly accounted for in model forecasts (unless it is already reflected in input data, which in our estimate has not happened so far). The export model projects 10.6% growth in 2006 and 7.8% in 2007 (the official autumn forecasts are 9.9% and 8.3%, respectively). The forecasting model for imports generates highly dispersed estimates, indicating that the results are less robust. The forecasts of import growth for 2006 and 2007 stand at 7.7% and 5.0%, respectively (compared to the official 9.1% and 7.7%). The growth of industrial production is estimated to total 6.9% and 5.2% in these two years.

*In 2003-2005 **expenditure on domestic consumption in current prices** exceeded the value of created GDP. This situation is expected to continue in 2006.* Despite the modest real growth of domestic spending in 2005 (2.0%), last year's total volume of domestic consumption in current prices still exceeded GDP by 0.5%. The trade deficit will expand to 0.7% of GDP this year, given the projected 4.1% real growth of domestic consumption. We expect that the external trade in goods and services will be practically balanced in 2007 and record a small surplus in 2008.

2.2.1 Gross national disposable income

*Over the last two years, **the real growth of gross domestic income** has lagged behind the real growth of gross domestic product due to the deteriorated terms of trade. During the 2006-2008 period, a reverse dynamic is only expected in 2007.* The substantial divergence in the growth of these aggregates shows that changes in international economic conditions and the national economy's purchasing power can have a significant effect on factor incomes and the performance of economic subjects, which is particularly evident in the Slovenian economy considering its size, its integration in international trade flows and its import and export structure. Residents' real income depends not only on the growth of domestic production but also on the relative fluctuations of export and import prices. Import price rises will exceed export price rises for the third consecutive year in 2006, primarily under the influence of high oil prices in the global market which pushed up the prices of other commodities and producer prices in Slovenia's main supplier countries. The negative terms of trade thus reduced the real income of resident producers (i.e. the economy's purchasing power) by 1.9% of GDP in the past two years. This year we expect a decrease of 0.8% of GDP. In 2007, assuming a drop in commodity prices excluding energy (see Chapter 1), we expect a negligible improvement in the terms of trade; in 2008, however, import prices will again rise at a faster rate than export prices. With real GDP growth estimated at 4.3% in 2007 and 4.2% in 2008, the real growth of gross domestic income is projected to total a respective 4.6% and 3.8% in these two years.

*The **investment-savings gap** will widen **in 2006** as the share of gross savings relative to GDP remains almost unchanged while the share of gross capital formation increases compared to the year before.* The real growth of private consumption will be marginally lower than in 2005 (by 0.1 p.p.) and its share in GDP will consequently shrink by 0.3 p.p. Based on the estimated realisation of this year's budget, government

Table 8: **Main national accounts aggregates**

	Real growth rates in %				
	2001	**2002**	**2003**	**2004**	**2005**
GROSS DOMESTIC PRODUCT	2.7	3.5	2.7	4.4	4.0
GROSS DOMESTIC INCOME	3.6	4.6	3.1	3.8	2.7
GROSS NATIONAL INCOME	3.8	3.7	2.9	3.4	3.0
GROSS NATIONAL DISPOSABLE INCOME	3.9	3.3	2.7	3.0	2.7
GROSS SAVINGS	7.5	7.9	1.9	3.7	1.4

Source of data: SORS.

consumption as a share of GDP is also expected to be 0.2 p.p. lower than in 2005. The share of gross savings in GDP is set to remain at a similar level as in 2005 despite the overall decrease in the share of final consumption in GDP (by 0.4 p.p.), mainly due to the anticipated higher deficit in primary income with the rest of the world (by 0.4 p.p.). The increase in the share of gross capital formation in GDP will be higher than the increase in the share of gross savings: as a result, the savings-investment gap will expand (by 0.4 p.p.) over the year before.

*In **2007 and 2008** we expect that the conditions for national savings will improve and the investment-savings gap will consequently narrow.* The share of savings in GDP is forecast to increase by 0.9 p.p. in 2007, to 25.1% of GDP. The already enacted progressive abolition of payroll tax is expected to boost the gross savings of the business sector in 2007. Since the reduced tax burden arising from the draft amendments to the Personal Income Tax is expected to benefit particularly employees in higher income brackets who tend to save more than others, we also expect an increase in households' average propensity to save next year. The government sector's gross savings are similarly expected to increase, given the projected slowdown in government consumption growth, which is planned to be 0.3 p.p. lower in 2007 than this year in accordance with the proposed amendments to the national budget and the estimated share of government consumption in GDP, which is planned to be reduced by 0.2 p.p. next year. This level of savings would make it possible to finance gross fixed capital formation, which is set to grow by 5.5% next year, with net borrowing abroad amounting to 1.6% of GDP or EUR 503 m. Based on the expected continued decrease in private consumption's share (-0.3 p.p.) and the lower deficit (by 0.3 p.p.) in the current external balance, the autumn forecast projects that the share of gross savings in GDP will rise by a further 0.6 p.p. in 2008 to total 25.7% of GDP. Due to a minor increase in the share of gross capital formation (by 0.2 p.p.), the investment-savings gap will narrow some more in 2008.

Table 9: **Formation and distribution of gross national disposable income**

	Structure in %, current prices							
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
						Estim.	**Forecast**	
GROSS DOMESTIC PRODUCT	100.0	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	-0.6	-0.8	-1.2	-0.9	-1.3	-1.2	-1.4
GROSS NATIONAL INCOME	100.3	99.4	99.2	98.8	99.1	98.7	98.8	98.6
Net current transfers with the rest of the world	0.7	0.3	0.1	-0.2	-0.5	-0.4	-0.4	-0.1
GROSS NATIONAL DISPOSABLE INCOME	100.9	99.7	99.3	98.6	98.6	98.3	98.4	98.5
Final consumption	76.6	75.3	75.4	74.4	74.5	74.1	73.2	72.9
GROSS SAVINGS	24.3	24.4	23.9	24.2	24.1	24.2	25.1	25.7
Current account balance	0.2	1.1	-0.8	-2.6	-2.0	-2.4	-1.6	-1.2
GROSS CAPITAL FORMATION	24.1	23.4	24.7	26.8	26.0	26.6	26.7	26.9
of which: gross fixed capital formation	24.1	22.6	23.3	24.5	24.4	25.4	25.6	25.8

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

2.3 Production structure of gross domestic product

*The **year-on-year growth of Slovenia's value added** strengthened **in the first half of the year.*** After its solid 4.2% real growth in 2005, value added increased by a real 5.1% in Q1 and by 4.4% in Q2, year on year[3]. In comparison with 2005, the strongest acceleration was observed in primary activities (A–F), especially thanks to the favourable developments in manufacturing supported by improved economic trends in the trading partners. The increase in the service sector's value added was also higher than last year, driven by the continued vigorous growth of market services (G–K) while growth in public services (L–P) eased off somewhat.

*The autumn **forecast** of **value-added growth for 2006** as a whole is slightly higher than in spring. Better developments are expected particularly in the manufacturing sector and in market services.* Value added is forecast to increase by 4.6% in 2006 (spring forecast: 4.3%). Like in the first half of the year, market services and primary activities will also achieve the highest growth in the year as a whole (5.1% and 5%, respectively), whereas the value added of public services will grow by 3.2%, slightly less than projected in spring.

Manufacturing's value added *will increase by 5.6% in real terms **this year**, i.e. 0.7 p.p. more than expected in spring.* The revision reflects the stronger growth of foreign demand, boosted primarily by the livelier international environment than was expected in spring (see Chapters 1 and 3.1). The acceleration of activity in manufacturing seen in the first half of the year thus surpassed the expectations. $_v$Value added was 6.3% higher in real terms than in the same period last year, while the value of industrial production achieved 6.9% real year-on-year growth in the seven months to July (7.1% according to working-day adjusted data). Industries that have contributed the most to the acceleration of activity this year include the manufacture of chemicals and chemical products (up 11.6% from January to July, year on year), metals and metal products (10.7%), machinery and equipment (11.5%), and electrical and optical equipment (13.7%). The manufacture of transport equipment, which enjoyed the exceptionally high 18.2% growth last year thanks to the boom in the manufacture of road vehicles, recorded a decline in production this year (-4.6% in seven months, year on year). Business climate indicators confirm the buoyant economic activity. After three months of stagnation, the seasonally adjusted confidence indicator rebounded in September, climbing to its highest value since June 2000. Given the anticipated softening of merchandise export growth (see Chapter 3.1), manufacturing's value added is projected to gradually slow down in the second half of the year but to nevertheless remain at a higher level than expected in spring. The gradual softening of manufacturing's activity, particularly towards the end of the year, is also signalled by business expectations of export growth in the next three months, which fell considerably in September after having stagnated for several months.

In other primary activities *we expect only minor changes in the growth of value added relative to the spring forecast. Forecasts have been revised slightly downwards*

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[3] With the relatively high increase in net taxes on products in Q2 (8.4%), real GDP growth in Q2 (4.9%) was only slightly lower than in Q1 (5.1%).

Table 10: **Value added by activity and GDP**

	Real growth rates (%)							
	2001	**2002**	**2003**	**2004**	**2005**	**2006** Estim.	**2007** Forecast	**2008**
A Agriculture, forestry, hunting	-4.0	13.3	-15.8	17.1	-5.2	2.0	-1.0	1.0
B Fishing	1.6	-4.5	4.9	-16.9	9.5	-3.0	0.0	0.0
C Mining	-5.4	-8.3	6.2	2.5	-0.2	1.0	0.0	-0.5
D Manufacturing	4.8	4.8	4.0	4.1	2.8	5.6	4.4	4.5
E Electricity, gas and water supply	6.6	6.4	-1.0	0.8	6.6	0.5	0.5	1.5
F Construction	-2.3	0.5	3.6	1.3	4.0	6.0	5.0	4.0
G Wholesale and retail trade, repair of motor vehicles	2.0	3.3	2.8	3.1	4.0	5.0	4.0	3.8
H Hotels and restaurants	6.3	3.3	3.5	-0.1	0.7	4.8	5.0	5.0
I Transport, storage and communications	3.5	2.9	4.0	0.1	9.0	5.5	5.3	4.7
J Financial intermediation	2.9	6.0	4.5	17.2	10.4	8.0	8.4	7.5
K Real estate, renting and business activities	4.1	4.0	3.0	4.7	3.6	4.0	4.0	4.0
L Public administration, defence and social security	5.4	3.1	4.3	7.3	2.3	3.2	3.0	3.0
M Education	2.2	2.7	2.1	2.7	3.0	2.0	2.6	2.8
N Health and social work	2.5	4.0	2.5	3.7	2.9	3.5	4.0	4.5
O Other community, social and personal services	2.9	-0.6	3.9	5.7	5.8	4.5	5.5	5.5
P Private households with employed persons	12.5	-8.6	-32.7	-8.1	5.9	0.0	1.0	1.0
1. VALUE ADDED	3.2	3.9	2.7	4.5	3.9	4.6	4.2	4.2
2. CORRECTIONS (a-b)								
a) Taxes on products and services	-1.0	0.5	1.9	4.2	4.8	4.5	4.2	3.6
b) Subsidies on products and services	-1.6	6.5	-5.7	7.1	-0.6	-2.0	-2.5	-3.0
3. GROSS DOMESTIC PRODUCT (3=1+2)	2.7	3.5	2.7	4.4	4.0	4.7	4.3	4.2

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

for agriculture and fishing and upwards for mining as well as electricity, gas and water supply, whereas they have remained unchanged for construction. Value added in *agriculture and fishing* (A-B) was just 0.1% higher in real terms in the first half of the year than in the same period in 2005. According to data available during preparation of the autumn forecasts, value added rose slightly only in the purchase of agricultural products, whereas it was somewhat lower in the collection of milk from farms and in livestock slaughtering. In addition to the unfavourable conditions in spring, this year's agricultural production will be partly affected by July's drought. The forecast real growth of agriculture's value added for 2006 (2%) is therefore lower than in spring (4%). The relatively strong growth of value added recorded in *mining* in the first half of the year (5.7% in real terms) was largely underpinned by the considerably higher coal extraction than was planned in the first few months of the year. The intensity of coal extraction is expected to ease off in the second half of the year and value added will hence increase by a real 1% in the year as a whole.

Value added in *electricity, gas and water supply* was 1.4% higher in real terms in the first half of the year but is expected to grow by just 0.5% in the year as a whole. Factors that dampened the growth of value added in 2006 were linked to electricity production, which was 2.4% lower in the first six months this year than in the same period last year due to the regular overhaul of the nuclear power plant. *Construction* recorded 3.3% real year-on-year growth in the six months to June. According to data on the value of construction put in place in large companies, activity picked up in civil engineering (by 3.9% in real terms) while remaining roughly the same as in the comparable period of 2005 in the construction of buildings (0.8%). Construction activity will strengthen in the second half of the year, mainly on the back of the planned acceleration in motorway construction. The value added in construction will therefore grow by a real 6% in 2006, as we already expected in spring.

Based on the favourable developments seen in the first half of the year we estimate that the real **growth of value added in the group of market services (G-K) will be even slightly higher** *this year (5.1%) than anticipated in spring.* Growth forecasts were revised upwards for all activities except real estate, renting and business services. The highest year-on-year value added growth rates in the first six months of the year were recorded in financial intermediation (7.8%) and in transport, storage and communications (6.7%), activities which were also very successful in 2005. Within *financial intermediation,* life insurance premiums and financial leasing continued to expand vigorously this year. The introduction of new capital market services and banks' lending activity were also still on the increase. Value added is therefore expected to grow by a real 8% in 2006. The acceleration of activity in *transport, storage and communications* was again underpinned by the performance of road freight transport in 2006. The first half of the year also saw relatively strong increases in harbour freight transport, airport traffic, and postal and telecommunications services. Value-added growth in this industry is forecast to total 5.5% in real terms in 2006. *Distributive trades* (including the repair of motor vehicles) enjoyed 5.5% real growth of value added in the six months to June over the same period of 2005. In the year as a whole, value added in this activity will increase by 5%. This year's exceptional growth of distributive trades' activity was mainly driven by the sale of motor vehicles and wholesale trade. *Hotels and restaurants* enjoyed 5.5% real growth of value added in the six months to June, year on year. Data on turnover show that bars and restaurants created the bulk of the total turnover in this industry. Given the relatively successful summer tourist season and favourable expectations for the following months, value-added growth is projected to soften slightly but remain quite strong in the second half of the year and total 4.8% in the year as a whole. *Real estate, renting and business services* generated 3.9% more value added in real terms in the first half of 2006 than in the same period of 2005. According to the number of employees, activity picked up the most in the rental of machinery and equipment, real estate activities and computer and related activities[4]. The companies' estimates regarding the performance and current employment in their industries are favourable, as are the expectations regarding selling prices. Nevertheless, growth achieved in the first half was lower than expected and value added forecast for 2006 was therefore revised downwards to 4% (from the previous 4.5%).

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[4] Household housing activity (imputed rents) is a significant part of the real estate, renting and business services industry (41.7% in 2005) with an average annual real growth rate of 1.1% in 2000-2005.

The growth of value added in the group of public services slowed down slightly in the first half of the year. *For 2006 as a whole*, value added is projected to increase by a real 3.2%, which is slightly less than expected in spring (3.4%) and less than in 2005 (3.4%). Compared with 2005, the growth of value added decelerated particularly in *education* (1.8%) in the first half of 2006, where employment in primary education eased off considerably in 2006 after having grown strongly for several years. Value added in this activity is therefore forecast to increase by a modest 2% in real terms in 2006. *Other community and personal services* also recorded lower real growth of value added in the first half this year (3.7%) than in 2005, but it is expected to pick up gradually in the second half and total 4.5% in 2006 as a whole. The increase in the number of employees in *public administration, defence and social security* recorded in the first half of 2006 exceeded the levels planned in the civil part of the personnel plan. As a result, value added of this activity increased by 3.3%, 0.9 p.p. more than in 2005. The growth of employment is expected to soften in the second half of the year, resulting in 3.2% growth of value added in the year as a whole. Value added in *health care and social work* rose by 3.4% in the six months to June over the same period of 2005. Its dynamics are expected to remain similar in the second half of the year and its growth in 2006 is therefore projected to total 3.5%.

In 2007 and 2008 the **real growth of value added** of the Slovenian economy will decelerate to 4.2%. Lower growth than in 2006 is expected in primary activities (3.8% in 2007 and 4% in 2008), whereas growth in the service sector will remain at approximately the 2006 level (4.5% and 4.4%, respectively) but its structure will change. Specifically, public services will grow faster than in 2006 (by 3.6% and 3.8%) while market services will experience somewhat slower growth (4.9% and 4.6%) than in 2006.

The deceleration anticipated in the **value-added growth of primary activities in the next two years** *will be largely caused by the more subdued activity in manufacturing. Growth will also be somewhat slower in other activities, except in electricity, gas and water supply along with fishing.* Like in 2006, the growth dynamics of *manufacturing* will be critically determined by the economic activity in Slovenia's main trading partners, which is projected to slow down considerably in 2007 and recover somewhat in 2008, according to international forecasting institutions (see Chapter 1). This will affect manufacturing's activity via the fluctuations of merchandise export growth. Value added is therefore set to increase by a real 4.4% in 2007 and by 4.5% in 2008, when the international economic environment is expected to recover slightly and the year will have three more working days. In *agriculture*, where value added is forecast to decrease by 1% in real terms in 2007 and increase by 1% in 2008, production will already experience the effects of the reformed agricultural policy in these two years[5]. The forecast of value-added growth in *construction* totals 5% in 2007 and 4% in 2008. Vigorous motorway construction will continue in both years whereas activity in residential construction is projected to ease off in 2008 (also see Chapter 3.3). In *mining* as well as *electricity, gas and water supply*, value added will remain at roughly the 2006 level in 2007. In 2008 a 0.5% decrease in value added is expected in the mining sector as a result of the planned coal extraction levels and the further reductions in the number of workers in this sector. In electricity, gas and water supply value

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[5] Among the various reform options, Slovenia chose the mixed Single Payment Scheme combined with some subsidies on products and historical payments.

added is projected to rise slightly more in 2008, by 1.5%, because no overhaul of the nuclear plant is planned for that year.

The group of market services *will grow at a somewhat more subdued pace* **in the following two years** *than this year but its value added will continue to grow faster than the economy as a whole.* Growth will gradually decelerate in distributive trades and transport, storage and communications, whereas a slight acceleration or at least persistence of the achieved growth rates is expected in other activities. In *distributive trades* (including the repair of motor vehicles) value added is projected to grow by a real 4% in 2007 and by 3.8% in 2008. In 2007, activity in distributive trades will be supported by the stronger spending, stimulated by higher incomes resulting from the amended Personal Income Tax Act (see Chapter 3.2). In both years we also expect lively growth of sales of durable and semi-durable goods linked to the furnishing of homes. Value added will nevertheless grow somewhat less than this year, when exceptionally high turnover growth rates were recorded in wholesale trade and the sale of motor vehicles. In *transport, storage and communications*, whose value added is projected to increase by 5.3% in real terms in 2007 and by 4.7% in 2008, we similarly expect that the vigorous activity in road freight transport recorded in 2006 will gradually soften in the next two years while the expansion of the telecommunications activity is set to continue at an accelerated pace. *Financial intermediation* will achieve the highest growth rates in both years (8.4% and 7.5%, respectively), and the gap in the development of the Slovenian financial sector with the more advanced EU countries is expected to narrow further. The somewhat higher growth forecast for 2007 is based on the expected stronger growth of housing loans due to the boost in housing purchases prior to the raising of the VAT rate on real estate in 2008. The changed personal income tax legislation (resulting in higher incomes, which are expected to be partly transferred to savings) and Slovenia's entry to the EMU[6] are also anticipated to have a positive impact on the growth of this sector. In *hotels and restaurants,* the growth of value added will climb to 5% in the next two years thanks to the vigorous investment activity witnessed from 2004 onwards. In 2008, the demand for these services will also be boosted by Slovenia's EU presidency. In *real estate, renting and business services* growth will remain unchanged at 4% in both years.

Value-added growth in **public services** *will strengthen in all activities except public administration* **in the next two years.** The highest growth is expected in the mainly market-oriented group of *other community, social and personal services*, where the real growth of value added is expected to climb to 5.5% thanks to the tax reform's upward effect on household spending. In the *education* sector, the real growth of value added will accelerate to 2.6% in 2007 and 2.8% in 2008 due to the continued growth of employment in tertiary education and the expansion of adult education. The social protection network providing *health care and social services* is expected to expand further, and its value added is accordingly projected to grow at an annual real rate of 4% to 4.5% in the next two years. In *public administration, defence and*

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[6] The positive effect of Slovenia's entry to the EMU on the financial sector's activity in 2007 will be moderate. On one hand, the Slovenian financial system will become even more integrated with the European system, which will benefit financial intermediation. On the other hand, currency exchange transactions will decline. However, Slovenia has enjoyed some advantages related to EMU membership (e.g. lower currency risk) ever since it joined the ERM II and even more since the final decision on Slovenia's admission to the EMU was adopted.

compulsory social insurance, value added is set to continue growing at an annual rate of around 3% thanks to additional hiring the army and police forces and Slovenia's presidency of the EU.

2.4 Cost structure of gross domestic product

In 2006-2008, the **compensation of employees** *will represent a lower share of GDP than in 2005.* The real growth of the gross wage per employee is estimated to total 2.2% in 2006: 3.0% in the private sector (the same as projected in spring) and 0.4% in the public sector (slightly less than foreseen in spring; see Chapter 6.2). With the planned 1% increase in the number of wage recipients, the compensation of employees is expected to grow by 3.2% in 2006 and to thus continue to lag behind real GDP growth. However, due to the deteriorated terms of trade and the consequent lagging of the implicit GDP deflator behind domestic inflation, the share of total labour costs relative to GDP will nevertheless remain at the level of the last three years in 2006 (around 52% of GDP). Based on the wage policy agreements and the economic outlook for 2007 and 2008, the gross wage per employee is forecast to grow by a real 2.5% and 3.0%, respectively, in the next two years. Taking into account the 0.9% projected increase in the number of wage recipients in both years, the compensation of employees will thus increase by a real 3.4% in 2007 and by 3.9% in 2008. The share of the compensation of employees in gross domestic product should decrease to 51.3% of GDP in 2007 thanks to the continued planned lagging of labour costs behind economic growth and an improvement in the terms of trade. The gap in the growth of labour costs and GDP will be smaller in 2008 while the share of the compensation of employees in GDP will be negligibly lower (by 0.1 p.p.) than in the previous year.

The gradual reduction of payroll tax in 2006-2008 will result in a lower **share of taxes on production and imports in GDP.** According to the SORS' data, taxes on production and imports totalled SIT 1,085 bn or 16.4% of GDP in 2005. The bulk of these taxes was levied on products and services (13.4% of GDP) while the rest were other taxes on production (3.0% of GDP). Based on the anticipated movements of macroeconomic aggregates and unchanged VAT rates (20% and 8.5%), the share of taxes on products and services is expected to remain at the 2005 level (13.4% of GDP) in 2006 and 2007. Projections that take into account the planned phasing out of payroll tax show that this measure will reduce the share of other taxes on production in GDP by a respective 0.3 p.p. in 2006 and 2007, and by a further 0.6 p.p. of GDP in 2008.

The share of subsidies *in GDP will increase in the next two years.* After the relatively rapid decrease in the level of subsidies (to 1.3% of GDP) observed until 2002, this share rose sharply in the ensuing years (to total 2.1% of GDP in 2005). Specifically, subsidies on products have been stable, amounting to around 0.5% of GDP, whereas other subsidies have been on the increase (going up from 0.9% of GDP in 2002 to 1.5% of GDP in 2005). This was partly the result of new programmes co-funded by the European structural funds and national resources. We expect that subsidies on products will also remain at approximately the same level as so far, at around 0.5% of GDP, in 2006 and the next two years. Other subsidies are estimated to total 1.5%

Table 11: **Cost structure of GDP**

						Structure, in %		
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
						Estim.	**Forecast**	
1. COMPENSATION OF EMPLOYEES	53.4	52.7	51.8	52.0	52.2	52.0	51.3	51.2
a) Gross wages and salaries	46.5	45.6	44.6	44.6	44.8	44.5	44.0	43.9
b) Employers' social contributions	6.9	7.2	7.2	7.5	7.5	7.4	7.3	7.3
2. TAXES ON PRODUCTION AND IMPORTS	16.1	16.4	16.6	16.4	16.4	16.1	15.8	15.2
a) Taxes on products and services	13.5	13.8	13.7	13.5	13.4	13.4	13.4	13.4
b) Other taxes on production	2.6	2.6	2.9	2.9	3.0	2.7	2.4	1.8
3. SUBSIDIES	1.5	1.3	1.7	2.0	2.1	2.0	2.2	2.2
a) Subsidies on products and services	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.4
b) Other subsidies	1.0	0.9	1.2	1.5	1.5	1.5	1.8	1.8
4. Gross operating surplus	24.4	24.1	25.3	25.4	25.2	25.6	26.4	27.0
5. Gross mixed income	7.6	8.1	8.0	8.2	8.2	8.3	8.6	8.8
6. GROSS DOMESTIC PRODUCT (6=1+2-3+4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

of GDP in 2006 and increase to 1.8% of GDP in 2007 and 2008 due to the significantly higher inflow of EU funds based on the new financial perspective, which must be co-financed from domestic sources (including subsidies).

*The **share of gross operating surplus** in GDP is projected to increase in 2006 and the next two years.* The steady rising of the operating surplus throughout this period will be underpinned by the continued strong growth of the economy and the subdued growth of the compensation of employees in combination with the already enforced gradual abolition of payroll tax. At the same time, the movement of the gross operating surplus will also be strongly determined by changes in the terms of trade.

3 Consumption aggregates

3.1 Exports and imports of goods and services

*In the first half of 2006, the **growth of import-export flows** was higher than last year's average, while the **contribution of external trade to economic growth** decreased.* According to the national accounts, export of goods and services in the first half of 2006 rose by a real 11.6% (by 11.6% for goods and 11.3% for services) compared to the same period of the previous year. The first half of the year witnessed an increase in exports, exceeding the average growth of the previous year (10.5%), which was one of the main drivers of the acceleration of economic growth in that period. Although the importance of domestic consumption for economic growth had steadily increased since the third quarter of 2005, the contribution of exports to economic growth exceeded the contribution of total domestic demand throughout the mentioned period. Given the strong dependency between imports and exports and accelerated domestic consumption growth, the growth of import flows was not far behind the export flows and amounted to 10.6% (10.5% for goods and 11.1% for services). The acceleration of the growth of imports compared to 2005 was stronger than the acceleration of export growth, therefore the contribution of international trade in the first six months decreased to 0.7 p.p. (2.3 p.p. in the previous year). The high export and import growth rates seen in Q1 of 2006 (14.9% and 13.5%) slowed down in Q2 (to 8.6% and 8.0%), year-on-year. The latter followed the dynamics of the year-on-year economic growth in EU countries which, according to seasonally unadjusted data, totalled 3% in Q1 and 2.2% in Q2 of 2006.

*Given the expected slowdown in the growth of road vehicles exports that helped maintain the strong growth of merchandise exports, particularly in the first half of 2005 when the economies of Slovenia's trading partners were growing at a subdued pace, **the growth of merchandise exports** in 2006 was largely driven by the export growth of other goods.* In the first half of the year, exports of goods expressed in euros rose by 16.0% in nominal terms over the same period of 2005. The six-month figures on goods exports indicate the expected slowdown in the growth of road
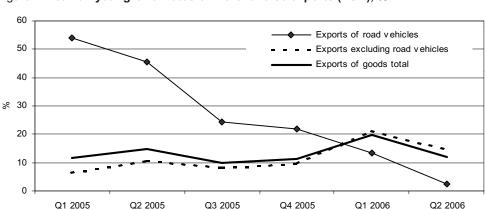
Figure 1: **Year-on-year growth rates of merchandise exports (EUR), %**

vehicles exports (7.9%), mainly due to a fall in road vehicles exports to France as the growth of merchandise exports primarily resulted from the accelerated export growth of all other goods (18.4%, see Figure 1). The quarterly data show that the robust year-on-year real growth seen in Q1 (19.2%) slowed down in Q2 (13.2%). This was due to the slowdown in both year-on-year exports of road vehicles (from 10.9% to 3.6%) along with exports excluding vehicles (from 20.8% to 15.0%) still remaining high.

***Exports of goods to EU countries** in the first half of 2006 recorded a 16.7% nominal rise (in EUR) compared to the respective period in the previous year.* Exports to old EU member states rose by a nominal 15.5% year-on-year, while exports continued to grow more rapidly to new EU member states (25.3%), which similarly achieved high economic growth rates in the first half of 2006. Among important trading partners within the EU, the year-on-year merchandise export growth was notably favourable with the UK (by 52.1%), Austria (by 24.5%) and Italy (by 13.7%); exports to Germany also increased considerably (by 13.7%). While in the first half of 2005 exports to France still enjoyed robust year-on-year growth of 87.5% generated by strong growth of road vehicles exports[7], the year-on-year decrease of 3.7% in 2006 also resulted from decreased exports (by 9.5%), which in the structure of merchandise exports accounted for 54.3% (57.9% in the same period last year). The growth of exports of road vehicles in 2006 remained a significant driver of the increase in merchandise exports to the UK and Germany. The increase in exports to Germany, where the increased investment demand has significantly contributed to its economic growth, resulted from exports of non-ferrous metals, general industrial machinery, chemical products and specialised machinery. The growth of exports to Austria and Italy year-on-year in the first half of the year was mainly driven by exports of electricity. Apart from that, the strong growth of merchandise exports continued to several other old EU members previously not Slovenia's traditional trading partners (Belgium, Denmark, Finland, Ireland, Spain and Sweden), however, the share of exports to these countries remains modest (on average 1%).

*The regional structure of merchandise exports shows that in the first half of 2006, besides the strong growth of exports to EU countries, there was also robust year-on-year **growth of exports to non-member states** (14.4% in euros).* The growth of exports to the countries of former Yugoslavia stood at 10.2% and the decline in merchandise exports to Bosnia and Herzegovina and Macedonia, which started after Slovenia's accession to the EU, still continues while exports to Croatia, Serbia and Montenegro have increased. The growth of exports to Croatia (13.7%) was mainly generated by an increase in exports of road vehicles (by 39.3%) and metal products. As a result of the robust growth of exports of medical and pharmaceutical products (60.2%), exports of goods to the Russian Federation rose by 36.8% year-on-year in the first half of the year. After two subsequent years of decline, exports of goods to the USA increased (by 5.7%, year-on-year). Falls in exports of medical and pharmaceutical products nevertheless continued (by 27.9%), however at the same time the strong export growth of metal products, electrical machinery and equipment, furniture and other manufactured articles was recorded.

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[7] The high production and export growth of road vehicles in 2005 was linked to the manufacturer's strategic decision to compensate for reduced production elsewhere by increasing production in Slovenia at the end of 2004.

Within **export of services**, *exports of other services (all except transport and travel) rose at the fastest pace in the first six months of 2006.* The 15.8% growth (in EUR) of services exports was largely generated by the strong increase in exports of other business services (46.3%), including leasing, merchanting services and various business, professional and technical services. Despite the strong growth in exports of other services in 2006 and 2005, changes in the structure of Slovenia's exports of services are occurring far too slowly taking into account that the share of other services only accounts for a solid quarter while this share is significantly higher in EU countries (over 50%). This is partly due to Slovenian high-value-added service providers' excessive orientation to the domestic market. Exports of transport services recorded a 19.2% year-on-year rise in the first six months, which was related to the strong growth of merchandise exports. Among all components of services, receipts from travel rose at the slowest pace (5.4%).

As Slovenia continues to integrate intensively with international trade and capital flows, the **average shares of imports** *in* **exports**, **investment and private consumption** *are rising.* Merchandise imports by end-use product groups, which rose by a nominal 16.1% (in EUR) in the first six months of 2006 year-on-year, recorded the highest rise in intermediate goods (by 16.7%) on the back of the rising prices of oil and other commodities and the robust growth of industrial production. The share of intermediate goods imports in merchandise exports was estimated at 65.3% (64.9% in the same period last year). There was also a significant rise in imports of investment goods (15.3%) and consumer goods (15.2%). The increase in imports of investment goods, following the modest rise last year, was a reflection of the robust growth of investments in equipment and machinery (see Chap. 3.3). The share of investment goods imports in investment consumption was estimated at 37.1% (compared to 34.7% in the same period last year). The import component also continued to grow in the consumer products field as the share of consumer goods imports in domestic private consumption rose by 2.1 p.p. to stand at 25.8%, year-on-year. The latter is also linked to the globalisation of international markets whereby domestic supply of consumer goods is partly being replaced by imported products. Within the regional structure, merchandise imports increased by 13.2% from EU countries and by 28.8% from non-member states. Within the latter group, the strong growth of imports continued from the countries of former Yugoslavia (33.6%) participating in the stabilisation and association process (Macedonia, Bosnia and Herzegovina, Serbia and Montenegro) with almost entirely free exports to the EU[8].

Imports of services rose less rapidly than their exports in the first six months of 2006, year-on- year. The 12.7% growth (in EUR) was generated mostly by imports of other services (10.7%) accounting for almost one-half of services imports despite imports of transport services (19.2%) being the fastest growing category. Imports of travel rose by 10.8% in nominal terms. Despite this relatively strong rise, they contributed the least to the imports of services (2.9 p.p.).

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[8] At the beginning of April 2006, talks started on the European Commission's initiative to set up a free-trade area in the Balkans pursuant to the Central European Free Trade Agreement (CEFTA). It could replace the about 30 bilateral agreements on free trade between Croatia, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro, Albania, Romania, Bulgaria, Moldova and Kosovo, and would contribute to more transparent trade in this area.

The growth of trade in goods and services slowed down **in July** (14.1%), year-on-year, compared to the first six months of 2006 (16.0% in nominal terms, in EUR). Nevertheless, the year-on-year rise of export-import flows in the first seven months of the year remained at a relatively high level, while the growth of exports and imports was nearly at the same level (15.8% and 15.7%).

The autumn estimate of the real growth of goods and services flows in 2006 has been revised upwards since spring. Exports of goods and services in 2006 will rise by 9.9% in real terms, which is 1.7 p.p. higher than projected in spring. The growth of merchandise exports (10.6%) will exceed the spring forecast (8.5%). The upward revision is mainly due to stronger export growth to EU countries. Economic growth in EU countries was stronger than projected in spring and will result in higher foreign demand, which will in turn contribute to the stronger growth of merchandise exports (the response of Slovenia's merchandise exports to the percentage change in foreign demand is more than proportionate). The increase in exports will also be helped by the sustained robust growth of exports to Croatia, Serbia and Montenegro, and Russia. The volume of exports to Bosnia and Herzegovina and Macedonia is projected to also be lower at the annual level. The real growth of exports of services remains in line with the spring projections (6.6%). Imports of goods and services in 2006 will rise by 9.1% in real terms, which is 1.5 p.p. higher than projected in spring. The higher import growth will reflect stronger export flows, and partly the higher estimate of gross fixed capital formation growth. The contribution of international trade to economic growth in 2006 remains approximately the same (0.6 p.p.) as projected in the spring forecasts (0.4 p.p.).

In 2007, the growth of trade in goods and services is expected to be weaker than in 2006. The anticipated economic slowdown in the international environment, notably in the EU, is expected to result in less strong growth of goods and services exports. Thanks to the positive carry-over of this year's favourable export flows, growth next year will be slightly higher (8.3%) than that projected in spring. We also expect that the relatively strong rise in exports to Croatia will continue, while the robust growth of merchandise exports to Serbia and Montenegro and to Russia is projected to slow down. The decline in exports to Bosnia and Herzegovina and Macedonia is expected to come to a halt. Growth in exports of services will remain roughly at the 2006 level (6.7%). On the other hand, the real growth seen in the imports of goods and services (7.7%) is expected to slow down in comparison with the previous year, which will mainly be due to the deceleration of export growth. With regard to the described export-import flows trends, the contribution of international trade will amount to 0.5 p.p.

In 2008, international trade is anticipated to rise slightly following the growth of export trends; the growth in import trends is projected to remain at a similar level as in 2007, while exports are expected to grow by a real 8.5% (8.9% for goods, 6.8% for services). Taking into account the forecasts anticipating higher economic growth in the most important EU partner countries, we expect stronger growth in exports to EU countries. The growth of exports to other countries will remain at the level of the previous year. Given these anticipated trends in exports and domestic consumption, which will record weaker growth than in the previous year, the real growth of imports of goods and services is projected to stand at 7.7%. The

contribution of international trade to economic growth (0.6 p.p.) will be slightly higher than in 2007.

3.2   Private consumption

Private consumption *increased by 3.4% in real terms* **in the first half of 2006,** *1.6 of a percentage point less than GDP.* Within private consumption, which also rose very evenly in quarterly terms (by 3.5% in Q1 and by 3.3% in Q2), final consumption expenditure of households equally rose by a real 3.4% whereas final consumption expenditure of non-profit institutions serving households (NPISH) went up by 2.3%.

Household receipts[9], serving as a short-term indicator of household consumption in terms of sources for consumption, rose by a real 4.6% in the six months to June year on year (in 2005 by 2.0%). The fastest growing component of receipts was other remuneration[10] (8.8%), following its drop seen in 2005. The net wage bill, which contributed the largest share to growth, achieved half of this increase (4.4%) while payments of social transfers rose by 3.0%.

Midyear year-on-year comparisons of selected **short-term consumption indicators** *generally suggest continued stable growth rates.* Although household consumption rose by a real 3.4% in the first half of both 2005 and 2006 year on year, the growth of turnover in retail trade recorded in the six months to June 2006 (3.2%) was just half that recorded in 2005 (5.9%); the highest increase in turnover was observed in the group of furniture, household equipment and construction material in specialised shops (14.4%; in the first six months of 2005: -2.1%). On the other hand, the growth of VAT charged to final consumers (5.7%) more than doubled compared with 2005 (2.5%) and exceeded the growth of turnover in retail trade by 2.5 p.p. 2006 saw vigorous growth of both consumer goods imports (15.2% in the six months to June, nominal terms in EUR) and residents' spending abroad. The latter increased by 10.9% (nominal terms in EUR) and exceeded the increase in non-residents' spending in Slovenia (by 5.2 p.p.) for the first time since 2002 (while the nominal value of non-residents' spending in Slovenia was almost double that of residents' spending abroad). The value of the consumer confidence indicator (-16.0) recorded in the first half of 2006 was one percentage point above the average of the first six months of 2005. The number of registered new cars continued to decline (-0.4% in the six months to June), although the decrease was smaller than in the first half of 2005.

The net flows of total loans to individuals[11] *increased by one-third in the first half of 2006 (by 33.0% in real terms). For three subsequent quarters, the net flows of*

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[9] The receipts comprise the net wage bill (which represented 45.5% of total receipts in the first half of 2006) and other remuneration (17.6%) according to the AJPES' data, and transfers to individuals and households (36.9%) according to the MF's consolidated general government revenue and expenditure.

[10] Contract-based payments increased by a real 23.4% in the first half of 2006 year on year whereas reimbursements of work-related costs were up 7.2%.

[11] Due to the changed methodology for the collection of data on individuals' loans and savings (transition from IMF to ECB methodology), the dynamics of these indicators can only be monitored from December 2004 onwards, which significantly impairs the analysis of household borrowing given that it began to increase at the end of 2003 according to previous data.

housing loans exceeded the flows of consumer and other loans combined. From March to June 2006, the year-on-year real growth of the volume of loans remained steady at 24.5%, just slightly above the level recorded in the first six months of 2005 (21.5%) Looking at loans by currency, the volume of foreign currency loans continued to achieve the strongest growth (78.0%, over 57.5% recorded in the same period of 2005), whereas tolar loans increased by a mere 0.6% year on year (10.3% in the first six months of 2005). A breakdown of loans by purpose shows that the volume of housing loans surged by 49.5% in real terms in the six months to June (33.9% in 2005), the volume of consumer loans grew by 14.5% (12.8%) while other loans were up 7.4% (26.0%). In the period for which data based on the ECB methodology are available, the structure of loans also changed. With regard to currency, the share of loans in foreign currency was almost twice as high in June 2006 (43.2%) than at the end of 2004 (22.5%). The structure by purpose shows that the share of housing loans totalled 34.0% at the end of June, 10.7 p.p. more than 18 months ago. The shares of consumer and other loans consequently decreased (by 9.2 p.p. to 44.5% and by 1.7 p.p. to 21.4%, respectively).

The commercial banks' loan **burden on household receipts**[12] *is increasing;* in the first half of 2006 it rose by 0.6 to 4.1. Meanwhile, household indebtedness in banks increased by 12.3 units per one unit of increased receipts[13] (in the same period of 2005 by 14.8 units). The lower value of this indicator in 2006 is the result of the higher growth of the difference in receipts (than the difference in loans), while it may also indicate a deceleration in the relatively strong borrowing dynamics witnessed in the last few years.

The available data on spending in the third quarter *suggest a continuation of similar dynamics as in the first half of 2006.* The net wage bill and other remuneration rose by a real 5.6% in July and August, year on year, which corresponds to the growth in the first six months. July's growth of consumer goods imports (15.2%, in EUR) was similarly at the six-month level. In July and August together, residents' spending abroad increased by 7.0% year on year (in EUR), whereas non-residents' spending in Slovenia was 1.7% lower than in the same period of 2005. The value of the consumer confidence indicator in Q3 (-12.0) also rose in comparison with its value in the same period of 2005 (-19.3); consumers showed the highest confidence since March 1996 (when monthly data started to be collected) in the overall economic situation and the advisability of making major purchases and savings. The largest divergence from the dynamics observed in the first half of the year were recorded in the data on turnover in retail trade and new car registrations in Q3. In Q3 of 2006, new car registrations achieved their highest growth in the last two and a half years (since Q1 of 2004), climbing by 7.2% year on year. On the other hand, turnover in retail trade declined slightly in July and August together (by 0.1%).

The autumn forecast of private consumption growth for 2006 *remains unchanged at 3.3%.* Despite the slightly lower estimated real growth of the gross wage bill (3.2%; previously 3.3%) and disposable income, the autumn forecast of private

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[12] The ratio of the average monthly volume of loans to average monthly receipts.

[13] The ratio between the difference in the average volume of loans in a given period and the difference in average receipts in the same period.

consumption remains the same as in spring since it is based on the growth achieved in the first half of the year and the described movements of current indicators. The downward revision to the estimated disposable income relative to spring (from 3.3% to 2.4%) was largely the result of the stronger growth of personal income tax payments in the first half of the year (15.4% in nominal terms according to the MF's consolidated general government revenue and expenditure).

*The forecast of private consumption growth **for 2007** stands at 3.6%. On one hand, the growth of private consumption in 2007 will benefit from reduced tax rates[14]; on the other, it will be restricted by the effect of rising interest rates.* With the projected 0.9% increase in the number of wage recipients and 2.5% real increase in gross wages, the gross wage bill will grow by a real 3.4%. The real growth of disposable income is estimated at 3.8 %. Due to the effects of the lower personal income tax rates, which particularly reduce the tax wedge for people in higher income brackets with a higher propensity to save, consumption is not expected to increase by the total increase in disposable income. The slowdown in borrowing caused by the rising interest rates, which also raise borrowers' repayment instalments for loans with a variable interest rate taken out in the past, may also have a restrictive effect on consumption.

***In 2008,** consumption growth is forecast to achieve 3.6% again.* The primary reason for private consumption growth remaining somewhat above the level of the last few years is the expected stronger growth of the gross wage bill (personal income tax cuts will only boost the growth of private consumption in 2007). Given the projected 3.0% real growth of gross wages and the 0.9% increase in the number of wage recipients, the gross wage bill is expected to grow by 3.9%. The growth of disposable income in 2008 is estimated at 3.7%. The repayment of loans taken out in previous years (particularly housing loans with relatively high annual instalments) may also slightly reduce household budgets in 2008.

3.3 Gross fixed capital formation and inventories

*The **high investment activity** which started in the final quarter of 2005 continued **in the first half of 2006.*** According to quarterly data, the year-on-year growth in gross fixed capital formation was 8.2% in the last quarter of 2005 (and 3.2% compared to the third quarter of the year, according to seasonally-adjusted data). In the first half of 2006, the year-on-year growth was 8.9% (according to seasonally-adjusted data, it was 2.0% in Q1 and 1.9% in Q2 compared to the previous quarter).

*In the first half of 2006, it was mostly **investment in equipment** that increased.* Investment in machinery and equipment were up by 13.6% in this period compared to the same period last year, of which investment in transport equipment was up by 16.8%, and in other equipment and machinery by 12.7%. The rise is estimated to have been achieved thanks to the favourable situation in the international environment and

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[14] The forecast takes into account the personal income tax rates proposed in the draft amendments to the Personal Income Tax Act adopted by the government in September 2006. The estimate of the effects also considers the results of the IER's economic model that was used to assess the effects of tax legislation on the growth of macroeconomic aggregates (September 2006).

Figure 2: **Production capacity utilisation in industry**

the growth in exports which spurred on investment activity, in particular in combination with the high production capacity utilisation in industry (see Figure 2).

In the first half of the year, **growth in investment in non-residential buildings and structures** *was moderate, while* **housing investment** *continued to surge.* Investment in dwellings was up by 13.6% in the first half of 2006 and investment in non-residential buildings increased by a mere 2.5%. The value of engineering construction put in place rose by 3.9% and that of non-residential buildings by a mere 0.2%. Only slow growth in the latter has been quite expected, as the total floor area shown in the building permits issued for the planned non-residential buildings rose by just 2.7% in 2005, and by 3.1% in 2004. However, the slowdown in engineering construction in the first quarter came as quite a surprise. It could be attributed to the unfavourable weather conditions and delays in signing the motorway construction contracts.

Based on some short-term indicators it could be presumed that the high **investment activity also continued in the third quarter.** The value of construction put in place in July was 15.8% higher in real terms than in the same month of 2005, of which investment in buildings and structures rose in particular. Based on data on first car registrations, it is estimated that the high growth of investment in transport equipment also continued. The same conclusions may be made for growth in investment in other equipment and machinery as imports of machinery (excluding transport vehicles) were 10% higher (in EUR) in July than in the same month of 2005.

Growth in gross fixed capital formation *is expected to be similar in the second half of 2006 as in the first half, and it is expected to average out at 8.6% in* **2006** *as a whole.* The improvement in the forecast by 2.6 p.p. is partly thanks to the favourable international environment, which exceeded our expectations already in the first half of the year and stimulated investment activity of enterprises. The robust growth in the last quarter of 2005, which we attributed in our spring report to the announced

tightening of the investment relief regime (as of 1 January 2006), was thus not only transitional but also continued in 2006. Based on issued building permits, growth in housing investment is expected to continue in the second half of the year[15] and investment in non-residential construction is set to even strengthen[16]. In addition, the data on the stock of contracts in construction are favourable; in July, the value of these contracts was 87.7% higher than last year (35.5 % higher in building construction and 156.5% higher in civil-engineering construction). In particular, we expect a boost in civil-engineering construction related to the investment in motorway construction (in our estimates, such a high rise in the value of stock of contracts for civil-engineering construction was due to the motorway construction contracts). Like in the first half of 2006, high production capacity utilisation again positively affected investment activity (see Figure 2); in the last quarter of the year, growth should be additionally spurred on by the forecast change in the taxation of company profits[17] (the partial rescheduling of investment from 2007 to 2006 will, however, negatively affect growth at the beginning of 2007).

2007 is expected to see a slight slowdown in investment activity. Gross fixed capital formation is seen to grow by 5.5% in 2007, largely due to the slowdown of growth in the international environment and the shifting of some investment planned for 2007 to 2006. Based on the data on issued building permits, further growth in housing investment is expected as well as accelerated motorway construction as shown by the plans of the Motorway Company in the Republic of Slovenia (DARS). In addition, the government's own investment activity will positively affect the overall activity; investment expenditure is expected to rise in nominal terms by 11.4% (in particular funds for the construction and maintenance of public roads).

*A further slowdown in investment activity is also expected **in 2008.*** It is forecast to rise by 4.5%. The slower growth is related to an easing off of housing investment as a consequence of the expiry of the transitional period during which Slovenia was allowed to apply a reduced VAT rate to housing construction. Growth in investment in motorways is, however, expected to continue in 2008. Further, investment in machinery and equipment is anticipated to rise at a similar rate as in 2007.

In 2006, the change in inventories is anticipated to negatively contribute to GDP growth, i.e. 0.4 p.p., and in the next two years its contribution should be neutral. Although inventories are expected to grow by 1.2% of GDP in 2006, the contribution of the change in inventories to economic growth will be negative owing to the high basis achieved in 2005, when they were up by 1.6% of GDP. Inventories are also expected to increase in 2007 and 2008, thus accounting for 1.1% of GDP in current prices. In both years, however, the contribution of their change to economic growth should be neutral.

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[15] The total floor area of new dwellings and extensions planned in issued building permits surged by almost one-half in the 2003-2005 period. In just the first half of 2006, it was up by 12.7% compared to the same period last year.

[16] The total floor area of new dwellings and extensions of non-residential buildings planned in the issued building permits soared by 87.4% in the first half of the year over the same period last year.

[17] The amended Corporate Income Tax Act, applicable from 1 January 2007, will abolish relief for investment in equipment. In our estimate, part of the investment planned for early next year will be realised in the last quarter this year to allow companies to reduce their tax bases.

3.4 General government consumption

In the first half of 2006, general government consumption rose by 3.7% year-on-year according to the SORS' quarterly national accounts. The real rise was lower in the Q1 (3.3%) than in Q2 (4.1%); in Q1 individual consumption rose faster (3.6%) than collective consumption (2.8%), whereas in Q2 collective consumption was rising faster (5.7%) than individual consumption (3.1%).

The real rise in general government consumption is estimated at 2.8% in 2006, up by 0.1 p.p. from our spring forecast. The forecast of the volume of government consumption for 2006 is based on macroeconomic assumptions and the estimates of general government expenditures (taking into account that part of expenditure which enters government consumption according to the national accounts methodology) after an estimation of realisation of the 2006 state budget and estimations of local government budgets and compulsory health insurance expenditures (also see Chapter 7). The slightly higher real rise in government consumption than forecast in spring is largely a consequence of the slightly higher rise in expenditures for goods and services. Growth in government consumption will lag behind the forecast GDP growth, with its proportion in this aggregate decreasing by 0.2 p.p. to 19.4% compared to 2005. The contribution of government consumption to GDP growth is estimated at 0.5 p.p., up by 0.1 p.p. from 2005.

Table 12: **General government consumption**

	2001	2002	2003	2004	2005	2006	2007	2008
						Estim.	Forecast	
Real growth (%)								
General government consumption, total	3.9	3.2	1.6	3.4	2.2	2.8	2.5	2.8
Individual consumption	3.2	4.4	2.0	3.0	2.4	2.6	2.4	2.9
Collective consumption	4.9	1.5	1.1	4.1	1.9	3.1	2.6	2.6
As a % of GDP								
General government consumption, total	20.0	19.7	19.6	19.6	19.6	19.4	19.2	19.2
Individual consumption	11.9	11.8	11.8	11.8	11.8	11.6	11.5	11.5
Collective consumption	8.1	7.9	7.8	7.8	7.8	7.8	7.7	7.7

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

Growth in collective consumption in 2006 is estimated to be slightly higher than that of individual consumption (see Table 12). The number of employees in the general government sector is estimated to rise by 1.8%, which is slightly below the spring estimate (2.0%), largely thanks to a more pronounced slowdown in employment growth in education. The real rise in intermediate consumption in 2006 has been estimated at 4.5%; a faster real rise than estimated in the spring is expected in expenditures on goods and services in government bodies; this is mostly due to the faster growth of expenditure on special materials and services as well as on business travel expenses, penalties and damages and on current maintenance.

4 International economic relations

4.1 Balance of payments

*In the **first half of 2006, the current account deficit** was lower than in the same period of 2005.* The narrowing of the deficit from EUR 92.7 m to EUR 51.6 m was the result of a higher surplus in the services trade despite the higher deficit in the trade balance. The relatively large statistical error (EUR -265.8 m) in this period, which has occurred consistently in the balance of payments data during the year ever since Slovenia entered the EU, appears to be related more to underestimated capital exports than an underestimated current account deficit.

***The trade deficit** amounted to EUR 307.9 m in the first half of the year, compared with EUR 270.1 m for the same period of 2005.* In regional terms, the expansion of the trade deficit was largely caused by the increase in the trade deficit with non-EU members. Within the latter, the deficit widened in Slovenia's trade with the EFTA countries and Turkey. At the same time, the surplus in trade with countries of former Yugoslavia and the USA narrowed, while the trade surplus with the Russian Federation increased (also see Chapter 3.1). If we look at goods trade by end-use products, the overall increase in the trade deficit was largely caused by the higher import value of oil and its derivatives (the price of Brent crude per barrel surged by 32.7% in the first six months to June, year on year). The rising prices of oil, coupled with higher prices of other commodities and higher producer prices, worsened the terms of trade in goods (the index totalled 99.5).

*The **services balance** recorded a higher surplus (EUR 464.7 m) in the first half of the year than in the same period of 2005 (EUR 374.9 m).* The increase in the surplus was underpinned by higher net exports of transport and, for the second year in a row, by a lower deficit in other services. The surplus in tourism did not increase significantly at the year-on-year level.

The expansion of deficits in factor incomes and current transfers was not significant (approximately EUR 6 m each). The slightly higher mid-year deficit in **factor incomes** (it rose from EUR 120.7 m to EUR 126.9 m) was mainly the result of higher net labour expenditure, while the investment income balance remained at approximately the same level as in the same period of 2005. In receipts, the largest increase was recorded in commercial banks' earned interest due to their stronger lending to the rest of the world and capital exports via investment in securities. On the expenditure side, the highest increase was seen in interest on loans extended to domestic banks by the rest of the world. The government sector was repaying its liabilities and thus paid less interest on bonds and notes than in the same period last year. Due to the higher deficit in the private sector's transfers, the deficit in **current transfers** rose in the first half of the year (from EUR 76.9 m to EUR 81.4 m) despite the net budgetary surplus of the national budget against the EU budget in this period.

*In the **first eight months of the year**, the **current account deficit** totalled EUR 337.1 m.* The widening of the deficit compared with the first half of the year was largely caused by July's significantly higher payments of dividends and profits.

*The **capital account**, which includes capital transfers and patents and licences, recorded slightly lower net capital exports (EUR 31.5 m) in the first half of 2006 than in the same period last year (EUR 35.3 m).* This change was almost entirely due to capital transfers, where the largest year-on-year increase was seen in the net general government revenues. Other sectors increased their net external claims due to the higher write-offs of long-term and short-term debt of the rest of the world. The sale of patents and licences was modest and remained at a roughly equal level as in the same period last year (EUR 1.4 m), while purchases of patents and licences (EUR 2.5 m) were higher than last year in this period (EUR 0.4 m).

*The **net capital inflow via financial account instruments** (financial account of the balance of payments less international reserves) totalled EUR 145.6 m in the first half of the year, compared with the EUR 127.0 m seen in the same period last year.* The highest capital inflow was generated by loans that domestic banks took out abroad, while the highest capital outflow was recorded in banks' and enterprises' investment in securities abroad.

*The **main sources of capital inflows** were loans taken out abroad by domestic commercial banks and domestic enterprises, non-residents' deposits in banks, and inflows of investment in securities and of foreign direct investment.* The volume of banks' borrowing abroad remained at approximately the same level (EUR 961.5 m) as in the same period last year (EUR 956.2 m). The banking sector borrowed particularly heavily in May. Part of this borrowing was intended for the repayment of foreign loans. Although the borrowing conditions for domestic firms abroad do not differ significantly from those in domestic banks, and despite the rising tendency of interest rates, corporate borrowing abroad rose by EUR 150.3 m, to total EUR 315.5 m. The inflow of currency and non-residents' deposits into Slovenian banks amounted to EUR 515.6 m, down EUR 124.6 m from the same period last year. The inflow of foreign purchases of domestic securities (EUR 488.6 m) was mostly directed in bonds, notes and money market instruments of the general government. Year on year, the inflow of foreign direct investment increased as well, by EUR 219.3 m to EUR 248.1 m, mostly as a result of reinvested earnings and less due to the inflow of equity capital (36.3% of the FDI inflow).

Capital outflows were mainly generated by investment in securities, outflows of foreign currency and household deposits from the banking system, short-term trade credits, loans and outward direct investment. Capital exports in the form of investment in securities totalled EUR 924.2 m in the six months to June (EUR 494.1 m in the same period last year); both banks and enterprises increased this type of investment, whose structure was dominated by equity securities of the private sector (i.e. the banking sector and other sectors). Portfolio investment abroad has been on a substantial increase since 2003 as a result of the limited investment possibilities in the Slovenian market as well as the higher returns available in international capital markets. Capital exports in the form of foreign currency and household deposits also rose considerably (from EUR 70.0 m to EUR 431.7 m). Short-term trade credits to the rest of the world increased by EUR 68.7 m year on year to total EUR 400.3, reflecting the stronger growth of goods exports. If we look at the regional structure of short-term trade credits, more than half were granted in EU countries. Lending to the rest of the world, around two-thirds of which comprised

domestic banks' loans, doubled in the first six months of 2006 year on year (to total EUR 308.1 m). Capital exports via outward direct investment of the domestic private sector recorded in the first half of the year (EUR 290.4 m) were higher than in the same period last year (EUR 204.8 m). Around half of this financial outflow was generated by investment in equity capital while the remainder consisted of the higher claims on affiliated subsidiaries abroad.

Slovenia's international reserves totalled EUR 6,560.2 mn at the end of June and suffered to cover 4 months' worth of the average imports of goods and services. International reserves dropped by EUR 203.2 m in the six months to June, year on year (in the same period last year they rose by EUR 42.4 m) because the net capital inflows did not suffice to compensate for the current account deficit.

Financial transactions with the rest of the world recorded a deficit of EUR 62.1 m in the first eight months of the year. Within inflows, July and August saw the highest increase in foreign direct investment, while within outflows the largest rise was observed in capital exports in the form of debt securities.

Net external debt, i.e. the balance between gross external debt and gross external assets in debt instruments, increased in the first half of the year. Gross external debt, i.e. the gross external liabilities in debt instruments, totalled EUR 21,734 m at the end of June, having risen by EUR 2,168 m over the end of 2005. Banks' borrowing contributed as much as 68.5% (EUR 1,485 m) to the increase in gross external debt, while the borrowing of enterprises and NFI contributed 17.2% (EUR 372 m). The increase in gross external debt was also partly linked to the foreign investment in government securities and to the liabilities to direct investors. Slovenia's *gross external assets* totalled EUR 17,820 m at the end of June, having increased by EUR 684 m over the end of 2005. The drop in international reserves was smaller than the increase in banks' assets (mostly bonds and notes) and other sectors' assets (mainly short-term loans), as well as the higher assets in the form of other capital within direct investment. Net external debt totalled EUR 3,914 m at the end of June, EUR 1,484 more than at the end of 2005.

Dynamic debt indicators deteriorated by July 2006 according to the available data but they remained within the limits of liquidity and solvency. International reserves were just sufficient to cover the outstanding short-term debt (the value of the indicator at the end of 2005 was 1.05). At the end of July, Slovenia's total foreign exchange was 32% higher than the outstanding short-term debt (34% higher at the end of 2005).

The stock of external financial assets and liabilities is presented in the international investment position (net financial position).[18] On average, Slovenia's net financial position in 1995-2005 was negative (4.8% of GDP; see the figure below). Following the surplus of EUR 600.2 m recorded at the end of 1994, Slovenia's net financial position recorded a deficit of EUR 2,287.1 m at the end of 2005, having deteriorated

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[18] For the time being, data on Slovenia's international investment position are published once a year, showing the year-end position and structured equally as the financial account of the balance of payments. Changes between the net financial positions of two consecutive years reflect transactions in the balance of payments (the current account and the capital account balances plus net errors and omissions) and changes in prices, the exchange rate etc. (net capital profits, effect of the exchange rate and GDP growth rate).

by EUR 2,887.3 m over the entire period analysed. This aggregate deficit, which amounted to 14.5% of GDP, was largely the result of the financial flows (i.e. deficit) in the current account (-10.8% of GDP) and to a smaller extent of the capital losses caused by changes in prices and exchange rate (-3.8%) and of the capital account and statistical error (-1.4%). The cumulative effect of economic growth was positive (1.5%). Despite the deficit recorded at the end of 2005 (-8.3% of GDP), Slovenia's net financial position was relatively favourable in comparison with some other new EU members, which recorded high deficits (measured as shares of GDP) at the end of 2004: the Czech Republic (-34.6%), Slovakia (-37.5%), Estonia (-99.7%), Latvia (-55.0%), Hungary (-96.9%), Lithuania (-38.9%) and Poland (-53.3%).

Figure 3: **Slovenia's international investment position, as a % of GDP**

*The **current account deficit** is expected to exceed this year's spring forecast **in 2006-2008**. In addition to the new forecasts of real export-import flows and the terms of trade, the higher projected deficit will also reflect the methodological changes introduced by revisions made to the balance of payments for 2002-2005 (see Box 2) and will also impinge upon the future balance of payments flows.*

*The **forecast of the current account balance for 2006** projects a deficit of EUR 693 m or 2.4% of GDP.* Since export flows are expected to grow faster than import flows, and given the anticipated worsened terms of trade in goods and services (by 0.7 p.p.), the goods and services deficit will total EUR 195 m, slightly more than a year ago. The deficit in merchandise trade is projected to amount to EUR 1,113 m, while the surplus in services trade should total EUR 918 m. Factor incomes will run a higher deficit than last year (EUR 370 m), mainly due to the higher payments of dividends and profits[19] and payments of interest on loans taken out abroad. Current transfers will record a deficit this year (of EUR 128 m), which will be generated by

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[19] July's payments of dividends and profits totalled EUR 143.2 m (EUR 210.0 m in the seven months to July) and exceeded the annual payments for 2005 (EUR 134.4 m).

the deficit in the transfers of the private sector, while we expect a surplus in Slovenia's national budget against the EU budget. Compared with the spring report, the higher current account deficit will be generated entirely by the higher deficits in factor incomes and current transfers (where a surplus was forecast in spring).

In 2007 and 2008 we expect a gradual narrowing of the current account deficit. **In 2007** the current account deficit is projected to decrease to EUR 503 m or 1.6% of GDP. As export flows will continue to rise at a faster pace than import flows and the terms of trade will improve relative to the previous year, goods and services trade should end up the year with a slight surplus (EUR 9 m). Within that, the goods deficit is expected to narrow while the services surplus will increase. The goods deficit is anticipated to total EUR 985 m. Its narrowing will mainly be underpinned by a higher surplus in trade with non-EU members. The surplus in the services balance will expand to EUR 994 m on the back of the higher surpluses in the trade in transport and travel. The deficit in factor incomes (EUR 374 m) will come in at a similar level as in 2006, assuming that the payments of external debt interest will continue to increase while the payments of dividends and profits will exhibit the usual dynamics (i.e. they will be lower than in 2006). Current transfers are anticipated to run a deficit of EUR 138 m, which will be again attributable entirely to the deficit in the private sector. **In 2008**, the current account deficit should narrow further to total EUR 410 m or 1.2% of GDP. In addition to the expected favourable flows in trade in goods and services, where the surplus is expected to expand (to EUR 81 m), this lowering will be supported by the improved balance in current transfers (EUR -28 m) resulting from the higher net acquisition of funds from the EU budget. The deficit in the income balance is projected to total EUR 463 m as the surplus in labour income will again not suffice to cover the deficit in investment income, which will widen as a result of the continued increase in the payments of external debt interest.

Box 2: **Revision of the balance of payments for 2002-2005**

The Bank of Slovenia revised the balance of payments data for the 2002-2005 period. The changes made to the balance of payments were prompted by the ECB's reporting requirements and the methodological changes, as well as routine data updates.

The main changes that resulted in substantial revisions of the current account balance occurred in factor incomes and current transfers. In the factor incomes balance, the revision of data resulted in a higher deficit in investment income and a lower surplus in labour income. From 1 January 2002 data on the labour income receipts from international payment transactions were replaced by the data from the labour force survey and data from the Eurostat's database. The substantial revision of data on current transfers was linked to the collection of labour income data according to the gross principle (including taxes and contributions). At the same time, data from international payment transactions for the current private transfers, specifically data on pensions to non-residents, were replaced by direct data collected by the PDII. A comparison of both sources showed that the data collected hitherto were underestimated. The international payment transactions

data for transfers between Slovenia and the EU were replaced as well, namely by the direct budget data that the Ministry of Finance provides to the Bank of Slovenia. This arrangement allows the division into current and capital transfers as required by the ECB and the Eurostat. There were no changes in the trade and services balance in the 2002-2004 period. In 2005, both balances were updated with the SORS' final data, which resulted in a slightly lower trade balance deficit and services balance surplus. In the whole period covered by the revision, the changes outlined above are reflected in a higher current account deficit.

Table 13: **Sub-balances of the current account of the balance of payments, 2002-2005, before and after the revision**
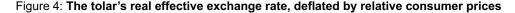
Balance - before and after the revision	Current account, % of GDP	Current account, EUR m	Trade balance, EUR m	Services balance, EUR m	Labour and investment income, EUR m	Current transfers, EUR m
2002 before revision	1.5	343.8	-265.0	620.0	-153.3	142.0
2002 after revision	1.0	247.2	-265.0	619.8	-167.7	60.1
Difference, in p.p.	*-0.5*	*-96.6*	*0.0*	*-0.3*	*-14.4*	*-81.9*
2003 before revision	-0.3	-81.2	-542.8	540.8	-172.9	93.7
2003 after revision	-0.8	-195.7	-542.8	540.2	-218.7	25.7
Difference, in p.p.	*-0.5*	*-114.5*	*0.0*	*-0.6*	*-45.8*	*-68.1*
2004 before revision	-2.1	-543.7	-1.008.8	686.1	-249.6	28.6
2004 after revision	-2.7	-719.7	-1.008.8	687.6	-322.1	-76.5
Difference, in p.p.	*-0.6*	*-176.0*	*0.0*	*1.6*	*-72.6*	*-105.0*
2005 before revision	-1.1	-301.1	-1.034.2	898.3	-225.8	60.6
2005 after revision	-2.0	-547.5	-1.025.9	855.6	-283.1	-94.1
Difference, in p.p.	*-0.9*	*-246.4*	*8.3*	*-42.7*	*-57.3*	*-154.7*

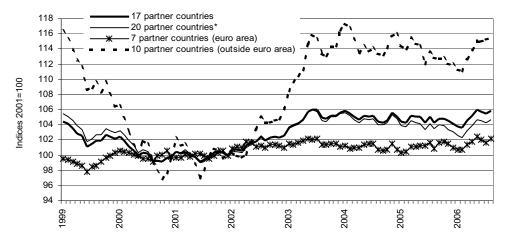Source of data: BS; calculations by IMAD.

4.2   International competitiveness

The price competitiveness of Slovenian manufacturing measured by relative consumer prices has deteriorated in 2006 but remains relatively stable in the longer term. Measured by relative producer prices, manufacturing's price competitiveness has continued to improve this year, and its cost competitiveness has improved as well. Slovenia's market shares in the markets of its main trading partners are growing.

Measured by relative consumer prices*, **Slovenia's price competitiveness** deteriorated in the eight months to August under the influence of the euro's appreciation against the US dollar and the Japanese yen, as well as the faster growth of relative prices.* With the tolar's exchange rate remaining nominally stable against the euro, the tolar's effective exchange rate rose by a nominal 0.9% and a real 1.7% in August over December. The tolar's average effective exchange rate for the first eight months of the year was just below the level from a year ago in nominal terms (0.1% lower) and slightly higher in real terms (by 0.3%).

*In the eight months to August, Slovenia's **price competitiveness** deteriorated substantially **outside the euro area** but less **within the euro area**.* The tolar appreciated by a real 3.1% against the basket of currencies of Slovenia's extra-euro area trading partners[20] in August over December, measured by relative consumer prices, whereas it was still a real 0.2% lower than a year ago in the first eight months of the year on average. Within the euro area, the deterioration of Slovenia's price competitiveness totalled 1.1% in August over December and 0.6% in the eight months of the year, relative to the same period of 2005 (see Figure 4).

Figure 4: **The tolar's real effective exchange rate, deflated by relative consumer prices**

*The improvement of **price competitiveness measured by** manufacturing's **relative producer prices** was caused by the drop in Slovenian prices in comparison with foreign ones.* As a result, the tolar's effective exchange rate depreciated by a real 1.0% in August over December and by 1.7% in the first eight months of the year over the same period of 2005.

*The year-on-year improvement of **manufacturing's cost competitiveness** seen in the first seven months of the year was the result of the strong growth of labour productivity (9.0%).* This growth was underpinned by a substantial increase in production (6.8%) and by a further significant decrease in employment (-2.0%). The real growth of compensation per employee (2.6%, deflated by consumer prices) lagged behind labour productivity growth by as much as 6.4 percentage points. As the real growth of net wages slowed down progressively (to 3.4%) and other remuneration recorded modest real growth (0.1%), the tax wedge on wages was also reduced (by 0.4%) due to the lowering of payroll tax rates. As a result, relative unit labour costs in the basket of currency fell in the seven months to July (by 3.7% year on year).

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[20] See the note under the graph.

Box 3: **Comparison of Slovenia's price competitiveness with countries within the euro area**

By entering the EMU in January 2007, Slovenia will join the group of the euro area countries that are relatively the least sensitive to the euro's volatility in international currency markets. Slovenia's share of external trade in the euro area, where the common currency eliminates currency risks, is among the highest. At the same time Slovenia's shares of trade with those trading partners whose currencies have had the strongest impact on oscillations of the euro area's effective exchange rates seen in the last few years (especially the USA and Japan, and to a smaller extent the United Kingdom) are among the lowest. This means that Slovenia's effective exchange rate will see one of the slightest nominal increases if the euro appreciates in nominal terms in international currency markets, but it will also record one of the smallest nominal drops if the euro's nominal value declines. On the other hand, the relative significance of the dynamics of Slovenian prices (costs) in comparison with its trading partners will have an accordingly higher impact on the dynamics of Slovenia's price (cost) competitiveness.

From the end of 2000 until Slovenia's entry to the ERM II, when the euro appreciated strongly against the US dollar and the Japanese yen (by approximately 41%, respectively) and somewhat less vigorously against the British pound sterling (12%), Slovenia neutralised roughly half of the deterioration in its price competitiveness (caused by the higher increase in Slovenian prices compared with the prices of its trading partners) with the tolar's nominal depreciation against the euro. The deterioration of Slovenia's price competitiveness was therefore smaller than that of euro area countries, except Austria (see Figure 5).

The tolar's nominal exchange rate has been stable against the euro ever since Slovenia entered the ERM II. Due to the regional structure of Slovenian exports, Slovenia's effective exchange rate, according to the calculations of the European
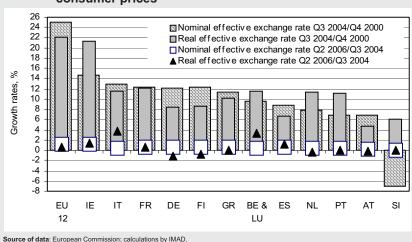
Figure 5: **Nominal and real effective exchange rates, deflated by relative consumer prices**

Commission[21], was also stable in Q2 of 2006 compared with Q3 of 2004, during which time it appreciated between a nominal 0.1% and 1.2% across the euro area countries. Because of the modest growth of Slovenian prices compared with the prices abroad in this period (0.1%), Slovenia's real effective exchange rate was also stable. Although relative prices fell in most euro area countries during this period, Slovenia achieved results comparable to a group of euro area countries exhibiting relatively more favourable dynamics of their price competitiveness.

The improvement in competitiveness measured by the growth of aggregate market share of Slovenian exporters[22] *in the main international markets continued in the first half of 2006.* The more modest (1%) year-on-year growth of the Slovenian aggregate market share seen in the first half of 2006 is largely attributable to last year's dynamics, when the market share enjoyed accelerated growth in the first half of the year, followed by a substantial slowdown in the second half. The growth of Slovenia's exports eased off somewhat in the second half of 2005 while import demand in Slovenia's main trading partners strengthened appreciably. Compared with the average of 2005, Slovenia's aggregate market share was therefore much higher in the first half of 2006 (by 5.3 Looking at Slovenia's main traditional EU markets, its market share in the Austrian market continued to record rapid year-on-year growth in the first half of 2006. Slovenia's market share in Germany shrank for the fourth year in a row, although exports to the German market grew at an accelerated pace (by 13.7%, in EUR). Following two years of strong growth, Slovenia's market share in the French market was also lower than a year ago, having dropped in the first half of the year due to the lower exports of road vehicles. A slight drop was also recorded in the Italian market after five years of uninterrupted growth. Conversely, Slovenia's market shares in the hitherto relatively less prominent EU markets (the UK, Spain, Belgium, Hungary and Poland) continued to expand vigorously. Outside the EU, Slovenia's market share rebounded in Russia following the drop seen last year, whereas its market share in Croatia, after having stagnated in 2005, was lower in the first half of 2006 than a year ago.

Slovenia's **price competitiveness** *will deteriorate slightly* **in 2006 on average**, *contrary to the spring forecast that anticipated a slight improvement.* According to the latest estimates, the tolar's effective exchange rate measured by relative consumer prices will appreciate by a real 0.7% (while a real drop of 0.2% was projected in spring). Given the nominally stable tolar/euro exchange rate, this divergence will be based partly on the euro's appreciation in international currency markets (contrary to the drop assumed technically in the spring forecast[23]), as well as a slightly higher rise in the relative consumer prices than anticipated in spring (0.5% instead of 0.2%).

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[21] Price and Cost Competitiveness, 2006.

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

[23] The technical assumption regarding the euro/dollar exchange rate was revised to USD 1.265 for EUR 1 (1.20 in spring) on the basis of the average rate observed in the period from April to September.

*The average improvement in manufacturing's **cost competitiveness in 2006** will be higher than projected in spring thanks to the stronger growth of labour productivity.* The tolar's effective exchange rate, measured by manufacturing's relative unit labour costs, will drop by a real 2.3% (in spring we anticipated a 0.4% drop). As the estimated growth of the real compensation per employee (2.9%) has remained similar as in spring, the higher increase in labour productivity (8.5% over 5.9%) will be underpinned by the faster growth of production, coupled with a more pronounced drop in employment.

In 2007 the moderate deterioration of price competitiveness will continue while the improvement in manufacturing's cost competitiveness will slow down. Based on the technical assumption of the 1.265 dollars for 1 euro exchange rate (1.3% higher than in 2006), the effective exchange rate will appreciate by a nominal 0.2% and by a real 0.5% thanks to the continued low growth of relative consumer prices (0.4%). As the growth of the real compensation per employee should remain at this year's level (3%), labour productivity growth will ease off (to 5.4%) in response to the decelerated production growth and a lower drop in employment. As a result, the depreciation of the real effective exchange rate, deflated by manufacturing's relative unit labour costs, will slow down to 0.2%.

5   Price trends and policy

After coming down to the level of the Maastricht criterion in November 2005, **inflation in Slovenia** *has been relatively stable* **in 2006,** *oscillating around this achieved level.* In the first nine months of the year, consumer prices rose by 2.8% while average inflation was 2.5% in September 2006, the same as at the end of 2005. Average inflation measured by the harmonised index of consumer prices, which is used as a convergence criterion, totalled 2.6% in September, up 0.1 p.p. from December 2005. Inflation thus lagged behind that month's Maastricht criterion by 0.2 p.p. (in September 2006, the Maastricht criterion was 0.3 p.p. higher than in December 2005). Slovenia has fulfilled the Maastricht inflation criterion for the eleventh month in a row, thus proving that the lowering of inflation in the past few years has been achieved on a sustainable basis. The year-on-year consumer price indexes have been oscillating evenly around their average from month to month since the beginning of 2005, which is why any greater upward or downward change in the year-on-year price rise does not necessarily mean a change in the general price trend (see Figure 6).

Figure 6: **Consumer price trends, monthly and year-on-year**

Source of data: SORS; calculations by IMAD.

The main factor of inflation *in Slovenia* **this year,** *which diverged from our spring forecasts and which the government could not influence with its economic policy measures, was the price of oil.* In the first nine months the prices of liquid fuels for transport and heating directly contributed 1.1 p.p. or 40% to the 2.8% rise in prices. As the excise duties on liquid fuels have been kept at the minimum level still allowed for by the EU regulations since July 2005, the government had no room for manoeuvre[24] to pursue a policy of counter-cyclical adjustment of excise duties on liquid fuels for the purpose of smoothing the impacts of oil price fluctuations. Thus, the impact of the 17% rise in the prices of Brent crude oil in the first eight months was translated in full into a rise in the prices of liquid fuels for transport and heating.

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[24] After the drop in oil prices in the world market in August, the government raised excise duties on both unleaded fuels by 5 SIT/litre, which contributed 0.1 p.p. to September's inflation.

*This year, **food prices** have also importantly affected the dynamics of prices.* In the group of market-determined prices, mostly food prices diverged from the usual trends in the past and also from our spring forecasts, rising by 2.3% this year (market-determined prices by 1.7%). Their contribution to inflation was 0.4 p.p. in the first nine months (market-determined prices 1.4 p.p.), whilst it was negative in the same period last year (-0.1 p.p.). In our estimation, this was also because of the gradual easing of the positive effects of EU accession on food prices (greater competition after Slovenia's accession to the EU, the abolishing of customs duties on imports from the EU and opening of the market to third-country products) after two years of membership. This is reflected in particular in higher prices of non-seasonal food, which after two years of decline again resumed similar growth as other market-determined prices. Besides, the prices of food subject to seasonal oscillations have also diverged from the usual seasonal movements this year, which mostly affected the dynamics of these prices in individual months compared to previous years.

Figure 7: **Quarterly contribution of seasonal and non-seasonal food groups to inflation**

*The stable **rise in prices that are not affected by external factors** has been the result of the co-ordinated economic policies of the Bank of Slovenia and the government.* Preserving a stable tolar exchange rate on one hand and adhering to the restrictive plan for regulating administered prices as well as the provisions of the Social Agreement related to wage policy on the other have allowed for a stable rise in prices that are not affected by external factors over the first nine months of 2006. In this period, administered prices excluding liquid fuels moved in line with the plan for regulating administered prices and contributed 0.2 p.p. to inflation. In 2006, the government continued with the gradual harmonisation of excise duties on tobacco and tobacco products with the rates agreed within the EU, which pushed this year's inflation up by 0.2 p.p. The lagging of the growth in wages behind productivity growth, however, prevented any pressures on prices from increased household demand or higher labour costs.
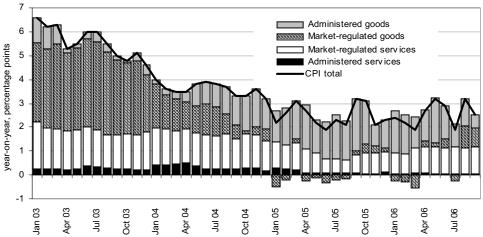
*This year, **the prices of market-determined services** have risen faster than the prices of regulated services, prices of market-determined goods and prices of regulated goods,*

excluding liquid fuels. As a consequence of the rise in oil prices, the prices of regulated goods soared in the first nine months, i.e. by 9.4%, whereas excluding liquid fuels, this rise was a mere 1.3% (1.9% compared to September 2005). In this period, the prices of market-determined services rose by 4.4% (prices of regulated services by 1.4%, prices of market-determined goods by 0.4%), and by 4.0% compared to last September (prices of regulated services by 1.4%, and of market-determined goods by 1.5%). The contribution of market-determined prices to year-on-year inflation in individual months thus ranged from 0.8 to 1.14 p.p. (see Figure 8).

Figure 8: **Contribution of administered and market-determined prices of goods and services to year-on-year inflation**

Source of data: SORS; calculations by IMAD.

The growth of producer prices has been higher this year than in 2005. The year-on-year rise in intermediate goods prices was 4.6% this September, up 2.4 p.p. from last September. The growth in these prices was also the main reason for producer prices (in year-on-year terms) rising faster this year than last year. In September, their year-on-year growth was 2.7%, while last September it was 1.9%. The year-on-year growth in the prices of investment goods was 1.3% in September (0.8% last year) and prices of consumer goods were up by 0.8% (last year 1.8%).

By the end of 2006 and in 2007 average inflation is expected to run at the achieved level of around 2.7%[25]. The 0.6 p.p. rise in the inflation forecast for 2006 is largely a consequence of the higher rise in oil and food prices in the first nine months than expected in the spring forecast. Also next year the influence of oil prices on inflation is expected to be greater than forecast last spring; the inflation forecast for 2007 (2.7%) is, however, higher than the spring figure (2.1%) mostly owing to the expected

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[25] To verify its inflation forecasts, the IMAD also applies the leading indicators model which is described in greater detail in Box 1. Models using the correction of the constant have proved to be the most reliable for forecasting inflation, also indicating a dive after 2002. The forecasts of year-on-year inflation based on the model indicate 2.9% inflation in 2006 and 2.8% inflation in 2007, when the diffusion of the forecasts is greater. This means that the inflation forecasts based on the model are also close to our autumn forecast.

rise in several excise duties resulting from the changed tax legislation which is to enter into force in 2007. The early harmonisation of excise duties on tobacco and tobacco products with the EU rates, which is to be achieved in mid-2007 (and not in 2008 as planned before), will contribute an additional 0.3 p.p. to inflation. Around the same percentage point contribution to inflation will be due to the foreseen rise in excise duties on alcohol and fuels and the introduction of excise duty on electricity in line with the EU regulations. On the other hand, the foreseen increase in household consumption stimulated by the reduction of personal income tax rates will not generate any inflationary pressures as this push should be relatively small and restrained in macroeconomic terms (also see Chapter 10). Further, other key economic policies which have contributed to inflation being brought down to average EU levels are seen to continue, thus assuring rises in prices affected by these policies will remain at this year's level. In accordance with the adopted plan for regulating administered prices, these prices should not rise any more than the market-determined prices in 2007, while prices that are under direct government control are planned to rise by no more than 0.4%. Based on the agreements on wage policy in the public and private sectors (see Chapter 6.2) for 2007, there should be no great pressure on prices from higher labour costs in 2007. The continued counter-inflatory orientation of macroeconomic policies is also the key to strengthening the economy's competitiveness as any relatively higher rise in prices in Slovenia than in its main trading partners would result in deteriorated competitiveness of the tradable sector.

Table 14: **The autumn inflation forecast for the 2006-2008 period**

	2005	2006	2007	2008
		Estimate	**Forecast**	
Inflation (annual average, in %)	2.5	2.7	2.7	2.5
Inflation (Dec/Dec, in %)	2.3	3.0	2.7	2.2

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

In addition to the counter-inflatory orientation of macroeconomic policies, structural reforms will be crucial for the stability of prices and an improvement of the price competitiveness of the Slovenian economy in the coming years. In **2008,** average inflation is foreseen to go further down to around 2.5% (year-on-year 2.2%). This forecast rests on the expected eased influence of external factors on inflation and a neutral contribution of fiscal policy measures on price rises[26]. Besides, the Balassa-Samuelson effect is expected to wane; it has already become less pronounced than it was estimated in the past[27]. However, if Slovenia wants to also preserve the achieved level of inflation in the coming years and thus prevent a deterioration of

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[26] The rise in both rates of value-added tax in 2008, which is one of the options for substituting the potential loss of tax revenues in 2008 is not included in the basic forecast as no final decision on this issue has been reached. Should the VAT rates be raised from 8.5% to 9% and from 20% to 21%, the effect of this move on consumer prices, taking into account the various degrees of transferring the tax rise to final prices, is estimated to range from 0.2 to 0.6 p.p.

[27] This has been indicated in some recent empirical studies of Central and Eastern European countries (Hlouskova, J., Wagner, M., 2004; Mihaljek, D., Klau, M., 2004). In these studies, the impacts of the Balassa-Samuelson effect in Slovenia range from 1 to 1.5 p.p.

the economy's competitiveness caused by a worsened ratio of relative prices, it will be crucial to carry out structural reforms, in particular the liberalisation and establishing of competitive conditions in individual sectors where prices are still regulated by the state and monopoly suppliers control the market, as well as by taking measures aimed at the improved flexibility of the labour market.

Box 4: Fulfilment of the Maastricht criteria

This year, Slovenia has fulfilled all the Maastricht criteria for adoption of the euro, which was also confirmed by the European Commission and the European Central Bank in their convergence reports of May 2006. Based on the positive opinion of these two institutions on Slovenia's preparedness to adopt the common currency, the Council of the EU adopted a political decision in July 2006 that Slovenia should join the euro area as of January 2007. At the end of June, the Council also confirmed the final SIT/EUR exchange rate, i.e. at the central parity level set out upon Slovenia's entry to the ERM II (SIT 239,640 per EUR 1).

After having preserved a stable nominal SIT/EUR exchange rate within the exchange rate mechanism ERM II for two years, Slovenia fulfilled the last monetary Maastricht criterion this year. The tolar exchange rate has been kept very close to the central parity, first slipping slightly below the parity immediately after entering the ERM II and then remaining slightly above it since May 2005 (see Chapter 8.1). Slovenia first met the price stability criterion in November 2005, when average inflation measured by the harmonised index of consumer prices dropped to 2.5%, which was also the Maastricht reference for that month. In September 2006, when inflation stood at 2.6% and the Maastricht level was 2.8%, Slovenia met the criterion for the eleventh consecutive month; this proves that the lowering of inflation in the past few years has indeed been achieved in a sustainable manner. Slovenia
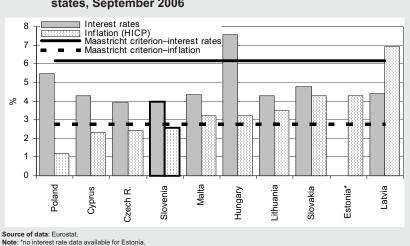
Figure 9: **Inflation and interest rates in Slovenia and other new EU member states, September 2006**

Source of data: Eurostat.
Note: *no interest rate data available for Estonia.

also continues to meet the criterion related to long-term interest rates, which in September stood at 6.2%, whereas the 12-month average of government bonds' yield-to-maturity in Slovenia was 3.98%.

Slovenia complied with the fiscal Maastricht criteria for adoption of the euro even before 2006. The general government deficit has been kept below 3% ever since 2002; it has been going down slowly since 2003 and reached 1.4% of GDP last year, which was even lower than the preliminary April estimate (1.8% of GDP; also see Box 6). General government debt has always been well below the Maastricht criterion of 60% of GDP; last year it stood at 28.0% of GDP.

Figure 10: **General government deficit and debt in Slovenia and other new EU member states in 2005**

Source of data: Eurostat; second notification in the procedure of establishing excessive deficits, October 2006.

6 Labour market

6.1 Employment and unemployment

*The **growth of employment** gathered momentum **in the first half of 2006.*** The number
of people employed in enterprises, organisations and by individuals, along with the
number of self-employed people, including farmers, is rising. The number of people
in informal employment[28] also rose more than we projected in spring. The number
of people in employment thus rose by 1.8% according to ILO definition, by 1.0%
according to the monthly statistics, and by 0.9% according to the first estimate of
the quarterly national accounts[29], compared with the same period of 2005. That the
labour market situation improved in the first six months this year is also indicated
by the higher declared labour demand (up 19.6%, year on year) and the increase in
the number of people hired (up 22%). Productivity grew by 4.1% in the first half of
the year over the first half of 2005.

*Formal employment rose in all groups of activities except in industry in the first
half of 2006. According to the quarterly national accounts estimates it also decreased
in agriculture.* In comparison with the first half of 2005, the number of formally

Table 15: **Growth rates of various categories of employment, 2005-2008**

	2005	Jan-June 06/ Jan-June 05	2006 Estimate	2007 Forecast	2008 Forecast
Persons in paid employment - ILO definition	**0.7**	**1.8**	**0.9**	**0.4**	**0.2**
Employment according to the SNA	**0.3**	**0.9**	**0.9**	**0.8**	**0.9**
Persons in formal employment according to SRE	**0.7**	**1.0**	**1.0**	**0.8**	**0.9**
Formal employment	**1.0**	**0.9**	**1.0**	**0.9**	**0.9**
- in enterprises and organisations	1.1	0.9	1.0	0.9	0.9
- activities A:K	1.0	0.7	0.7	0.6	0.6
- activities L:O	1.6	1.6	1.8	1.8	1.9
- by individuals	-0.3	0.4	1.2	0.3	0.5
Formal self-employment	**-1.9**	**2.2**	**1.0**	**-0.3**	**0.8**
- individual private entrepreneurs	1.1	2.5	0.9	1.4	2.8
- own-account workers	1.3	1.1	1.4	1.1	1.8
- farmers	-6.4	2.0	1.0	-3.0	-2.4
Informal employment (estimate)	**0.5**	**6.6**	**0.0**	**-1.8**	**-3.9**

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

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[28] I.e. the number of people who work either as unpaid family workers, on a contractual basis or in the grey market.
In simplified terms, it is estimated as the difference between the number of employed people according to survey
and the number of formally employed people, i.e. people in paid employment and licensed self-employed workers.

[29] On 15 September 2006, the national Statistical Office published revised estimates for GDP, national income and
employment for 2001-2005, which show that employment grew by just 0.3% in 2005 instead of the 0.7% as
announced in spring on the basis of quarterly estimates. Productivity growth, on the other hand, was higher,
3.7% (revised upwards from 3.1%). The largest revisions to the preliminary figures on the number of employees
(which were cut by around 2,000 people) were made in agriculture and business services.

employed people rose the most in construction (by 7,799 people or 6.1%) and business services (by 7,180 or 5.5%). It also rose by more than 2% in fishing, hotels and restaurants, transport, financial intermediation, health and social care, and other social, community and personal services. A rise exceeding 2% was also observed in the metal and machinery industries. In most manufacturing sub-industries, however, employment dropped (by a total of 11,383 people or 2.4%), notably in the textile and food-processing industries (by a respective 13.7% and 7.3%); further significant drops were seen in the manufacture of electrical and optical equipment (-3.4%) and the manufacture of furniture (-3.5%).

*We expect that **employment** in the service sector will continue to **rise** and exceed the drops seen in the manufacturing sector, resulting in higher employment growth in 2006 than expected in spring.* Assuming the usual seasonal dynamics and given the anticipated economic growth, employment is projected to increase by 0.9% in 2006, by 0.8% **in 2007** and by 0.9% **in 2008**. The spring forecasts have been revised upwards as a result of the expected higher demand for labour in selected service activities where value-added growth rates are projected to be slightly higher, and the expected smaller drop in employment in agriculture. At the same time, the forecast reflects the anticipated impact of the phased abolition of payroll tax[30] and the effects of the legislative changes regarding the obligations of claimants of unemployment benefits and social assistance aimed at encouraging their activity, which was already taken into account in the spring forecast. Labour productivity will grow by 3.8% this year, almost the same as last year (3.7%), and somewhat less in the next two years: by 3.5% in 2007 and by 3.2% in 2008, which is partly linked to the changing economic structure in favour of the service sector, where productivity growth is lower than in industry.

Unemployment continued to decline in 2006 but the female unemployment rate remained significantly higher than the male one. **Registered unemployment** again decreased at the usual seasonal pace in the first half of 2006, having dropped by an average of 1.2% over the same period of 2005. It rose slightly in July, mainly due to the greater layoffs of people employed for a fixed term before the summer holidays, then fell again in August[31]. The **registered unemployment rate** declined to 9.3% in June (from 10.2% recorded at the end of 2005 and 10.5% in January this year) and rebounded to 9.4% in July. Like in 2005, the decrease in 2006 has mainly occurred in the male unemployment rate (8.3% in the first half of the year), whereas the average female unemployment rate still stood at 12.0%. **Survey unemployment** rose by an average of 3.5% in the first six months of 2006 over the same period of 2005[32]. However, because of the increase in the labour force the **ILO unemployment**

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[30] In 2006-2009, when payroll tax is planned to be phased out, the private sector will roughly save an estimated SIT 109 bn as a result (SIT 13 bn in 2006, SIT 20 bn in 2007, SIT 36 bn in 2008 and SIT 40 bn in 2009). We presume that companies will be able to use the remaining funds partly to employ more workers and partly to increase their investment levels.

[31] To 83,056, hitting the lowest level since September 1991.

[32] Registered unemployment still includes persons who cannot be classified as unemployed according to the ILO's internationally adopted definition, either because they perform odd jobs, are not looking for work or are not prepared to accept work. As a result, registered unemployment still exceeds survey unemployment although the number of unemployed people in these categories has decreased. Both measures of unemployment also exhibit different seasonal dynamics.

rate was the same as in 2005 in Q1 (6.9%) and only 0.1 p.p. higher in Q2 (5.9%). As with registered unemployment, the female survey unemployment rate was higher than the male one.

The decrease in registered unemployment seen in the first half of 2006 was mostly linked to the increase in the number of unemployed people struck off the unemployment register for reasons other than having found work[33]. There were 47.5% more such people than in the first half of 2005, when relatively fewer people were taken off the register than in previous years[34]. At the same time, the outflow of the unemployed to employment rose (by 4.7% compared with the first half of 2005), but so did the inflow of first-time job-seekers (by 2.7%) and the number of people who lost work (by 1.5%). Among these, the number of people who lost a fixed-term job rose by 4.9%, and there were 13.0% more people who lost their jobs for business reasons -– these are the two most common reasons for losing work. All other categories of unemployed people who lost work in the first half of 2006 dropped by a total of 8.4% compared with the same period of 2005.

*The **structure of registered unemployment** in 2006 witnessed the largest increase in the number of unemployed people who have completed upper-secondary and tertiary education.* Although total registered unemployment has been on a decrease, unemployment rose among women (up 0.8% over the first half of 2005), the long-term unemployed (0.5%), the unemployed aged over 50 (4.4%), and people with an upper-secondary and a tertiary education, whose unemployment rose the most in relative terms (11.8%). The share of women among the unemployed topped 55% in June while the share of long-term unemployed is climbing back to close to 50% of the total unemployed people. The share of the unemployed with a tertiary education soared to 9.0% (from 7.8% in June 2005 and 8.0% in December 2005). On the other hand, youth unemployment (down 6.0% over the first six months of 2005) and unemployment among first-time job-seekers (-6.5%) are falling at a much faster pace than total unemployment, as is the unemployment of low-skilled people (-4.8%).

*In most of Slovenia's **statistical regions**, unemployment fell in the first six months of 2006.* Only in Jugovzhodna Slovenija and Goriška it was higher than in the same period of 2005. The largest decrease was recorded in the Zasavska region (by 1.3 p.p. to 12.6%). Despite the slight increase, Goriška still has the lowest registered unemployment rate (6.5%) while Pomurska continues to maintain the highest rate (16.8%). Above-average rates of registered unemployment were also recorded in the Podravska, Zasavska, Savinjska, Spodnjeposavska and Koroška regions. The coefficient of variation, a measure of regional disparities, decreased by 1.5 p.p. in the six months to June over the same period last year.

*The **number and rates of registered unemployment** will be consistent with the spring projection **in 2006** and slightly lower **in the next two years; the survey unemployment rates** will also be somewhat lower.* Given the usual seasonal dynamics

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[33] People may sign off voluntarily or are taken off because they neglect their obligations or have exited into inactivity (due to retirement, education and similar reasons).

[34] In the first half of 2005, the number of people taken off the unemployment register was one-third less than in the first half of 2004.

of inflows and outflows in autumn, the number of registered unemployed is expected to climb to approximately 87,900 until the end of 2006, while the registered unemployment rate will rise to 9.7%. The average annual number of people registered as unemployed will total around 89,400 in 2006 (2.7% fewer than last year), while the average annual rate of registered unemployment will be 9.8% (consistent with the spring forecast). Anticipating higher informal activity, the projected ILO unemployment rate has been revised downwards from spring to total 6.4% (0.1 p.p. lower than last year and 0.2 less than forecast in spring). Because the employment forecasts for 2006 and the next two years have been revised upwards from the spring estimates, the forecasts of the unemployment rates for 2007 and 2008 have also been revised: registered unemployment to 9.5% and 9.1%, respectively, and ILO unemployment to 6.4% for both years.

6.2 Wages

The wage policy framework applied so far was set out in the Social Agreement 2003-2005. While the social partners are still negotiating a new agreement, some **elements of the future wage policy** *are already known and are presented in more detail below.* In June this year, the social partners for the private sector reached an agreement on the wage adjustment mechanism for 2006 and 2007. In the same month the negotiations on the public sector wage policy for 2006-2009 were closed. The hitherto applied wage policy guideline whereby the growth of real wages had to lag behind the growth of labour productivity by at least one percentage point will be abandoned gradually in the new social agreement.

The social partners for the **private sector** *have defined minimum standards of the wage policy in 2006-2007 in the Collective Agreement on the Wage Adjustment Mechanism, Reimbursement of Work-Related Costs and Holiday Allowances.* This was the first wage adjustment mechanism to be negotiated at the bipartite rather than tripartite level, without the participation of the government. The first part of the new agreement sets out the procedure for including the adjustment amount for 2004 and 2005, laid down in the *Wage Policy Agreement for the Private Sector 2004-2005*, into the system of wages, which was also the purpose of the agreement. The agreement thus specified the basis for starting-level wages and minimum base wages subject to the adjustment mechanism for 2006 and 2007. It was agreed that wages will be raised by 2% in both years in payments for August. The adjustment mechanism also provides for a safeguard clause in case the actual inflation in the period from December 2005 to December 2006 should exceed 2.3%. The difference will be included in the August adjustment in 2007. The agreement also specifies the minimum amount of holiday allowance: SIT 145,000 for 2006 and SIT 148,000 for 2007 (for firms incurring losses, the respective amounts are SIT 128,000 and SIT 130,000). Further, the agreement lays down minimum standards for overtime work and other remuneration. The minimum standards of the wage policy set out in the collective agreement apply primarily to workers not covered by any sectoral collective agreement. In sectoral and company collective agreements concluded thereafter, the partners negotiated higher standards and adjustment percentages above the 2% rate defined in the collective agreement. The collective agreements were mostly concluded for 2006, while new negotiations for 2007 have yet to be conducted.

The inclusion of productivity growth in wage rises is mostly based on the review of results achieved in the preceding business period.

*In the **public sector**, the social partners negotiated the wage policy for the 2006-2009 period in June this year.* The adjustment mechanism for 2006 was laid down in the *Act Amending the Salary System in the Public Sector Act*, which provided for a 1.3% rise in gross starting-level wages in June, while the remaining part of the adjustment percentage (1.05%) was set aside to eliminate wage disparities. The wage adjustment mechanisms for the period until 2009 were set out in the *Agreement on the Base Wage Adjustment Mechanism and the Level of Expenditure for the Elimination of Wage Disparities in 2007-2009* initialled by social partners. According to this agreement, the annual wage adjustment in July takes into account the estimate of inflation in the current year. The agreement also specifies the proportion of the adjustment percentage that will be used for the wage adjustment in general (all wages adjusted by the same percentage) and the proportion intended for elimination of wage disparities in this sector. If actual annual inflation is higher than expected, gross wages will be adjusted for that in January of the subsequent year. The agreement includes a safeguard clause for 2006 (following the same mechanism as for 2007-2009), which was still not incorporated in the Act Amending the Salary System in the Public Sector Act that defined the adjustment mechanism for 2006. The Agreement further specifies the level of additional expenditure earmarked to eliminate disparities in earnings, defined as a specific percentage of the overall labour productivity growth rate. Thereby the available funds for elimination of disparities were determined. The social partners have still to reach an agreement regarding the assessment of indicative jobs listed in the Collective Agreement for the Public Sector. They must identify the indicative jobs that are underpaid and assess how undervalued they are. This will make it possible to specify the expenditure required to eliminate wage disparities in the public sector. The assessment of jobs in education has already been largely brought into line with the comparable jobs in other activities by means of the 3% annual wage adjustment increase during the 2003-2006 period in accordance with the Annex to the Collective Agreement for Education. In other activities, however, there have been no such revisions in this period. According to estimate, the highest expenditure will be needed to eliminate disparities in the earnings of nurses and staff with a lower education in health and social care. Corrections will, of course, also be required in other activities.

*In 2006, the **gross wage per employee** will increase by an estimated 5.0% in nominal terms and 2.2% in real terms, while labour productivity should grow by 3.8%.* In the first half of 2006, the real gross wage per employee rose relatively strongly (by 2.4% year on year) and is estimated to ease off in the second half (1.9%). The gross wage per employee in the **private sector** increased by 3.1% in the six months to June over the same period of 2005. The accelerated growth of gross wages in this period was mainly underpinned by the highly supportive economic environment. We expect that the anticipated deceleration in economic trends in the second half of the year will be reflected in the dynamics of gross wages. Taking into account the August adjustment, the gross wage per employee will therefore increase by a real 2.9% in the second half, year on year. In the year as a whole, gross wages will go up by an average of 5.8% in nominal terms and by 3.0% in real terms. Labour productivity in this sector is projected to rise by 4.6%. In the **public sector**, gross

wages were up by a real 1.1% in the first six months of the year over the same period of 2005. In the second half, adjusted for the agreed 1.3% overall increase and the 3% increase in education, the public sector's gross wages will remain at a roughly the same level in real terms (-0.3%, year on year). At the annual level, the average increase of the gross wage per employee in the public sector will total 3.1% in nominal terms and 0.4% in real terms this year. The estimated nominal growth has thus not changed from spring, but the projected real growth of wages has been revised downwards (by 0.6 p.p.) due to the higher inflation.

In 2007, the gross wage per employee is forecast to increase by 2.5% while labour productivity should grow by 3.5%. In the **private sector**, the minimum wage increase laid down by the Collective Agreement on the Wage Adjustment Mechanism, Reimbursement of Work-Related Costs and Holiday Allowances totals 2%. At the level of sectoral collective agreements, the adjustment percentage for 2007 will be negotiated anew. Taking into account this adjustment mechanism, the anticipated economic developments and the August adjustment of wages by the differential between the new inflation estimate for 2006 and the one from autumn 2005 (2.3%), the gross wage per employee in the private sector is projected to increase by a real 2.8%. Labour productivity in this sector should increase by an estimated 4.2%. The estimated growth of the gross wage per employee in the **public sector** is based on expectations that wages will begin to be payed in accordance with the new law regulating the salary system in the public sector in the first half of 2007. Pursuant to the Agreement on the Base Wage Adjustment Mechanism and the Level of Expenditure for the Elimination of Wage Disparities in 2007-2009, the 2.1% adjustment (equalling the consumer price rise as projected in spring) will be split into a general adjustment (1.3%) and the elimination of wage disparities (0.8%). In addition, 14% of the estimated growth rate of the overall labour productivity will be used additionally to even out the disparities in wages. According to the current estimate of labour productivity growth, this would result in a 0.5% wage increase. The estimated increase in the gross wage in the public sector includes the approximately 0.7% rise in January's gross wages for inflation in 2006 exceeding 2.35%, based on the current inflation forecast. The wage increase also includes a proportion of the hitherto deferred expenditure earmarked for the elimination of wage disparities. Based on these assumptions and taking into account routine promotions, the gross wage per employee in the public sector is projected to rise by a real 1.8% in 2007.

*The **2008** forecasts of the real growth of gross wages per employee and of labour productivity total 3.0% and 3.2%, respectively.* Given the expected economic developments, the real gross wage per employee in the **private sector** is projected to increase by about 3.2% while labour productivity in this sector will grow by 4.0%. The estimated growth of gross wages in the **public sector** takes into account the overall wage adjustment by one-half of the estimated consumer price rise (2.2%) while the other half will be used to reduce wage disparities. In addition, 30% of the growth rate of labour productivity will also be used to even out wage disparities; based on the current assumptions this would correspond to a 1% increase in wages. The estimated wage growth also includes the expected routine promotions. Based on these assumptions, real gross wages in the public sector are projected to increase by 2.2% in 2008.
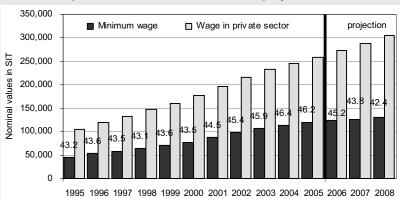
Box 5: **Minimum wage**

The minimum wage adjustment mechanism for 2004 and 2005 was set out in the Wage Policy Agreement for the Private Sector. Subsequent adjustment methods were laid down by a special law. During the negotiating process on the adjustment mechanism for minimum wages, the social partners agreed on both sides that it was necessary to adopt a framework law to regulate the adjustment of minimum wages with the anticipated consumer price rises. The subsequently adopted Act Regulating the Minimum Wage raised the previous minimum wage amount by 2% to total SIT 125,052 in 2006. For the ensuing years, the law provides for an increase of minimum gross wages in August every year by a percentage equalling the expected consumer price rise. The law also requires the Ministry of Labour, Family and Social Affairs to consult with the social partners prior to releasing the amount of the minimum gross wage.

The minimum wage adjustment mechanism has undergone considerable changes since minimum wages were introduced. The social partners agreed upon introducing the minimum wage in the Social Agreement for 1995 in May 1995. The amount of the minimum wage was specified in the Agreement on Wages and Other Remuneration Policy for the Private Sector, a separate appendix to the Social Agreement for 1995. Further on, minimum wages were adjusted by the mechanism applied for the private sector. In May 1996, the level of the minimum wage was additionally raised in accordance with the Social Agreement for 1996. In 1997, the Act Regulating the Minimum Wage and the Method of Wage Adjustment provided for a regulatory adjustment mechanism stipulating an additional raising (to that adopted for wages in the private sector) of the minimum wage in August each year equalling the real GDP growth in the previous year. This mechanism ceased to be applied with the adoption of the Wage Policy Agreement for the Private Sector 2004-2005, which set the minimum wage at a slightly higher level than it would have been under the wage adjustment mechanism for the private sector but lower than it would have been with the additional adjustment for real GDP growth.

Based on the adjustment mechanisms set out above, the level of the minimum wage relative to the average gross wage for the private sector increased in 1995-2005. Thanks to the adjustment mechanism, the minimum wage rose at a 10.1% average nominal annual rate, faster than the starting-level wages of the private sector, which rose by just 6.0% a year. The dynamics of the gross wage per employee in the private sector, however, depend more on the economic environment and labour productivity rather than on the adjustment mechanism. Therefore, the gross wage per employee in the private sector increased at a faster pace than the starting-level wage in the private sector but at a slower pace than the minimum wage, i.e. by an average of 9.4% annually. As a result, the proportion of the minimum wage to the average gross wage in the private sector rose from approximately 43.2% in 1995 to 46.2% in 2005.

According to projections, the level of the minimum gross wage relative to the average gross wage of the private sector will decrease in the ensuing two years. The projection for 2006-2008 shown in Figure 11 takes into account the autumn
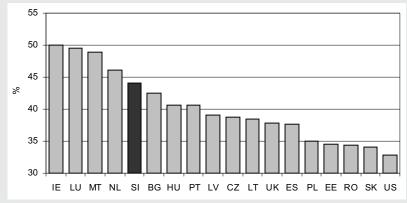
Figure 11: **The minimum gross wage relative to the average gross wage in the private sector in 1995-2005 and a projection for 2006-2008**

Sources of data: SORS, Official Gazette of RS and IMAD's calculations.

estimates of nominal growth of private sector's gross wage per employee, while the minimum wage data are calculated using the adjustment mechanism defined in the Act Regulating the Minimum Wage. This mechanism differs from the adjustment mechanism for gross wages in the private sector, which allows for an additional adjustment for the event of inflation being higher than anticipated. The annual August adjustment of minimum wages therefore only takes into account the estimated inflation for these years. According to this adjustment principle, the level of the minimum gross wage would drop to 42.4% of the gross wage per employee in the private sector by 2008, which is less than in 1995 when the minimum gross wage was instituted. According to the Eurostat's data for 2004, the Slovenian minimum wage was in the top third among the EU-25 countries plus Romania and Bulgaria in terms of the percentage of the minimum wage relative to the private sector's gross wage.

Figure 12: **Minimum wage relative to the gross wage in the private sector in Slovenia and selected countries, 2004**

Source of data: Eurostat.
Note: Data for the private sector exclude agriculture and fishing. Eurostat's figure for Slovenia differs slightly from IMAD's figure based on SORS' data.

The level of minimum wages has hitherto ensured that the distribution of employees by gross wage levels has not changed significantly in the period since the minimum wage was introduced. The level of the minimum gross wage based on the adjustment mechanism hitherto applied equals the starting-level gross wage of the fifth bracket laid down in the *Collective Agreement on the Wage Adjustment Mechanism, Reimbursement of Work-Related Costs and Holiday Allowances* and in one-third of the collective agreements in the private sector. As a rule, however, starting-level gross wages laid down in collective agreements should be higher than the minimum wage. The social partners highlighted this pressing problem in the Social Agreement for 2003-2005 but were unable to resolve it in the Wage Policy Agreement for the Private Sector 2004-2005. The low-bracket gross wages have thus concentrated around the minimum wage level as a result of employers' endeavours to cut labour costs. The minimum wage level has risen in accordance with the adopted adjustment mechanism, thereby creating upward pressure on the lower limit of gross wage levels. It is difficult to determine the appropriate minimum gross wage level, which should on one hand ensure the competitiveness of enterprises and on the other guarantee a socially acknowledged minimum living standard safeguarded by the institution of the minimum gross wage.

7 Public finances

7.1 General government revenue

*Together with macroeconomic conditions, the changes to the tax system and instruments introduced **in 2006** affected the level and structure of general government revenue.* The autumn forecasts were the basis for estimating the compulsory levies constituting a predominant part of general government revenue. These forecasts are slightly more favourable than the spring forecasts since **the total compulsory levies** in 2006 (the burden of taxes and contributions) are estimated to have increased by 6.1% in real terms compared to 2005, while their share in GDP will increase by 0.9 p.p. (from 39.7% of GDP in 2005 to 40.6% in 2006). The higher growth of general government revenue from the forecasts is predominantly the result of higher revenue from corporate income tax.

*Within the scope of total compulsory levies, the estimated increase of revenue from the **value-added tax in 2006 is in real terms slightly smaller than that of gross domestic product.** It is estimated to reach 9.1% of GDP in 2006, which is 0.1 p.p. less than in 2005.

*The real growth of **excise duty** revenue from the preceding years will be brought to a halt in 2006 since excise duties are estimated to have slightly fallen in real terms (by 0.7%).* Due to the harmonisation of the rate and amount of excise duty on tobacco and tobacco products with the EU directives, revenue from excise duties on tobacco and tobacco products will rise faster than total revenue (by 2.9% in real terms), while revenue from excise duties on alcohol and alcoholic beverages will grow more slowly (by 1.5%); revenue from excise duties on mineral oils will drop in real terms (by 2.3%). In accordance with the policy of a counter-cyclical adjustment, the rates of excise duties on mineral oils gradually dropped by July 2005 and until August 2006 remained at the minimum level still allowed by the EU legal provisions. The share of excise duty revenue in GDP will reach 3.3% in 2006, which is 0.2 p.p. less than in the preceding year.

*The real increase in revenues from **wage-related taxes and contributions** in 2006 is estimated to be 3.7%, while their share in GDP will be preserved at 22.1%.* Revenue from **social security contributions** will rise by 3.4% in real terms. As regards payroll tax, the gradual abolition of this tax by 2009 was enacted, which already slightly eased labour costs in 2006. Revenue from **payroll tax** is estimated to have dropped by almost 14% in real terms. The average burden of this tax is estimated to decrease to 4.2% (from 5% in 2005). Revenue from **tax on income from employment** constituting the majority of the revenue from personal income tax will rise by 4.4% in real terms. With a faster rise of revenue from other categories of personal income tax (especially taxes on income from entrepreneurial activities and taxes on property income), total revenue from **personal income tax** will rise by 7.2% in real terms in 2006. The share of personal income tax revenue in GDP will rise from 6.0% in 2005 to 6.2% in 2006.

After the Act Amending Corporate Income Tax entered into force, revenue from **corporate income tax** is estimated to have risen substantially in 2006 compared to

the preceding year (by 56.3% in real terms). Compared to the law previously in force, the new Act retains the unaltered tax rate but redefines both the calculation of taxable base and tax reliefs, which were reduced. The mentioned legislative changes considerably increased the effective tax rate in 2005. The share of corporate income tax revenue in GDP will rise from 2.2% in 2005 to 3.3% in 2006.

Revenue from ***other compulsory levies*** (on specific services, on sales of motor vehicles) ***and fees*** (environmental taxes, registration fees on motor vehicles, pollution taxes, administrative and court fees) will increase in 2006 by 4.1% in real terms while their share in GDP will stay at the same level as in the preceding year and is estimated at 1.2%.

*The estimated share of **EU funds** in GDP for 2006 is 1.3%.* This is 0.2 p.p. less than foreseen in the national budget for 2006. The funds anticipated in the national budget for 2006 will continue to be available for the next two years.
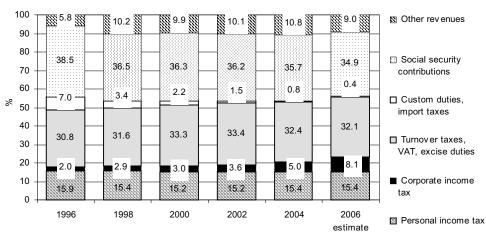
Figure 13: **Structure of general government revenue, in %**

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

In view of the foreseen macroeconomic developments and legally prescribed changes to the tax system and its instruments, the **share of compulsory levies in GDP** will drop gradually in **2007 and 2008**. In **2007** the share of compulsory levies in GDP will drop to approximately 39.4% from the estimated 40.6% GDP in 2006, and to 38.6% in 2008 (the forecast does not include any potential increase in VAT rates). In this framework, revenue from **value-added tax** will, with unaltered tax rates, maintain its share in GDP at the present level (9.1% of GDP)[35]. Revenue from **excise duties** is forecast to rise slightly faster in 2007 and approximately in line with the projected growth of GDP in 2008. Its share in GDP will rise from the estimated 3.3% of GDP in 2006 to 3.5% of GDP in 2007. In 2007 the government

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[35] With the increase in tax rates (the special rate increased by 0.5 p.p. and the basic rate by 1 p.p.), the share of value-added tax would rise by 0.4% of GDP.

plans to impose excise duties on electricity, and speed up the harmonisation of excise duty levies on tobacco and tobacco products with the agreed rates in the EU which is due to be completed in 2007 (not in 2008 as originally planned). Among compulsory levies revenue from **social security contributions**, with contribution rates remaining unchanged, will rise in line with the growth of the gross wage bill which will, given the foreseen increase in the number of wage earners (0.9% in 2007 and 2008), lag behind GDP growth. The share of social security contributions in GDP will decrease from 14.2% in 2006 to 14% in 2007 and 2008. The share of revenue from **personal income tax** in GDP will decrease from 6.2% of GDP to 5.6% of GDP after the planned amendment to the law in 2007. The draft law introduces a scale with three income brackets and reduces tax rates (16%, 27% and 41% as the maximum, previously 50%), which will reduce general government revenue from personal income tax and especially take the burden off the highest wages. The phased cutting of the **payroll tax**[36] will reduce the share of revenue from this source in GDP by 0.4 p.p. in 2007 and by 0.5 p.p. in 2008 to 0.6% of GDP. After the proposed amendment to the **Corporate Income Tax Act**, the real growth of revenue from corporate income tax will slow down in the next two years due to the lower statutory tax rate[37], changes in tax relief[38] and changes in determining the tax base[39]. The share of revenue from this tax as a share of GDP will be reduced from the estimated 3.3% in 2006 to approximately 3% in 2008, The projected revenue from **other taxes and fees** will increase in 2007 and 2008 in line with growth of the gross domestic product and preserve its 1.2% share of GDP. The proposed national budgets for 2007 and 2008 project that the share of **EU funds** available to Slovenia will annually amount to about 1.8% of projected GDP.

7.2 General government expenditure

7.2.1 State budget

*According to the estimation submitted with the draft national budget for 2007 and 2008, the total **state budget expenditure in 2006** will amount to approximately SIT 1,840 bn.* In comparison with the state budget expenditure for 2005 it will increase by 4.2% in real terms. With minor structural corrections it is expected to be generally lower by approximately SIT 17 bn than the expenditure projected under the adopted national budget for 2006.

The share of state budget expenditure in 2006 will amount to 26.1% GDP, which is 0.1 p.p. more than in 2005. In 2006, the share of funds for capital expenditure and capital transfers in GDP in **the structure of state budget expenditure** will increase

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[36] By reducing tax rates by individual income tax brackets from 3.0%, 6.3% and 11.8% in 2006 to 2.3%, 4.7% and 8.9% in 2007 and to 1.1%, 2.3% and 4.4% in 2008. In 2009 the tax will be entirely abolished.

[37] According to the proposal, the tax rate will be reduced from the present 25% to 23% in 2007 and to 22% in 2008.

[38] The proposal is to abolish tax relief in the amount of 20% of the amount invested in tangible fixed assets (with the exception of passenger cars) and in intangible fixed assets, and to reduce the tax relief for investment in equipment from 20% to 10%.

[39] Also proposed are changes to the tax base where the tax expenditure category includes part of provisions, the total calculated amount of wages and other employment-related payments and the expenditures arising from the revaluation.

in comparison with the preceding year (by 0.5 p.p.), as will the share of expenditure on goods and services (by 0.2 p.p.). The share of funds for subsidies in GDP will remain at the 2005 level. The share of transfers to individuals and households, funds earmarked for wages, contributions and other personnel expenditure in government bodies, the share of funds for interest payments and the share of transfers to public institutions will drop by 0.1 p.p. each in 2006. Further, the share of transfers to the pension fund in GDP will drop by 0.2 p.p. Payments to the EU budget are estimated to reach 1.1% of GDP in 2006, which is 0.1 p.p. more than in 2005.

Table 16: **Structure and share of state budget expenditure by economic classification in gross domestic product, in %**

	Structure, %				Share in GDP, in %			
	2005	2006*	2007**	2008**	2005	2006*	2007**	2008**
TOTAL EXPENDITURE	100.0	100.0	100.0	100.0	26.0	26.1	25.5	25.0
Current expenditure	27.3	26.6	27.1	27.5	7.0	7.0	6.9	6.9
Wages and other personnel expenditures in government bodies	13.0	12.5	12.7	12.3	3.4	3.3	3.2	3.1
Expenditure on goods and services in government bodies	8.6	9.3	9.5	10.0	2.2	2.4	2.4	2.5
Domestic and foreign interest payments	5.1	4.5	4.2	4.1	1.3	1.2	1.1	1.0
Current transfers	60.7	59.3	56.3	56.4	15.9	15.4	14.4	14.1
Subsidies	4.9	5.1	5.4	6.1	1.3	1.3	1.4	1.5
Transfers to individuals and households	13.0	12.7	12.0	11.7	3.4	3.3	3.1	2.9
Transfers to public institutions	21.2	20.8	20.8	20.5	5.5	5.4	5.3	5.1
Transfer to pension and disability insurance	15.0	14.3	14.4	14.5	3.9	3.7	3.7	3.6
Capital expenditure and transfers	8.1	10.1	12.7	11.9	2.1	2.6	3.2	3.0
Payments to the EU budget	4.0	4.0	3.9	4.2	1.0	1.1	1.0	1.0

Source of data: Ministry of Finance, SORS, calculations by IMAD (calculations of shares in GDP take into account the revised GDP as of 15 September 2006).
Notes: *Estimated state budget expenditure for 2006 submitted with the draft amendments to the state budget for 2007 and the draft state budget for 2008.
**According to the draft amendments to the state budget for 2007 and the draft state budget for 2008.

The Government submitted to the National Assembly the draft amendment to the state budget for 2007 and the draft state budget for 2008. According to the **draft amendments to the state budget for 2007** the proposed state budget expenditure is SIT 1,938.1 bn (EUR 8,087 m), which is nominally 5.3% more than in 2006. Its share in GDP is forecast to reach 25.5% of GDP, which is 0.6 p.p. less than in 2006. In the structure of expenditure of the draft state budget for 2007 there will be an increase in shares of capital expenditure in GDP (by 0.6 p.p.) and for subsidies (by 0.1 p.p.). The reduction in the shares of expenditure in GDP will continue in 2007 by 0.1 p.p. for wages, contributions and other personnel expenditure, for interest payments and transfers to public institutions, and by 0.2 p.p. for transfers to individuals and households (legal amendments to the rules on valorisation). The foreseen changes to the financing of municipalities will cause a reduction of transfers from the state budget to local government budgets by 0.7% of GDP, which will be the most significant reduction of state budget expenditure in 2007. The shares of

expenditure for goods and services and of transfers to the pension fund in GDP will not change in 2007 in comparison with the preceding year. According to the ***draft state budget for 2008*** the proposed expenditure is SIT 2,023.8 bn (EUR 8,445 m), which is nominally 4.4% more than in 2007. The share of state budget expenditure in GDP will amount to 25.0%, which is 0.5 p.p. less than in 2007.

7.2.2 Local government budgets

*In comparison with GDP, estimated local government budget expenditure **in 2006** is 5.3%, it is projected to remain at the same level **in 2007**, while **in 2008** its growth is foreseen to drop and its share to fall to 5.1% of GDP.* In 2006 local government budget expenditure is estimated to amount to about SIT 375 bn, which is 11.3% more in real terms than in the preceding year. Capital transfers and capital expenditure, subsidies and expenditure on goods and services are estimated to rise faster than the total expenditure in 2006, while other local government budget expenditure will rise slower. Local government budget expenditure (4.6%) is projected to grow at a slightly lower real rate in 2007 and to become even slower in 2008 (1.7%). Further, fast growth of capital expenditure and capital transfers and for subsidies is expected in 2007.

7.2.3 Pension and disability insurance

In 2006*, expenditure on pensions and other benefits granted by the Pension and Disability Insurance Act (excluding health insurance contributions for pensioners) will increase by 3% in real terms in comparison with 2005, while its share in GDP will remain the same as in 2005 at 12.1%.* The moderate growth in the number of pensioners (2% in 2007 and 1.9% in 2008) will, with regard to the present pension legislation and projected macroeconomic projection, annually reduce the share of expenditure on compulsory pension and disability insurance in GDP by 0.1 p.p. **in 2007 and 2008**.

7.2.4 Compulsory health insurance

*The estimated expenditure on compulsory health insurance **in 2006** will experience real growth of 4.1% in comparison with the preceding year, thus amounting to 6.4% of GDP* (0.1 p.p. more than in the preceding year). The statutory rights derived from compulsory health insurance have not undergone considerable changes in 2006, while several activities controlling expenditure on medicines and rationalising the implementation of health programmes are under way. In comparison with the preceding year, expenditure on health services in 2006 will grow by 3% in real terms while expenditure on medicines will grow by 3.6% in real terms. 2006 saw a halt to the trend of the rapid growth of sickness benefit expenditure, which even dropped by 1.4% in real terms.

*According to projections from the Health Insurance Institute (HII) Financial Plan, the share of expenditure for compulsory health insurance in GDP will decrease further, namely by 0.3 p.p. in **2007** (to 6.1% of GDP), which is the lowest level of the share of expenditure on health insurance in the last ten years.* Such a low percentage was reached in Slovenia in the 1995 to 1997 period. The forecasts for 2007 project that resources for compulsory health insurance this year will nominally rise by only 3.6%. The programme thus outlined will require accelerated activities for further

rationalisation of expenditure in compulsory heath insurance in 2007. In *2008* the share of expenditure on compulsory health insurance in GDP will be reduced even further, namely to 6.0% of GDP. In the next few years, the projected modest growth of public finance expenditure in compulsory health insurance will imply growing pressure on the increased private financing of health care.

7.3   General government deficit

*According to the **2006** consolidated general government revenue and expenditure of the Ministry of Finance, general **government deficit**[40] is estimated at 1.1% of GDP.* According to consolidated general government revenue and expenditure, general government revenue in 2006 will reach 43.7% of GDP, which is 0.4 p.p. more than in 2005. With the simultaneous increase in the share of estimated general government expenditure by 0.4 p.p. to 44.8% of GDP, the general government deficit will remain at the same level as in 2005.

Table 17: **Consolidated general government revenue and expenditure according to the GFS-IMF methodology, as a % of GDP**

	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
General government revenue	42.7	40.6	42.6	42.8	43.3	43.7	43.2	42.5
General government expenditure	44.0	43.5	44.0	44.1	44.4	44.8	44.1	43.3
General government surplus (+), deficit (-)	**-1.3**	**-2.9**	**-1.4**	**-1.3**	**-1.1**	**-1.1**	**-0.9**	**-0.8**

Source of data: Ministry of Finance, Public Finance Bulletin, for 2007 and 2008. General government account upon the proposed amendments to the state budget for 2007 and the proposed state budget for 2008, October 2006, SORS, calculations by IMAD.

*According to the projection based on the proposed state budgets for 2007 and 2008, the **general government deficit** of consolidated general government account will begin to decrease **after 2006**.* After the projected reduction in the share of general government revenue in these two years by 1.2 p.p. (from 43.7% of GDP to 42.5% of GDP in 2008) and with the concurrent decrease in the share of general government expenditure in the same period by 1.5 p.p. (from 44.8% of GDP in 2006 to 43.3% of GDP in 2008), the general government deficit will amount to 0.9% of GDP in 2007 and to 0.8% of GDP in 2008.

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[40] The general government deficit is defined as the difference between consolidated revenue and the expenditure of the state and local budgets and the pension and health funds.

Box 6: **Revision of the main aggregates of the general government sector, 2002-2005**

In September 2006 the SORS published revised data on the main categories of revenue and expenditure of the general government sector and on the current general government deficit for the 2002-2005 period, which implies a further methodological harmonisation with the European System of Accounts 1995 and is the second evaluation of general government aggregates this year.

In its second estimate, the SORS estimated the general government sector deficit in 2005 at SIT 92.8 bn or 1.4% of GDP, which is 0.4 p.p. less than in the first estimate in April 2006 (1.8% of GDP) and 0.9 p.p. less than in 2004 (2.3% of GDP). The reduction of the estimated general government sector deficit was primarily influenced by the estimate of the accounted corporate income tax, which was substantially higher than the first estimate when data used in the assessment of corporate income tax were still not available according to the financial statements for 2005. A revised estimation of the accounting value of corporate income tax was also made for other years, which reduced the general government sector deficit in 2002 from the previously estimated 2.7% of GDP to 2.5% of GDP, while in other years the impact of the revision was estimated at less than 0.1 p.p. and did not influence a change in the amount of the deficit expressed as a share of GDP.

The total revenue of the general government sector in 2005 is estimated at SIT 3,030bn SIT, which is nominally 7% more than in 2004, its share in GDP having risen by 0.7 p.p., namely from 45.1% of GDP in 2004 to 45.8% of GDP in 2005. The growth of total expenditure of the general government sector in 2005 was slightly slower than that of total revenue. It increased nominally by 5% and reduced its proportion of GDP by 0.2 p.p., from 47.4% of GDP in 2004 to 47.2% of GDP in 2005.

Table 18: **General government sector revenue and expenditure, 2002-2005**

	2002	2003	2004	2005
				SIT m
Revenue	2,435,056	2,631,789	2,830,938	3,030,061
Expenditure	2,571,112	2,792,863	2,974,940	3,122,841
Surplus/deficit	-136,056	-161,074	-144,002	-92,780
Central government	-118,473	-148,667	-133,993	149,098
Local government	-9,765	-4,016	-5,352	3,287
Social security funds	-7,818	-8,392	-4,658	53,031
				in % GDP
Revenue	45.5	45.3	45.1	45.8
Expenditure	48.0	48.0	47.4	47.2
Surplus/deficit	**-2.5**	**-2.8**	**-2.3**	**-1.4**
Central government	-2.2	-2.6	-2.1	-2.3
Local government	-0.2	-0.1	-0.1	0.0
Social security funds	-0.1	-0.1	-0.1	0.8

Source of data: SORS, first published on 29 September 2006.

7.4 Public finance flows between Slovenia and the EU

In September, the European Commission first published data on all finance flows
between Slovenia and the EU budget for 2005, which are presented below. Further,
the available data on financial flows between the Slovenian and EU budgets are
presented for the first nine months of 2006.

7.4.1 Financial flows between Slovenia and the EU budget in 2005

According to the European Commission's data, Slovenia received SIT 87.8 bn (1.3%
of GDP) *from the EU in 2005*, which was 30.1% more than in 2004. In 2005, Slovenia
received most of such funds under the agriculture heading, with these amounting to
107.7% more than in 2004. Most of these funds were received for rural development
(67.6%) and direct aid[41] (24.1%). Slovenia received 13.8% more than in 2004 for
internal policies; similarly as in 2004 most funds were earmarked for participation in
the programme of establishing the EU's external border (61.8% of these funds), and
less for research and technological development (17.1%) and education (the
programmes Socrates, Leonardo da Vinci and Youth; 9.4%). Drawing resources from
the structural funds was more successful than in 2004, too, for this increased by 84.4%.
As much as 91.8% of the funds drawn from the structural funds were acquired for the
implementation of the 1st objective, most of these were drawn from the European
Regional Development Fund (SIT 7.2 bn). In 2005, 11.5% more funds were received
for the pre-accession strategy and 10.8% less from compensations than in the preceding
year (Allocation of 2005 Expenditure by Member State, 2006, pp. 72-73).

*In 2005, **Slovenia contributed** SIT 65.9 bn (1.0% of GDP **to the EU budget**), which
was SIT 7.2 bn less than projected in the amended budget for 2005 and 61.3% more
than the amount paid in 2004.* In 2005, Slovenia paid more funds to the EU budget

Table 19: **Funds acquired from the EU budget in 2004 and 2005**

	SIT million	
	2004	**2005**
Agriculture	11,838	24,587
Structural Actions	5,847	12,821
Structural Funds	5,847	10,784
Cohesion Fund	0	2,037
Internal Policies	13,875	15,792
Administrative expenses	1,342	1,630
Pre-accession strategy	9,370	10,448
Compensations	25,186	22,478
TOTAL	**67,458**	**87,756**

Source of data: Allocation of 2005 Expenditure by Member State, 2006, pp. 72-73.

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[41] In the 2004-2013 period, the share of direct aid from the EU will increase (in 2004 it amounted to 25% of the sum
received in this year by old member states, in 2013 it will reach 100%); on the other hand, supplements from the
national funds will decrease (from 60% in 2004 to 0% in 2013). As early as in 2007 our farmers will receive
payments equal to those in the old member states; 40% of these will be provided by the EU and 60% by Slovenia
(Treaty of Accession, 2003).

Figure 14: **Structure of funds acquired from the EU budget in 2004 and 2005**

Source of data: Allocation of 2005 Expenditure by Member State, 2006, pp. 72,-73.

from all resources than in 2004 with the structure remaining largely unchanged. Payments from gross national income, which represent the main share of payments, grew by 53.6%, payments from value-added tax rose by 75.3%, payments from the traditional own resources[42] by 129.3%, and payments for the UK rebate by 44.1% (Allocation of 2005 Expenditure by Member State, 2006, p. 112). With regard to the amended budget for 2005, all payments with the exception of customs duties were effected on a slightly lower level than planned, especially due to the transfer of the EU budget surplus from 2004 to 2005, the differences between the preliminary and later estimates of nominal gross national income and the adjustment of balances of value-added tax.

Table 20: **Payments of Slovenia to the EU budget in 2004 and 2005**

	SIT million	
	2004	**2005**
Payments based on VAT	6,015	10,544
Payments for the UK rebate	3,858	5,560
GNI based payments	28,014	43,015
Traditional own resources	2,948	6,758
TOTAL	**40,835**	**65,877**

Source of data: Allocation of 2005 Expenditure by Member State, 2006, pp. 112.

In 2005, Slovenia continued to be a net beneficiary of EU budget funds by both definitions of the net budgetary balances calculation. According to the accounting definition[43], Slovenia was a net recipient of funds to the amount of SIT 21.9 bn (SIT

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[42] The biggest share of payments from the traditional own resources consisted of customs duties (SIT 6.6 bn or 97.9 TOR), with sugar levies (SIT 120 million) and agricultural duties(SIT 24 million) representing but a minor share. Slovenia began to pay sugar levies in 2005.

[43] The accounting definition is based on a calculation of the difference between all revenue and expenditure of an individual member state in the EU budget.

26.6 bn in 2004), while according to the definition based on the 'UK correction[44] it was a net recipient of funds to the amount of SIT 24.3 bn (SIT 26.3 bn in 2004). Besides Slovenia, net recipients in 2005 were the other new members states as well as Spain, Greece, Ireland and Portugal.

7.4.2   Financial flows between the national budget of Slovenia and the EU budget in the first nine months of 2006

*According to the Ministry of Finance, in the first nine months of 2006 Slovenia received from the EU budget SIT 51.4 bn and **paid** SIT 53.5 bn into it[45].* Similarly as last year, in the first nine months of this year Slovenia was a net contributor to the EU budget[46]. In the first nine months of 2006, Slovenia was most successful in drawing funds from the common agricultural policy (65.3% realisation regarding the adopted budget). With regard to 2005, this period saw the increased drawing of funds from structural funds and the cohesion fund[47]. The biggest difference from the funds projected in the budget for 2006 is that of the low inflow of funds from the EU pre-accession funds and from the internal policy. Further, the funds from compensations for NMS were lower than in the preceding year; however, they are continuing to drop in accordance with the Copenhagen package from 2002.

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[44] The definition based on the 'UK correction' also used by the European Commission is derived from the method used for calculating the 'correction of budgetary imbalances in favour of the United Kingdom'. The net position calculated by the European Commission considers the data based on cash flow and current allocated expenditure (i.e. expenditure without administrative expenditure, which amounted to SIT 1.6 bn for Slovenia in 2005), while national payments are calculated on the basis of adjusted national contributions not including the traditional own resources for these are considered to be pure EU revenues.

[45] The 2006 budget foresees inflows from the EU budget amounting to SIT 107.7 bn and outflows to the amount of SIT 75.5 bn.

[46] According to the Ministry of Finance, most funds in 2005 were received in August and December, the only two months when the country's net position was positive.

[47] In the first nine months of 2006, Slovenia drew 23.5% more funds from the structural funds than in the whole 2005, while the funds received from the cohesion fund doubled in these nine months in comparison with 2005.

8 Monetary developments and the capital market

8.1 Monetary developments
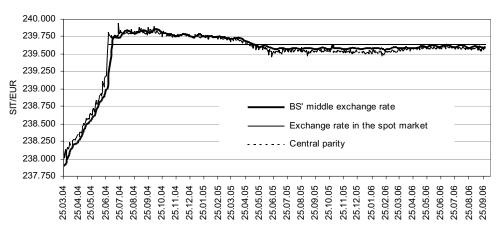
Monetary policy developments in 2006 were marked by the fact that Slovenia will, as the first country among the new EU member states, join the European Economic and Monetary Union in January 2007. The achievement of this goal has critically hinged on the sustainable lowering of inflation in previous years. Slovenia first fulfilled the Maastricht inflation criterion in November 2005 and has complied with it ever since (see Chapter 5). The sustainable disinflationary process has been effected primarily by the Bank of Slovenia's exchange rate stability policy and the prudent macroeconomic policies of the government.

*In the area of **monetary policy instruments**, the Bank of Slovenia carried out a speedy adaptation to the ECB's instrument structure.* The main measures in this area include the progressive reduction of foreign currency bills, whose share in the BS' total offer of bills is decreasing, and the replacement of temporary purchases of foreign exchange with permanent purchases. This also means that, contrary to previous years, when the target level of the nominal exchange rate was primarily ensured through foreign exchange swaps, the exchange rate in 2006 was regulated using other instruments instead. The quantity of temporarily purchased foreign exchange became negligible by the end of September 2006. In terms of quantity, fewer transactions were needed in 2006 than in previous years to control the exchange rate because the net inflow of the private sector's foreign exchange eased off and reduced its pressure on the exchange rate. As a result of these changes to the structure of instruments, the stock of tolar bills and the importance of the new long-term deposit instrument increased considerably due to the stronger need to absorb the tolar's excess liquidity. The final quarter of 2006 will be the last to see the predominant use of instruments that are specific to the Slovenian monetary market, while monetary policy in this period will be devoted to maintaining an essentially fixed exchange rate. From January 2007, the use of monetary policy instruments in the Slovenian monetary market will be a mere reflection of the use of the ECB's instruments.

The tolar's nominal exchange rate *has fluctuated in a narrow band around the central parity throughout the period of Slovenia's participation in the exchange rate mechanism ERM II. The central parity level was also confirmed as the tolar/ euro conversion rate.* After Slovenia entered the ERM II, the euro's exchange rate hovered slightly above parity; since May 2005 it has lingered slightly below parity. Throughout this period, its divergence from parity has been minimal. The decision of EU institutions that Slovenia was ready to adopt the euro on 1 January 2007 finally sealed the currency conversion rate at the level of the central parity that was determined upon Slovenia's entry to the ERM II (at SIT 239.640 for EUR 1). This also ultimately fixed the expectations regarding the nominal exchange rate and thus eliminated one of the key risk factors to exchange rate stability in the ERM II. Otherwise, uncertainty surrounding the changeover of currencies may cause undesired exchange rate fluctuations. As this uncertainty no longer exists, there are also no major reasons for any significant divergence of the euro's market nominal exchange rate from the central parity.
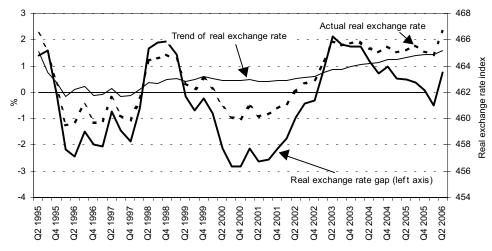
Figure 15: **Stabilisation of the tolar/euro exchange rate after entering the ERM II**

Source of data: BS.

The real exchange rate *has been hovering close to its equilibrium value.* We re-examined the size of the real exchange rate's current divergences from its equilibrium values by decomposing the real exchange rate into its trend component and its cycle component.[48] Figure 16 shows that the real exchange rate hovered close to its long-term equilibrium values in 2006. After witnessing considerable oscillations in 1999-2002, attributable to the appreciable accommodation of monetary policy and the implicit goal of an undervalued real exchange rate, it is encouraging to see that the

Figure 16: **Dynamics of the real exchange rate and the real exchange rate gap**

Source of data: BS; Calculations by I. Masten.
Note: growth of the real exchange rate index indicates growth of the tolar's value, and vice versa.
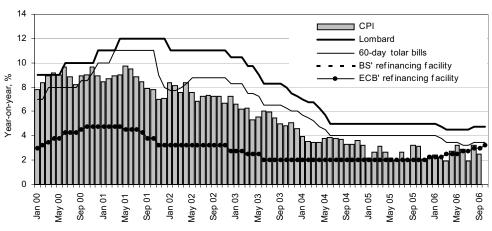
[48] The trend-cycle decomposition of the real exchange rate was done using the unobserved component method and estimated using a method developed by Morley, Nelson and Zivot (2003). The estimates show that the equilibrium appreciation rate of the real exchange rate totals between 0.75% and 1% per annum, with slightly higher fluctuations in certain periods.

exchange rate was approximating its equilibrium value throughout the period of Slovenia's participation in the ERM II and did not diverge from it significantly in 2006. Based on this evidence, we can conclude again that the disinflationary process in Slovenia was thereby brought into equilibrium and that the lowering of inflation to a level compliant with the Maastricht inflation criterion has been sustainable.

The process of harmonising the BS' interest rates with the ECB's leading interest rates continued in the second half of 2006, accompanied by a halt in the decline of the BS' refinancing terms, which joined the rising trend of interest rates that has been present in the EMU for quite a while. In October 2006 the ECB continued to raise its refinancing rate, which climbed to 3.25%. The difference between the ECB's main refinancing interest rate and the main instrument used by the BS to absorb excess liquidity – 60-day tolar bills – was thereby reduced from 50 to 25 basis points. The Bank of Slovenia responded to the ECB's measure only by cutting its interest rate on the buy/sell foreign exchange 7-day swap from 0.75% to 0.50%. With this measure, the BS kept its refinancing terms unchanged at 3.75%[49]. The BS' refinancing terms were raised to 3.75% in August, having climbed by 50 basis points from the previously low rate of 3.25% that applied from March to May 2006. The difference between the ECB's and the BS' refinancing costs thus narrowed from 75 to 50 basis points. The gap between the cost of acquiring liquidity by borrowing abroad and the return on the risk-free depositing of those funds at the Bank of Slovenia – the BS' interest rate on 60-day tolar bills – persists at the level of 25 basis points that was achieved in June 2006. Before that, the return on depositing excess tolar liquidity was even somewhat higher than the cost of acquiring it by borrowing abroad, although the existence of a certain risk premium and the fact that Slovenian commercial banks still cannot directly access the ECB's liquidity indicate that profitable opportunities for arbitrage between monetary markets and inflows of speculative capital did not exist.

Figure 17: **Dynamics of the BS' and the ECB's leading interest rates**

Sources of data: BS, ECB, SORS.

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[49] The BS' refinancing rate is defined as the sum of the ECB's interest rate on the main refinancing operations and the BS' annual buy/sell 7-day foreign exchange swap rate.

The growth of monetary aggregates *remains within normal limits*. The growth rate of the M1 monetary aggregate persists above 10%, supported by vigorous economic activity. The growth rates of the M2 and M3 aggregates remain much lower, which we attribute to the outflow of savings to alternative investment schemes provided by domestic and foreign capital markets[50].

In the period prior to adopting the euro *we do not expect any critical changes in the key* ***monetary policy objectives*** *due to entry to the EMU.* The BS is above all expected to finalise technical preparations for the adoption of the euro. We also expect that the current difference between the BS' interest rate levels and the BS' main refinancing rate will remain unchanged until the euro is adopted. For the time being, interest rates in Slovenia are still higher than in the euro area, which is also justified by the fact that Slovenia is currently at or close to its peak of the business cycle, which adds to the stabilisation effect of exchange rate stability on inflation. Upon Slovenia's entry to the EMU, the BS' refinancing costs will be fully harmonised with the ECB's costs. Given the current circumstances, this means that we can expect an additional decrease in the BS' refinancing terms by 0.5 p.p. This will happen as a result of the foreign currency swap losing its importance as the instrument for obtaining liquidity in the domestic currency, i.e. tolar liquidity at the moment ant euro liquidity later on.

Once the euro is adopted, the conduct of monetary policy *will change significantly as it will no longer be under pressure to target the nominal exchange rate. From the vantage point of the Slovenian economy, it will in effect be determined exogenously by the ECB.* As this will give rise to markedly different terms of operation of the Slovenian monetary market, it will also create the need for a closer monitoring of the relevance of the ECB's constellation of interest rates to the dynamics of the Slovenian business cycle. The European Central Bank's key policy objective is to keep inflation rates in the EMU below 2% over the medium term. In the event that the dynamics of the Slovenian inflation are similar to that of the average EMU inflation we can expect that the ECB's measures will also have the appropriate stabilising effect on Slovenian inflation. Any larger divergences will call for close scrutiny of the causes of such divergence and application of alternative adjustment mechanisms operating primarily through fiscal policy.

8.2   Financial flows and the capital market[51]

8.2.1   Household savings in banks

Household savings in banks *strengthened slightly in the* ***first eight months of 2006*** *over the same period of 2005, nevertheless they remain at a relatively low level.* This development can mainly be attributed to the low interest rates that barely allow savings to maintain their real value; the second significant reason is the diversification of the offer of other financial products.
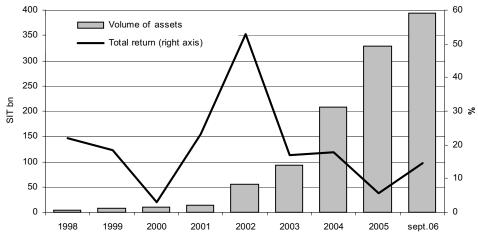
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[50] Note that the analysis of the monetary aggregates' dynamics was made more difficult by the break in the data series that occurred in 2005 when the national definition of monetary aggregates was harmonised with the ECB's definition.

[51] The Bank of Slovenia adopted a reporting methodology in accordance with the ECB. From 2005 onwards data are therefore not fully comparable with data for previous periods.

In the eight months to August, household savings rose by 3.0%, which is 0.6 of a percentage point more than in the same period of 2005; foreign currency deposits grew faster than tolar deposits. Net flows in the period amounted to SIT 77.4 bn and exceeded last year's comparable period by almost one-third. The slightly faster growth of foreign currency deposits (3.6%) is probably attributable to the early exchange of tolar savings into euros and partly to the narrowing differences between interest rates on domestic and foreign currency deposits. All types of foreign currency deposits were on the increase, with the biggest rise, i.e. 6.9%, being seen in the first eight months of the year in short-term deposits with an agreed maturity which contributed 2.8 p.p. to the foreign currency deposit growth. Rather different dynamics were seen in tolar deposits (2.7%). Overnight deposits continued to increase, achieving a growth rate of 8.5% in 2006, while short-term as well as long-term deposits recorded a decrease. Long-term deposits are experiencing an ongoing decreasing trend that can be attributed to the gradual net release of assets from the National Housing Savings Scheme as well as to the narrow differences between interest rates on short- and long-term deposits.

*The increase in the volume of assets managed by domestic-managed **mutual funds** continues to rise and their returns have begun to grow again.* At the end of September, their assets reached SIT 393.4 bn thus exceeding the value achieved at the end of 2005 by almost one-fifth. Until August 2006, net flows lagged behind those recorded in the comparable period of 2005 but September saw a substantial net flows increase achieving SIT 11.3 bn, the highest value ever recorded[52]. Net flows to domestic-managed mutual funds amounted to SIT 29.7 bn in the first three quarters of the year, i.e. an almost one-tenth increase over the same period of 2005. According to some estimates, foreign-managed mutual funds, which are rapidly expanding their

Figure 18: **Volume of assets in mutual funds at the end of the period and their year-on-year returns**

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

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[52] The bulk of net inflows was recorded by one of the funds with a portfolio containing a relatively high proportion of securities of a company which listed its shares on the stock exchange at the beginning of October, which had a positive effect on the value of the mutual fund's points.

offer in Slovenia, are recording growing net inflows by Slovenian investors. After a decrease in the year-on-year yield of domestic-managed mutual funds in the previous year, yields resumed their upward movement in Q2 and stood at 14.5% at the end of September, which was more than five times the average interest rate of September 2005 for tolar deposits with an agreed maturity of over one year.

*Because of the relatively limited investment opportunities available in the domestic capital market, the **investment structure of mutual funds** has been changing in favour of investing abroad.* At the end of August, such investments reached almost half of the total value of assets of mutual funds managed by domestic administrators, while the level achieved in the previous year was less than one-third of that value. Over 80% of investments abroad are investments in foreign shares; the rest is invested in foreign bonds, funds and money market instruments. The rapid growth of investments abroad is generated by the existing funds that have been restructuring their investments and largely by the newly established mutual funds that have been focusing on the foreign capital market since their establishment.

8.2.2 Loans

The lending activity of banks continued to strengthen in 2006. The volume of foreign currency loans continued to increase substantially, while the volume of tolar borrowing is more or less stagnating since only households take out modest tolar loans. Corporate, non-monetary financial institutions and household borrowings are on the increase. Due to the more favourable direct financing through the capital market, the government has even registered a net repayment of loans taken out from domestic banks.

Net flows of bank loans to the non-banking sector amounted to SIT 610.9 bn in the ***eight months to August***, *2.4-times more than in the same period of 2005*. Exceptionally high growth was also caused by the government's net loan repayments in the last year; total net lending flows to companies, NFI and households only
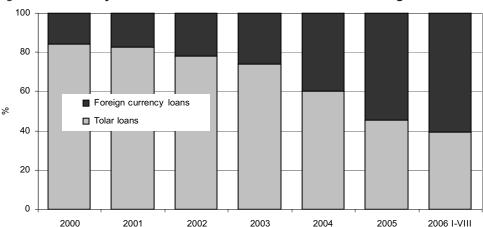
Figure 19: **Currency structure of total bank loans to the non-banking sector**

increased by slightly over 40%. As much as 98.8% of these were foreign currency loans, which remain more favourable than tolar loans even though interest rates have been increasing gradually. At the end of August, foreign currency loans accounted for as much as 60.6% of banks' total loans to the non-banking sector, thereby exceeding the end-2005 figure by 6 p.p.

Almost three-quarters of total net lending flows in first eight months of 2006 were loans raised by **enterprises** *and* **NFI** *which amounted to SIT 438.3 bn, thus exceeding the value from the same period of 2005 by almost 50 percent.* The biggest increase in the first eight months of 2006 was recorded in the volume of foreign currency borrowings by NFI, constituting a more than 3-fold increase over the same period of 2005, nevertheless representing just over 15% of the total net foreign currency borrowings of enterprises and NFI. The growth of net foreign currency borrowing by enterprises has been slowing down since May and reached 38.0% in August. On the other hand, enterprises and NFI repaid tolar loans in a net amount of SIT 17 bn. Following the slowdown in net borrowing abroad by enterprises and NFI recorded at the beginning of the year, a robust pick-up was observed in the last three months; in this period, net loans amounting to SIT 68.2 bn were taken out while the total net flows in the first seven months to July rose to SIT 96.7 bn, which is over 50% more than in the same period last year. Given the persisting low interest rates that do not encourage savings in banks, the latter chose other resources to finance their extensive lending activities. Loans provided by foreign banks continue to be the most important source of financing domestic banks' lending activity, since domestic banks took out such net loans worth SIT 228.1 bn in the seven months of this year, which is nevertheless an almost one-tenth decrease over the same period last year. If the decrease in banks' net borrowing abroad continues in the future, we will probably be able to conclude that banks anticipate a gradual slowdown of lending activities in relation to interest rate increases.

Household borrowing has increased also in 2006. In the eight months to August, households took out loans from domestic banks in a net amount of SIT 177.7 bn, representing an almost one-third increase over the same period of 2005. In contrast to enterprises and NFI, household tolar borrowing picked up; in terms of value, however, the taken out foreign currency loans are more significant than tolar loans as their net flows achieved SIT 151.9 bn in the eight months to August, representing over 85% of total net flows in household loans and exceeding last year's comparable period by more than one-fifth. The net flows of tolar loans amounted to SIT 25.9 bn in the first eight months and were 2.6-times higher than in the same period a year ago. Such substantial growth can mainly be attributed to the net repayment of tolar consumer loans in 2005; at the year-on-year level, the net flows of other tolar loans are decreasing in 2006. The structure of loans by purpose shows that over 60% of total net flows accounted for housing loans that amounted to SIT 107.5 bn and thus exceeded the value from the same period of 2005 by almost 40%. The level of consumer borrowing of households in the first eight months of 2005 (on account of the mentioned net repayment) was very modest (net flows achieved the value of SIT 14.2 bn); in 2006, however, such a net borrowing of households picked up while net flows amounting to SIT 36.4 bn were 2.6-times higher than the net flows from the comparable period of 2005.

8.2.3 Interest rates

*The sliding of all **interest rates** slowed down in 2005 and was followed by a reversed trend in 2006.* Interest rates on foreign currency deposits and foreign currency loans started to rise, largely as a result of raising the ECB's reference interest rate that started at the end of 2005 and continued throughout 2006. In the first eight months of the year, the biggest rise (by 0.9 p.p.) was observed in interest rates on new housing loans with a foreign currency clause that averaged out at 5.4% in August. On the other hand, interest rates on foreign currency deposits in this period rose by approximately 0.5 p.p., standing at the level of 2.2%. More incoherent trends were observed in tolar interest rates – lending rates were on a predominantly upward trend while deposit interest rates continued their gradual decrease. In the eight months, deposit interest rates dropped by 0.5 p.p. to roughly 2.5%. The sharpest rise in lending interest rates was seen in interest rates on new long-term tolar consumer loans; in the eight months to August they climbed by 1.5 p.p. to 7.2%. A considerably smaller increase was recorded in interest rates on short-term consumer loans and long-term loans for investment in gross fixed capital formation. In this period, they climbed by 0.4 p.p. to 6.0% and 5.6%, respectively.

Figure 20: **Movements of selected interest rates**

Source of data: Bank of Slovenia.

The period of decreasing interest rates is coming to an end, as also shown by the yield curve despite its low level of representativeness on account of the shallow Slovenian interbank money market. The yield curve composed of interbank interest rates (SITIBOR) of different maturities has been gradually transforming from being slightly downward to upward sloping.

8.2.4 Securities market

*The negative trends observed in **indices on the Ljubljana Stock Exchange** in 2005 continued in the first quarter of 2006, but started rising sharply at the beginning of the second quarter.* The main index of the Ljubljana Stock Exchange increased by

over one-quarter in Q2 and Q3. The turning point was reached in spring when a foreign fund made a bid to purchase almost 25% of the shares of a company listed on the Ljubljana Stock Exchange, leading to a better atmosphere on Slovenia's capital market that was also supported by the good business results of companies listed on the stock exchange.

Turnover on the Ljubljana Stock Exchange totalled SIT 696.0 bn in the first nine months, going up by 80% over the same period of 2005. Excluding the market maker trading segment (MMTS), turnover on the Ljubljana Stock Exchange totalled SIT 312.9 bn, representing a slight decrease over the same period of 2005. This decrease is attributable to a drop in bond trading which recorded a turnover fall of over one-third on the semi-official market, while the decrease on the official market was close to 90% largely due to the relocation of bond trading from the official market to the MMTS. On the other hand, trading in shares almost doubled while trading in shares of investment companies was up by over one-tenth in the first three quarters of the year.

The volume of total market capitalisation on the Ljubljana Stock Exchange reached SIT 3,595.9 bn at the end of September, which is 17.4% more than at the end of 2005. Unlike in 2005, when market capitalisation dropped by 1.3%, mostly due to the increasing value of shares, the market capitalisation of shares enjoyed its strongest growth in 2006, rising by a solid one-quarter in the first nine months of the year while the rise in the market capitalisation of bonds slowed down considerably in 2006 and achieved 8.8% (22.5% in the same period of 2005). Market capitalisation is expected to increase slightly at the end of the year, irrespective of developments on the Ljubljana Stock Exchange since the shares of one of the companies in majority state ownership – the second biggest company listed on the Ljubljana Stock Exchange in terms of market capitalisation – were listed on the stock exchange in October.

9 Economic outlook for the period beyond 2008

The forecasts of economic trends are based on the implemented economic policy measures and adopted budgets. The effects of measures proposed as part of the planned reform that have not been adopted as laws or other regulations yet are not taken into account in the baseline forecast. Based on a comparison of economic projections for 2009-2013, assuming unchanged economic policy measures on one hand and optimal implementation of the measures set out in the Framework of Economic and Social Reforms on the other, it is possible to make a rough estimate of the effects of the comprehensive reform presented below.

In September 2006, the Institute for Economic Research prepared an impact assessment of the adopted Framework of Economic and Social Reforms based on estimates made for government purposes, using an economic model. The assessment is to a large extent consistent with the projections of the target scenario of economic trends for the period until 2013 that was presented in the *Grounds for the Target Development Scenario of Slovenia's Development Strategy* (IMAD, 2005). According to this scenario, the comprehensive implementation of the planned measures will enable a breakthrough to a higher level of development at the time when the reforms begin to produce results. The period of accelerated economic growth, ending around 2010, would be followed by a period of a relative easing of growth at a level of around 5%, which would represent the new level of potential GDP growth provided that the economic and social reforms are carried out optimally.

Table 21: **Key macroeconomic indicators for the 2009-2013 period**

Average annual real growth rates in % (unless otherwise indicated)

	Scenario for 2009-2013	
	Unchanged economic policy	**Target development scenario for SDS**
Gross domestic product	4.0	5.3
Exports of goods and services	8.0	9.1
Imports of goods and services	7.4	8.3
Private consumption	3.3	4.9
Government consumption	2.4	3.4
Gross fixed capital formation	4.8	5.1
Employment, growth in %	0.7	1.1
Unemployment rate, ILO definition, in %	6.4	3.7
Productivity, growth in %	3.3	4.1
Inflation, in %	2.2	2.5

Source of data: IMAD's projections.

10 Risks to realisation of the autumn forecast

Risks to realisation of the IMAD's autumn inflation forecast are similar as in spring. They include potential pressures on consumer price rises arising from the euro changeover at the beginning of 2007 and liberalisation of the electricity market in 2007. However, realisation of these risks is still considered unlikely. The prospects of the euro changeover at the beginning of 2007 exerting an upward risk on inflation are low thanks to the Act on Double Pricing in Tolars and Euros that was put into effect in March 2006 in order to minimise the potential negative effects of the currency changeover on prices. Experience from countries that have already adopted the euro and similarly imposed obligatory dual pricing prior to the changeover confirms the positive effects of such measures. The increase in living costs in these countries was small (around 0.2 p.p.). This risk will be additionally reduced by the unofficial price control ('pricewatch') and the existing competition in many industries. Realisation of the second risk, i.e. a potential increase in inflation due to liberalisation of the electricity market for households on 1 July 2007, is similarly not very probable. In the long run, the final opening up of this market is expected to boost competition as households will be able to choose from among several electricity providers, which will have a positive impact on the price dynamics in this sector. Even in the short run, given the relative electricity prices in Slovenia and the EU, there are no economic reasons for a rise in electricity prices once the market is liberalised. If necessary, however, the government may also resort to imposing some caps on these prices in the transition period until a more competitive market is established to prevent excessive swings in retail electricity prices after July 2007.

If the above risks were to realise despite the low probability of that happening, we estimate that year-on-year inflation in 2007 could exceed the forecast by a maximum of 0.4 p.p. while average inflation would not be more than 0.3 p.p. higher than projected. If the currency changeover were to cause prices to rise despite the adopted measures, and the final liberalisation of the electricity market were to result in higher household electricity prices[53], these effects are expected to be short-lived and to contribute a maximum of 0.4 p.p. to inflation at the annual level.

As already estimated in the spring forecast, the realisation of these risks would have a minor effect on the dynamics of other macroeconomic aggregates. Inflation in 2007, which would be 0.4 of a percentage point higher than projected in the baseline scenario, would affect the dynamics of macroeconomic aggregates marginally. The potential price rise amid the euro changeover and liberalisation of the household electricity market would primarily affect final consumers, while it would have a negligible effect on the costs of businesses and industry. Higher inflation would result mainly in lower real growth of wages and private consumption, which could also dampen GDP growth by a maximum of 0.1 p.p. Repercussions of such a price rise for other macroeconomic aggregates, taking into account the reasons leading to the rise, would be negligible. Given the low response of exports to changes in the real effective exchange rate (the latter would appreciate slightly due to changes in relative prices in Slovenia and the EU), export growth would remain unchanged

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[53] If the household electricity price in Slovenia rose by just 8% after July 2008, it would exceed the price of more than half of the EU countries. The effect of such an increase on inflation would total around 0.2 p.p.

compared to the baseline scenario, as would the growth of gross fixed capital formation.

During the entire period of Slovenia's preparation for euro adoption, one of the risks related to the reduction of interest rates in the process of nominal convergence included the potential rapid acceleration of domestic (particularly private) consumption growth, which would lead to an overheating of the economy and increased inflationary pressures. In its reports published in the last two years, the IMAD has estimated the probability of this risk being realised as low in view of the structure of new loans (where housing loans in particular have been on the increase), the effect of restrictive incomes policy, and the results of some foreign analyses of the correlation between domestic spending and interest rates (also see Spring Report 2004). With regard to the dynamics of private consumption seen in the last two years, this estimate proved to be accurate. Nevertheless, the risk of private consumption growing above the baseline scenario forecast cannot be entirely ruled out, particularly for 2007. Contrary to previous years, however, this acceleration is expected to mainly hinge on the changes in personal income tax legislation rather than the interest rates factor, which is expected to have the opposite effect. We have therefore reassessed the potential impact of increased aggregate demand on inflation. The estimate was made using a bivariant model of cointegrated vector autoregression for inflation and gross domestic product whereby supply shocks are distinguished from demand shocks by applying long-term restrictions allowed by the cointegration analysis. The analysis shows that a 1% quarterly increase in GDP resulting from a net increase in demand above supply would raise inflation in the same quarter by 1.8 p.p. However, this dynamic response of inflation would ease off to 0.9 p.p. in the next quarter and become negligible in subsequent periods. At the annual level, the effect corresponds to a 0.6% rise in inflation. If the increase in demand by 1% of GDP were distributed evenly over the entire year (by 0.25% each quarter), the model's dynamic effects show a rise in inflation in Q1 by 0.45 p.p.. These effects would intensify to 0.7 p.p. later on and ease off after about a year.

11 Comparison of the IMAD's forecasts with forecasts made by other domestic and foreign institutions

In autumn, all forecasting institutions revised their **GDP growth forecasts** *for 2006 upwards, to between 4.2% and 4.7%, and projected that growth will slow down towards 4% by 2008.* The usual variation in economic growth forecasts by fractions of a percentage point is attributable to the different underlying assumptions regarding developments in the international environment and the effects of economic policy, as well as the different times of preparing forecasts and the availability of statistical data in this period[54]. The robust economic growth seen in the first half of the year was underpinned by the more favourable flows in exports and investment activity, however all forecasters agree that these developments tend to have a cyclical character and are strongly linked to the buoyant international environment, particularly in the EU economies, and hence do not signal any reversal in the trends seen over the last few years. The expected deceleration of growth in these two demand categories will namely be the main reason for the projected slowdown in GDP growth in the next two years. In the entire analysed period, the IMAD's forecasts of exports and imports are higher than the forecasts of other institutions. The IMAD also projects stronger growth of investment in 2006, followed by a slowdown in the ensuing two years, which will be more pronounced than projected by the BS. The IMAD's forecast of private consumption growth for 2006 remains unchanged relative to the spring forecast and is slightly lower than the BS' forecast, which was revised upwards. The CCIS' forecast of private consumption is slightly lower than the forecasts of both institutions mentioned above. In 2007, both the BS and the IMAD estimate that the proposed changes of personal income tax legislation will result in higher household disposable income and they accordingly raised the private consumption estimates for 2007, whereas the CCIS expects the growth of private consumption to remain at this year's level. The IMAD's forecasts of government consumption are lower than the forecasts of other institutions for all three years.

The improved economic outlook is matched by slightly higher **employment growth** *forecasts. According to all institutions, the* **survey unemployment rate** *will not decrease in the next two years.* The IMAD's employment forecasts from spring were not revised significantly (the autumn forecasts are 0.1-0.2 p.p. higher), projecting employment to grow by 0.8% or 0.9% in 2006-2008, given the expected buoyant economic growth and the positive effects of some economic policy measures on activity (see Chapter 6.1). Based on the current employment dynamics achieved in the first half of the year, the BS raised its employment forecast considerably for 2006 (by 0.5 p.p. to 0.9%, which is now the same as the IMAD's forecast) and slightly less for the next two years (by 0.2-0.3 p.p., to 0.6% in 2007 and 0.5% in 2008). They estimate that further employment growth in the ensuing years will mainly be the result of employment in the public sector. Given the favourable economic outlook and the projected moderate growth of labour costs, the BS also expects to see an increase in private sector employment, although its growth will be

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[54] The forecasts of the International Monetary Fund do not take into account the national accounts data for 2002-2005, revised in September 2006, and the national accounts data for Q2 of 2006.

restrained by the continued structural shifts in the economy, i.e. the shrinking labour in the traditionally labour-intensive industries. According to the CCIS's forecasts, employment is projected to grow moderately in 2006-2007, by 0.7%-0.8%, especially in the service sector and in small enterprises. In CCIS's estimate, the proposed new tax legislation will not reduce the cost of labour for employers and will continue to remain a barrier to new hiring, hence the estimated survey unemployment rate will not decline either. The IMAD's unemployment rates estimates are slightly lower than the CCIS's forecasts and also more favourable than in spring relative to the higher activity rates, yet the IMAD's expects the survey unemployment rates achieved this year to remain at this level throughout the observed period, while the registered unemployment rate will progressively decline.

The discrepancies between the projected growth rates of **consumer prices** *are minimal. Forecasters estimate that this year's rise in inflation, which exceeds the spring expectations of all institutions, has largely been the result of external impacts. Except for the IMF, all institutions project that inflation will remain at this year's level in 2007 but provide different explanations for this expectation.* Compared to the spring forecasts, the revised average inflation estimates for 2006 of all institutions were almost exclusively based on the higher rises of oil prices in the world markets. The IMAD also expects a slightly higher effect of oil prices on inflation than projected in spring in 2007. The main difference from the previous forecast is the expected raising of various excise duties in 2007. On the other hand, the BS' revision of the inflation forecast for 2007 partly reflects the passing through of energy prices to market-determined prices and the movement of market-determined prices closer to their long-term equilibrium levels following the period of weak growth after EU accession. The BS mainly associates the progressive rising of market-determined prices with the fact that aggregate demand partially exceeds the growth of potential

Table 22: **Comparison of published autumn forecasts of selected economic indicators for Slovenia**

	IMAD			BS			CCIS		IMF	
	2006	2007	2008	2006	2007	2008	2006	2007	2006	2007
								Real growth rates, %		
Gross domestic product	4.7	4.3	4.2	4.5	4.2	3.9	4.5	4.3	4.2	4.0
Exports	9.9	8.3	8.5	8.9	7.8	7.2	9.2	8.2	-	-
Imports	9.1	7.7	7.7	8.5	7.5	6.7	8.5	7.2	-	-
Gross capital formation	6.7	5.2	4.3	6.5	6.2	5.1	-	-	-	-
- gross fixed capital formation	8.6	5.5	4.5	-	-	-	7.5	5.5	-	-
Private consumption	3.3	3.6	3.6	3.5	3.4	3.1	3.1	3.1	-	-
Government consumption	2.8	2.5	2.8	3.7	2.8	2.8	3.0	2.9	-	-
Inflation (annual average, %)	2.7	2.7	2.5	2.6	2.7	2.7	2.5	2.5	2.5	2.3
Employment according to the SNA, growth in %)	0.9	0.8	0.9	0.9	0.6	0.5	0.7-0.8		-	-
Survey unemployment rate (%)	6.4	6.4	6.4	-	-	-	6.6	6.7	-	-
Current account, as a % of GDP	-2.4	-1.6	-1.2	-2.6	-2.7	-2.4	-	-	-2.0	-2.3

Sources of data: Autumn forecast 2006. September 2006. IMAD; Monetary Policy Report. October 2006. BS; SKEP's autumn forecast of macroeconomic trends for Slovenia. October 2006. SKEP CCIS; World Economic Outlook. September 2006. IMF.

product. Nevertheless, the BS, like the IMAD, does not expect any substantial inflationary pressures from increased aggregate demand. According to the BS, the rise in excise duties in 2007 poses an upward risk to inflation. At the same time, the BS estimates that inflation could be lower next year if oil prices persist below the assumed level. Both potential divergences would thus be nullified. The CCIS also expects inflation to be stable in 2006 and 2007 at slightly lower levels than projected by the IMAD and the BS. In the CCIS's estimate, the risks associated with oil price rises will decrease slightly this year and even more next year, which will somewhat reduce the cost pressure from the external environment for enterprises. Only the International Monetary Fund projects that inflation will decline slightly next year over this year.

All institutions have significantly revised their **forecasts of the current account balance.** The revisions have led to higher estimated deficits which, however, largely reflect the methodological changes introduced by the balance of payments revision for 2002-2005 (see Box 2) and are also having an effect on the future balance of payments flows (except for the IMF's forecast, which does not include the revision yet but nevertheless projects a higher current account deficit).

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Statistical Appendix

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

Real growth rates in %, unless otherwise indicated

	1995	1996	1997	1998	1999	2000	2001
GDP	**4.1**	**3.7**	**4.8**	**3.9**	**5.4**	**4.1**	**2.7**
Structure in value added in %							
Agriculture, forestry, fishing (A+B)	4.2	3.9	4.1	3.9	3.3	3.2	3.0
Industry & construction (C+D+E+F)	35.3	35.7	35.8	36.4	36.3	36.2	35.9
Industry (C+D+E)	29.9	29.8	29.9	30.5	29.7	30.0	30.1
Construction F	5.4	5.9	5.9	5.9	6.5	6.3	5.8
Services (G...P)	60.5	60.4	60.1	59.7	60.5	60.6	61.1
GDP in SIT m (current p.)	2,404,561	2,770,603	3,148,957	3,494,600	3,918,974	4,300,350	4,799,552
in which FISIM[1]	31,905	42,404	38,881	29,711	44,254	48,035	37,737
GDP in EUR m	15,704	16,345	17,456	18,761	20,240	20,974	22,099
GDP in US$ m	20,288	20,468	19,719	21,035	21,560	19,312	19,772
GDP per capita in EUR	7,902	8,209	8,786	9,463	10,194	10,543	11,094
GDP per capita in US$	10,208	10,279	9,925	10,610	10,858	9,703	9,926
GDP per capita (PPS)[2]	10,500	11,200	12,100	12,800	13,900	14,600	15,400
GDP per capita (PPS, EU25=100)[2]	68	69	71	72	74	73	74

	2002	2003	2004	2005	2006	2007	2008
					Estim.	Forecast	
GDP	**3.5**	**2.7**	**4.4**	**4.0**	**4.7**	**4.3**	**4.2**
Structure in value added in %							
Agriculture, forestry, fishing (A+B)	3.2	2.6	2.7	2.5	2.5	2.4	2.4
Industry & construction (C+D+E+F)	35.3	35.6	35.0	34.1	34.4	34.1	33.9
Industry (C+D+E)	29.6	29.8	29.3	28.2	28.3	27.9	27.7
Construction F	5.7	5.8	5.7	5.9	6.0	6.2	6.3
Services (G...P)	61.5	61.9	62.4	63.4	63.1	63.5	63.6
GDP in SIT m (current p.)	5,355,440	5,813,540	6,271,795	6,620,145	7,055,200	7,586,400*	8,098,200*
in which FISIM[1]	40,723	51,825	60,079	60,349	-	-	-
GDP in EUR m	23,673	24,876	26,257	27,626	29,446	31,657	33,793
GDP in US$ m	22,292	28,069	32,601	34,354	36,765	40,047	42,748
GDP per capita in EUR	11,866	12,461	13,146	13,807	14,691	15,770	16,808
GDP per capita in US$	11,170	14,057	16,325	17,167	18,342	19,950	21,263
GDP per capita (PPS)[2]	16,000	16,500	18,000	18,900	-	-	-
GDP per capita (PPS, EU25=100)[2]	75	76	79	81	-	-	-

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

Real growth rates in %, unless otherwise indicated

	1995	1996	1997	1998	1999	2000	2001
INTERNATIONAL TRADE - BALANCE OF PAYMENTS STATISTICS							
Exports of goods and services - real[3]	1.1	2.7	11.0	7.5	1.6	13.2	6.3
Exports of goods	3.0	2.4	13.0	9.9	2.7	13.2	7.0
Exports of services	-6.3	4.0	3.4	-2.2	-3.5	13.4	3.2
Imports of goods and services - real[3]	11.3	2.3	11.0	9.6	7.7	7.3	3.0
Imports of goods	13.1	2.1	12.5	10.1	8.2	7.4	3.2
Imports of services	-1.2	3.6	2.2	6.5	4.5	6.8	1.8
Exports of goods & services in EUR m	8,021	8,375	9,248	9,893	9,867	11,626	12,632
As a % of GDP	51.1	51.2	53.0	52.7	48.7	55.4	57.2
Imports of goods & services in EUR m	8,303	8,535	9,372	10,154	10,701	12,364	12,781
As a % of GDP	52.9	52.2	53.7	54.1	52.9	58.9	57.8
Balance of goods & services in EUR m	-282	-160	-123	-261	-835	-738	-149
As a per cent share relative to GDP	-1.8	-1.0	-0.7	-1.4	-4.1	-3.5	-0.7
Current account balance in EUR m	-52	32	43	-108	-664	-583	38
As a per cent share relative to GDP	-0.3	0.2	0.2	-0.6	-3.3	-2.8	0.2
Foreign exchange reserves in EUR m	2,703	3,326	3,965	4,080	4,104	4,705	6,514
External debt in EUR m	4,275	5,381	6,165	6,459	8,012	9,490	10,403
As a per cent share relative to GDP	27.2	32.9	35.3	34.4	39.6	45.3	47.1

	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008
INTERNATIONAL TRADE - BALANCE OF PAYMENTS STATISTICS							
Exports of goods and services - real[3]	6.7	3.1	12.5	10.5	9.9	8.3	8.5
Exports of goods	6.4	4.4	12.8	10.3	10.6	8.6	8.9
Exports of services	8.0	-2.5	10.9	11.7	6.6	6.7	6.8
Imports of goods and services - real[3]	4.8	6.7	13.4	7.0	9.1	7.7	7.7
Imports of goods	4.4	7.3	14.6	6.8	9.3	7.7	7.7
Imports of services	7.5	3.0	5.5	8.4	8.1	7.1	7.5
Exports of goods & services in EUR m	13,521	13,882	15,715	17,809	20.463	22,732	24,949
As a % of GDP	57.1	55.8	59.9	64.5	69.5	71.8	73.8
Imports of goods & services in EUR m	13,166	13,885	16,037	17,979	20,658	22,723	24,868
As a % of GDP	55.6	55.8	61.1	65.1	70.2	71.8	73.6
Balance of goods & services in EUR m	355	-3	-322	-170	-195	9	81
As a per cent share relative to GDP	1.5	0.0	-1.2	-0.6	-0.7	0.0	0.2
Current account balance in EUR m	247	-196	-720	-547	-693	-503	-410
As a per cent share relative to GDP	1.0	-0.8	-2.7	-2.0	-2.4	-1.6	-1.2
Foreign exchange reserves in EUR m	7,842	7,703	7,484	8,833	-	-	-
External debt in EUR m	11,484	13,259	15,271	19,566	-	-	-
As a per cent share relative to GDP	48.5	53.3	58.2	70.8	-	-	-

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

Real growth rates in %, unless otherwise indicated

	1995	1996	1997	1998	1999	2000	2001
EMPLOYMENT, WAGES AND PRODUCTIVITY							
Employment according to SNA	1.0	-2.0	-1.9	-0.2	1.4	0.8	0.5
Registered unemployed (annual average in thousand)	121.5	119.8	125.2	126.1	119.0	106.6	101.9
Rate of registered unemployment in %	13.9	13.9	14.4	14.5	13.6	11.8	11.2
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9	7.6	7.0	6.4
Gross wage per employee	5.1	5.1	2.4	1.6	3.3	1.6	3.2
Labour productivity (GDP per employee)	3.0	5.9	6.9	4.1	3.9	3.3	2.2
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS							
Final consumption	-	3.0	2.8	3.5	5.4	1.2	2.7
As a % of GDP	78.9	78.2	76.9	76.4	76.7	76.7	76.6
in which:							
Private consumption	9.1	3.1	2.6	3.1	6.1	0.7	2.3
As a % of GDP	59.8	59.3	58.1	57.6	58.0	57.4	56.6
Government consumption	2.5	2.9	3.4	4.8	3.3	2.6	3.9
As a % of GDP	19.1	19.0	18.8	18.7	18.8	19.3	20.0
Gross fixed capital formation	-	10.4	13.5	9.3	18.2	1.8	0.4
As a % of GDP	20.9	21.8	23.1	24.1	26.4	25.6	24.1

	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008
EMPLOYMENT, WAGES AND PRODUCTIVITY							
Employment according to SNA	-0.3	-0.4	0.5	0.3	0.9	0.8	0.9
Registered unemployed (annual average in thousand)	102.6	97.7	92.8	91.9	89.4	86.5	83.6
Rate of registered unemployment in %	11.3	10.9	10.3	10.2	9.8	9.5	9.1
Rate of unemployment by ILO in %	6.4	6.7	6.3	6.5	6.4	6.4	6.4
Gross wage per employee	2.0	1.8	2.0	2.2	2.2	2.5	3.0
Labour productivity (GDP per employee)	3.8	3.1	3.9	3.7	3.8	3.5	3.2
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS							
Final consumption	1.8	3.0	2.8	3.1	3.2	3.3	3.3
As a % of GDP	75.3	75.4	74.4	74.5	74.1	73.2	72.9
in which:							
Private consumption	1.3	3.4	2.6	3.4	3.3	3.6	3.6
As a % of GDP	55.5	55.8	54.8	54.9	54.6	54.0	53.7
Government consumption	3.2	1.6	3.4	2.2	2.8	2.5	2.8
As a % of GDP	19.7	19.6	19.6	19.6	19.4	19.2	19.2
Gross fixed capital formation	0.9	7.1	7.9	1.5	8.6	5.5	4.5
As a % of GDP	22.6	23.3	24.5	24.4	25.4	25.6	25.8

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

Real growth rates in %, unless otherwise indicated

	1995	1996	1997	1998	1999	2000	2001
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES; GFS - IMF METHODOLOGY[4]							
General government revenues (per cent share, relative to GDP)	41.6	41.0	40.3	41.5	42.0	41.7	42.7
General government expenditures (per cent share, relative to GDP)	41.6	40.7	41.4	42.2	42.6	43.0	44.0
Surplus/deficit (per cent share, relative to GDP)	0.0	0.3	-1.1	-0.7	-0.6	-1.3	-1.3
EXCHANGE RATE AND PRICES							
Average exchange rate SIT/US$, BS	118.5	135.4	159.7	166.1	181.8	222.7	242.7
Average exchange rate SIT/EUR, BS	153.1	169.5	180.4	186.3	193.6	205.0	217.2
Average exchange rate EUR/US$	1.292	1.252	1.130	1.121	1.065	0.921	0.895
Real effective exchange rate - deflated by CPI[5]	-	-4.3	0.4	3.6	-0.8	-2.3	-0.3
Inflation (end of the year)[6]	8.6	8.8	9.4	6.5	8.0	8.9	7.0
Inflation (year average)[6]	12.6	9.7	9.1	7.9	6.1	8.9	8.4

	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES; GFS - IMF METHODOLOGY[4]							
General government revenues (per cent share, relative to GDP)	40.6	42.6	42.8	43.3	43.7	43.2	42.5
General government expenditures (per cent share, relative to GDP)	43.5	44.0	44.1	44.4	44.8	44.1	43.3
Surplus/deficit (per cent share, relative to GDP)	-2.9	-1.4	-1.3	-1.1	-1.1	-0.9	-0.8
EXCHANGE RATE AND PRICES							
Average exchange rate SIT/US$, BS	240.2	207.1	192.4	192.7	191.9	-	-
Average exchange rate SIT/EUR, BS	226.2	233.7	238.9	239.6	239.6	-	-
Average exchange rate EUR/US$	0.942	1.128	1.242	1.244	1.248	1.265	1.265
Real effective exchange rate - deflated by CPI[5]	1.7	3.2	0.1	-0.4	0.7	0.5	-
Inflation (end of the year)[6]	7.2	4.6	3.2	2.3	3.0	2.7	2.2
Inflation (year average)[6]	7.5	5.6	3.6	2.5	2.7	2.7	2.5

Source of data: SORS, BS, Ministry of Finance, *Eurostat-New Cronos, September 2006, estimates and forecasts by IMAD.
Notes:
[1]FISIM; Financial intermediation services indirectly measured.
[2]Measured in purchasing power standard
[3]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.
[4]For 2006-2008: Consolidated general government accounts and draft national budgets for 2007 and 2008 (October 2006).
[5]Growth in index value denotes real appreciation of the tolar and vice versa.
[6]Until 1998 the retail price index was used as the measure of inflation; since 1998 we use the consumer price index.
*To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro.

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

SIT million, current prices

		1995	1996	1997	1998	1999	2000	2001	2002
A	Agriculture, hunting, forestry	86,021	92,638	110,555	115,674	109,086	118,374	123,292	146,949
B	Fishing	408	463	360	565	578	723	742	854
C	Mining and quarrying	20,701	21,089	23,658	25,233	24,803	24,922	22,883	22,229
D	Manufacturing	539,965	624,256	723,194	802,914	884,152	988,880	1,111,276	1,210,946
E	Electricity, gas and water supply	51,949	59,629	66,961	89,458	88,274	102,733	123,594	141,645
F	Construction	109,628	138,418	159,854	178,056	218,387	233,104	243,891	264,710
G	Wholesale and retail trade, motor vehicle repair	247,020	270,462	332,402	353,782	376,217	412,437	473,454	538,756
H	Hotels and restaurants	47,998	57,041	67,405	72,825	79,430	86,461	96,677	107,183
I	Transport, storage, communications	139,642	162,636	192,908	213,462	235,404	258,432	289,235	321,742
J	Financial intermediation	118,942	136,283	132,048	132,401	158,696	185,313	189,720	212,234
K	Real estate, renting and business activities	281,344	336,587	373,904	430,845	502,248	554,474	628,346	721,283
L	Public administration and comp. soc. sec.	120,699	143,907	164,822	181,245	204,296	230,304	268,712	298,445
M	Education	109,829	124,700	146,718	159,462	177,889	206,337	239,691	263,963
N	Health and social work	107,256	120,008	136,036	146,799	165,545	191,500	217,439	235,140
O	Other community, social and personal services	64,899	76,238	89,687	102,219	126,368	132,507	147,687	152,897
P	Private households with employed persons	870	934	964	1,080	1,377	1,369	1,789	1,728
	1. TOTAL VALUE ADDED, basic prices	**2,047,170**	**2,365,290**	**2,721,476**	**3,006,019**	**3,352,749**	**3,727,869**	**4,178,428**	**4,640,703**
	2. CORRECTIONS (a-b)	357,391	405,313	427,480	488,581	566,225	572,481	621,124	714,738
	a) taxes on products and services	369,084	418,401	442,770	506,634	587,951	597,109	646,009	737,786
	b) subsidies on products and services	11,693	13,088	15,290	18,053	21,726	24,628	24,885	23,048
	3. GROSS DOMESTIC PRODUCT (3=1+2)	**2,404,561**	**2,770,603**	**3,148,957**	**3,494,600**	**3,918,974**	**4,300,350**	**4,799,552**	**5,355,440**

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

	SIT million, current prices						EUR million	
	2003	2004	2005	2006	2007 *	2008 *	2007	2008
				Estim.	Forecast	Forecast	Forecast	
A Agriculture, hunting, forestry	127,794	145,897	145,802	154,074	160,359	169,152	669	706
B Fishing	1,060	794	834	763	729	693	3	3
C Mining and quarrying	26,378	31,014	30,694	30,215	29,893	29,232	125	122
D Manufacturing	1,332,453	1,404,355	1,419,754	1,534,577	1,631,076	1,737,146	6,806	7,249
E Electricity, gas and water supply	147,844	163,110	176,258	176,455	179,436	182,981	749	764
F Construction	290,297	310,262	339,196	371,346	409,048	443,134	1,707	1,849
G Wholesale and retail trade, motor vehicle repair	592,019	628,711	680,278	730,418	789,017	844,667	3,293	3,525
H Hotels and restaurants	117,075	122,548	129,681	140,367	154,620	169,117	645	706
I Transport, storage, communications	360,735	413,779	468,374	504,523	550,534	593,098	2,297	2,475
J Financial intermediation	222,434	250,203	255,397	271,696	295,870	323,928	1,235	1,352
K Real estate, renting and business activities	788,799	870,333	932,697	985,614	1,058,365	1,132,417	4,416	4,725
L Public administration and comp. soc. sec.	333,583	341,311	358,227	372,669	392,848	411,192	1,639	1,716
M Education	288,351	317,045	338,707	352,173	386,906	413,008	1,615	1,723
N Health and social work	252,472	270,251	285,531	298,072	317,591	337,611	1,325	1,409
O Other community, social and personal services	165,966	188,585	206,688	219,861	239,828	259,758	1,001	1,084
P Private households with employed persons	1,336	1,356	1,167	932	763	621	3	3
1. TOTAL VALUE ADDED, basic prices	**5,048,599**	**5,459,552**	**5,769,285**	**6,143,754**	**6,596,883**	**7,047,754**	**27,528**	**29,410**
2. CORRECTIONS (a-b)	764,941	812,243	850,860	911,446	989,517	1,050,446	4,129	4,383
a) taxes on products and services	794,799	843,679	886,131	946,722	1,019,863	1,082,839	4,256	4,519
b) subsidies on products and services	29,857	31,436	35,271	35,276	30,346	32,393	127	135
3. GROSS DOMESTIC PRODUCT (3=1+2)	**5,813,540**	**6,271,795**	**6,620,145**	**7,055,200**	**7,586,400**	**8,098,200**	**31,657**	**33,793**

Source of data: SORS 1995-2005, estimates and forecasts by IMAD.
Note: *To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro.

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

structure in %, current prices

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
A Agriculture, hunting, forestry	3.6	3.3	3.5	3.3	2.8	2.8	2.6	2.7	2.2	2.3	2.2	2.2	2.1	2.1
B Fishing	0.02	0.02	0.01	0.02	0.01	0.02	0.02	0.02	0.02	0.01	0.01	0.0	0.0	0.0
C Mining and quarrying	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.4
D Manufacturing	22.5	22.5	23.0	23.0	22.6	23.0	23.2	22.6	22.9	22.4	21.4	21.8	21.5	21.5
E Electricity, gas and water supply	2.2	2.2	2.1	2.6	2.3	2.4	2.6	2.6	2.5	2.6	2.7	2.5	2.4	2.3
F Construction	4.6	5.0	5.1	5.1	5.6	5.4	5.1	4.9	5.0	4.9	5.1	5.3	5.4	5.5
G Wholesale and retail trade, motor vehicle repair	10.3	9.8	10.6	10.1	9.6	9.6	9.9	10.1	10.2	10.0	10.3	10.4	10.4	10.4
H Hotels and restaurants	2.0	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1
I Transport, storage, communications	5.8	5.9	6.1	6.1	6.0	6.0	6.0	6.0	6.2	6.6	7.1	7.2	7.3	7.3
J Financial intermediation	4.9	4.9	4.2	3.8	4.0	4.3	4.0	4.0	3.8	4.0	3.9	3.9	3.9	4.0
K Real estate, renting and business activities	11.7	12.1	11.9	12.3	12.8	12.9	13.1	13.5	13.6	13.9	14.1	14.0	14.0	14.0
L Public administration and comp. soc. sec.	5.0	5.2	5.2	5.2	5.2	5.4	5.6	5.6	5.7	5.4	5.4	5.3	5.2	5.1
M Education	4.6	4.5	4.7	4.6	4.5	4.8	5.0	4.9	5.0	5.1	5.1	5.0	5.1	5.1
N Health and social work	4.5	4.3	4.3	4.2	4.2	4.5	4.5	4.4	4.3	4.3	4.3	4.2	4.2	4.2
O Other community, social and personal services	2.7	2.8	2.8	2.9	3.2	3.1	3.1	2.9	2.9	3.0	3.1	3.1	3.2	3.2
P Private households with employed persons	0.0	0.0	0.0	0.0	0.0	0.03	0.04	0.03	0.02	0.02	0.02	0.0	0.0	0.0
1. TOTAL VALUE ADDED, basic prices	**85.1**	**85.4**	**86.4**	**86.0**	**85.6**	**86.7**	**87.1**	**86.7**	**86.8**	**87.0**	**87.1**	**87.1**	**87.0**	**87.0**
2. CORRECTIONS (a-b)	14.9	14.6	13.6	14.0	14.4	13.3	12.9	13.3	13.2	13.0	12.9	12.9	13.0	13.0
a) taxes on products and services	15.3	15.1	14.1	14.5	15.0	13.9	13.5	13.8	13.7	13.5	13.4	13.4	13.4	13.4
b) subsidies on products and services	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.4
3. GROSS DOMESTIC PRODUCT (3=1+2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

structure in %, current pricese

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:														
1. Agriculture, forestry, fishing (A+B)	3.6	3.4	3.5	3.3	2.8	2.8	2.6	2.8	2.2	2.3	2.2	2.2	2.1	2.1
2. Industry and construction (C+D+E+F)	30.0	30.4	30.9	31.4	31.0	31.4	31.3	30.6	30.9	30.4	29.7	29.9	29.7	29.5
Industry (C+D+E)	25.5	25.4	25.8	26.3	25.4	26.0	26.2	25.7	25.9	25.5	24.6	24.7	24.3	24.1
Construction F	4.6	5.0	5.1	5.1	5.6	5.4	5.1	4.9	5.0	4.9	5.1	5.3	5.4	5.5
3. Services (G...P)	51.5	51.6	52.0	51.3	51.7	52.5	53.2	53.3	53.7	54.3	55.2	54.9	55.2	55.4
4. Corrections	14.9	14.6	13.6	14.0	14.4	13.3	12.9	13.3	13.2	13.0	12.9	12.9	13.0	13.0
												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	100.0	100.0	100.0	100.0	100.0	100.0
in which:														
1. Agriculture, forestry, fishing (A+B)	4.2	3.9	4.1	3.9	3.3	3.2	3.0	3.2	2.6	2.7	2.5	2.5	2.4	2.4
2. Industry and construction (C+D+E+F)	35.3	35.7	35.8	36.4	36.3	36.2	35.9	35.3	35.6	35.0	34.1	34.4	34.1	33.9
Industry (C+D+E)	29.9	29.8	29.9	30.5	29.7	30.0	30.1	29.6	29.8	29.3	28.2	28.3	27.9	27.7
Construction F	5.4	5.9	5.9	5.9	6.5	6.3	5.8	5.7	5.8	5.7	5.9	6.0	6.2	6.3
3. Services (G...P)	60.5	60.4	60.1	59.7	60.5	60.6	61.1	61.5	61.9	62.4	63.4	63.1	63.5	63.6

Source of data: SORS 1995-2005, estimates and forecasts by IMAD.

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

SIT million

		1996	1997	1998	1999	2000	2001	2002	2003	2004
					Constant previous year prices					
A	Agriculture, hunting, forestry	89,001	97,653	108,931	107,744	109,790	113,613	139,709	123,680	149,634
B	Fishing	440	460	351	579	563	735	709	896	881
C	Mining and quarrying	20,045	22,311	23,884	24,139	24,493	23,580	20,980	23,617	27,037
D	Manufacturing	570,457	670,881	742,482	831,878	963,075	1,036,651	1,164,763	1,259,492	1,386,846
E	Electricity, gas and water supply	50,799	61,031	68,448	87,205	93,360	109,543	131,475	140,256	149,089
F	Construction	119,871	144,734	163,959	203,995	220,136	227,751	245,150	274,175	294,211
G	Wholesale and retail trade, motor vehicle repair	248,819	287,017	337,337	359,995	388,901	420,861	489,314	553,700	610,259
H	Hotels and restaurants	51,302	61,786	67,130	76,111	82,706	91,938	99,912	110,905	116,979
I	Transport, storage, communications	138,322	169,982	201,168	223,633	241,293	267,550	297,719	334,458	360,946
J	Financial intermediation	124,712	138,760	151,287	145,476	165,441	190,722	201,104	221,699	260,587
K	Real estate, renting and business activities	287,683	338,235	392,748	462,418	514,347	577,120	653,642	742,611	826,027
L	Public administration and comp. soc. sec.	129,048	153,307	172,731	190,077	215,122	242,720	277,053	311,343	357,775
M	Education	112,726	130,046	152,422	163,914	184,487	210,792	246,278	269,600	296,231
N	Health and social work	107,583	117,373	141,473	152,860	171,176	196,337	226,148	241,059	261,747
O	Other community, social and personal services	68,133	78,876	95,360	118,114	130,803	136,297	146,734	158,845	175,356
P	Private households with employed persons	934	1,002	1,035	1,162	1,529	1,540	1,634	1,163	1,228
1. TOTAL VALUE ADDED, basic prices		**2,119,876**	**2,473,454**	**2,820,746**	**3,149,299**	**3,507,223**	**3,847,750**	**4,342,324**	**4,767,499**	**5,274,834**
2. CORRECTIONS (a-b)		374,410	431,313	450,173	534,710	572,454	566,851	622,996	729,865	796,006
a) taxes on products and services		385,571	443,493	465,943	552,780	595,130	591,080	649,495	751,595	827,981
b) subsidies on products and services		11,161	12,180	15,770	18,070	22,676	24,228	26,499	21,731	31,976
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,494,285**	**2,904,768**	**3,270,919**	**3,684,010**	**4,079,676**	**4,414,601**	**4,965,320**	**5,497,364**	**6,070,840**

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

		Stalne cene 2004				EUR million	
				SIT million			
		2005	2006	2007 *	2008 *	2007	2008
			Estimate	Forecast	Forecast	Forecast	
A	Agriculture, hunting, forestry	138,342	141,178	139,766	141,233	583	589
B	Fishing	869	844	844	844	4	4
C	Mining and quarrying	30,948	31,263	31,263	31,122	130	130
D	Manufacturing	1,444,152	1,525,747	1,593,649	1,666,160	6,650	6,953
E	Electricity, gas and water supply	173,849	174,719	175,680	178,403	733	744
F	Construction	322,680	342,040	359,313	373,865	1,499	1,560
G	Wholesale and retail trade, motor vehicle repair	653,633	686,314	714,110	741,603	2,980	3,095
H	Hotels and restaurants	123,365	129,286	135,815	142,674	567	595
I	Transport, storage, communications	451,071	475,880	501,339	525,153	2,092	2,191
J	Financial intermediation	276,319	298,424	323,641	348,076	1,351	1,452
K	Real estate, renting and business activities	901,517	937,578	975,550	1,015,060	4,071	4,236
L	Public administration and comp. soc. sec.	349,322	360,675	371,675	383,011	1,551	1,598
M	Education	326,464	332,993	341,817	351,559	1,426	1,467
N	Health and social work	278,144	287,879	299,538	313,167	1,250	1,307
O	Other community, social and personal services	199,499	208,477	220,047	232,260	918	969
P	Private households with employed persons	1,436	1,436	1,451	1,467	6	6
	1. TOTAL VALUE ADDED, basic prices	**5,671,609**	**5,934,733**	**6,185,499**	**6,445,656**	**25,812**	**26,897**
	2. CORRECTIONS (a-b)	852,818	893,667	933,301	969,344	3,895	4,045
	a) taxes on products and services	884,055	924,279	963,147	998,280	4,019	4,166
	b) subsidies on products and services	31,237	30,612	29,847	28,936	125	121
	3. GROSS DOMESTIC PRODUCT (3=1+2)	**6,524,427**	**6,828,400**	**7,118,800**	**7,415,000**	**29,706**	**30,942**

Source of data: SORS 1996-2005, estimates and forecasts by IMAD.
Note: * To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro.

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

		Constant previous year prices							Real growth rates in %	
		1996	1997	1998	1999	2000	2001	2002	2003	2004
A	Agriculture, hunting, forestry	3.5	5.4	-1.5	-6.9	0.6	-4.0	13.3	-15.8	17.1
B	Fishing	7.7	-0.7	-2.4	2.4	-2.6	1.6	-4.5	4.9	-16.9
C	Mining and quarrying	-3.2	5.8	1.0	-4.3	-1.2	-5.4	-8.3	6.2	2.5
D	Manufacturing	5.6	7.5	2.7	3.6	8.9	4.8	4.8	4.0	4.1
E	Electricity, gas and water supply	-2.2	2.4	2.2	-2.5	5.8	6.6	6.4	-1.0	0.8
F	Construction	9.3	4.6	2.6	14.6	0.8	-2.3	0.5	3.6	1.3
G	Wholesale and retail trade, motor vehicle repair	0.7	6.1	1.5	1.8	3.4	2.0	3.3	2.8	3.1
H	Hotels and restaurants	6.9	8.3	-0.4	4.5	4.1	6.3	3.3	3.5	-0.1
I	Transport, storage, communications	-0.9	4.5	4.3	4.8	2.5	3.5	2.9	4.0	0.1
J	Financial intermediation	4.9	1.8	14.6	9.9	4.3	2.9	6.0	4.5	17.2
K	Real estate, renting and business activities	2.3	0.5	5.0	7.3	2.4	4.1	4.0	3.0	4.7
L	Public administration and comp. soc. sec.	6.9	6.5	4.8	4.9	5.3	5.4	3.1	4.3	7.3
M	Education	2.6	4.3	3.9	2.8	3.7	2.2	2.7	2.1	2.7
N	Health and social work	0.3	-2.2	4.0	4.1	3.4	2.5	4.0	2.5	3.7
O	Other community, social and personal services	5.0	3.5	6.3	15.6	3.5	2.9	-0.6	3.9	5.7
P	Private households with employed persons	7.3	7.3	7.3	7.6	11.0	12.5	-8.6	-32.7	-8.1
1. TOTAL VALUE ADDED, basic prices		**3.6**	**4.6**	**3.6**	**4.8**	**4.6**	**3.2**	**3.9**	**2.7**	**4.5**
2. CORRECTIONS (a-b)		-	-	-	-	-	-	-	-	-
a) taxes on products and services		4.5	6.0	5.2	9.1	1.2	-1.0	0.5	1.9	4.2
b) subsidies on products and services		-4.5	-6.9	3.1	0.1	4.4	-1.6	6.5	-5.7	7.1
3. GROSS DOMESTIC PRODUCT (3=1+2)		**3.7**	**4.8**	**3.9**	**5.4**	**4.1**	**2.7**	**3.5**	**2.7**	**4.4**

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

Real growth rates in %

	2005	2006 Estimate	2007 Forecast	2008
		Constant 2004 prices		
A Agriculture, hunting, forestry	-5.2	2.0	-1.0	1.0
B Fishing	9.5	-3.0	0.0	0.0
C Mining and quarrying	-0.2	1.0	0.0	-0.5
D Manufacturing	2.8	5.6	4.4	4.5
E Electricity, gas and water supply	6.6	0.5	0.5	1.5
F Construction	4.0	6.0	5.0	4.0
G Wholesale and retail trade, motor vehicle repair	4.0	5.0	4.0	3.8
H Hotels and restaurants	0.7	4.8	5.0	5.0
I Transport, storage, communications	9.0	5.5	5.3	4.7
J Financial intermediation	10.4	8.0	8.4	7.5
K Real estate, renting and business activities	3.6	4.0	4.0	4.0
L Public administration and comp. soc. sec.	2.3	3.2	3.0	3.0
M Education	3.0	2.0	2.6	2.8
N Health and social work	2.9	3.5	4.0	4.5
O Other community, social and personal services	5.8	4.5	5.5	5.5
P Private households with employed persons	5.9	0.0	1.0	1.0
1. TOTAL VALUE ADDED, basic prices	**3.9**	**4.6**	**4.2**	**4.2**
2. CORRECTIONS (a-b)	-	4.8	4.4	3.9
a) taxes on products and services	4.8	4.5	4.2	3.6
b) subsidies on products and services	-0.6	-2.0	-2.5	-3.0
3. GROSS DOMESTIC PRODUCT (3=1+2)	**4.0**	**4.7**	**4.3**	**4.2**

Source of data: SORS 1996-2005, estimates and forecasts by IMAD.

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

SIT million, current pricese

	1995	1996	1997	1998	1999	2000	2001	2002
Compensation of employees	**1,362,757**	**1,525,972**	**1,676,926**	**1,826,187**	**1,995,212**	**2,275,737**	**2,564,414**	**2,824,112**
Wages and salaries	1,135,892	1,306,128	1,458,623	1,587,260	1,731,794	1,980,150	2,231,612	2,440,465
Employers' social contributions	226,865	219,844	218,302	238,927	263,418	295,588	332,802	383,647
Taxes on production and imports	**381,602**	**446,316**	**495,829**	**574,314**	**668,359**	**700,668**	**771,895**	**878,945**
Taxes on products and services	369,084	418,401	442,770	506,634	587,951	597,109	646,009	737,786
Other taxes on production	12,518	27,915	53,059	67,680	80,408	103,559	125,886	141,158
Subsidies	**47,853**	**42,474**	**46,465**	**54,323**	**67,336**	**65,704**	**73,526**	**71,703**
Subsidies on products and services	11,693	13,088	15,290	18,053	21,726	24,628	24,885	23,048
Other subsidies on production	36,160	29,386	31,176	36,270	45,609	41,075	48,642	48,655
Gross operating surplus	**497,235**	**597,025**	**727,154**	**821,273**	**989,550**	**1,048,145**	**1,171,553**	**1,290,498**
Gross mixed income	**210,821**	**243,764**	**295,513**	**327,149**	**333,188**	**341,503**	**365,215**	**433,589**
Gross domestic product	**2,404,561**	**2,770,603**	**3,148,957**	**3,494,600**	**3,918,974**	**4,300,350**	**4,799,552**	**5,355,440**

structure in %, current prices

	1995	1996	1997	1998	1999	2000	2001	2002
Compensation of employees	**56.7**	**55.1**	**53.3**	**52.3**	**50.9**	**52.9**	**53.4**	**52.7**
Wages and salaries	47.2	47.1	46.3	45.4	44.2	46.0	46.5	45.6
Employers' social contributions	9.4	7.9	6.9	6.8	6.7	6.9	6.9	7.2
Taxes on production and imports	**15.9**	**16.1**	**15.7**	**16.4**	**17.1**	**16.3**	**16.1**	**16.4**
Taxes on products and services	15.3	15.1	14.1	14.5	15.0	13.9	13.5	13.8
Other taxes on production	0.5	1.0	1.7	1.9	2.1	2.4	2.6	2.6
Subsidies	**2.0**	**1.5**	**1.5**	**1.6**	**1.7**	**1.5**	**1.5**	**1.3**
Subsidies on products and services	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.4
Other subsidies on production	1.5	1.1	1.0	1.0	1.2	1.0	1.0	0.9
Gross operating surplus	**20.7**	**21.5**	**23.1**	**23.5**	**25.3**	**24.4**	**24.4**	**24.1**
Gross mixed income	**8.8**	**8.8**	**9.4**	**9.4**	**8.5**	**7.9**	**7.6**	**8.1**
Gross domestic product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

	SIT million, current prices						EUR million	
	2003	**2004**	**2005**	**2006** Estim.	**2007 *** Forecast	**2008 *** Forecast	**2007** Forecast	**2008** Forecast
Compensation of employees	3,012,890	3,262,951	3,458,597	3,665,354	3,892,165	4,146,327	16,242	17,302
Wages and salaries	2,592,273	2,795,687	2,962,590	3,140,686	3,336,335	3,554,228	13,922	14,832
Employers' social contributions	420,617	467,264	496,007	524,668	555,830	592,099	2,319	2,471
Taxes on production and imports	963,120	1,027,736	1,084,897	1,137,703	1,200,528	1,231,900	5,010	5,141
Taxes on products and services	794,799	843,679	886,131	946,722	1,019,863	1,082,839	4,256	4,519
Other taxes on production	168,321	184,057	198,766	190,981	180,665	149,061	754	622
Subsidies	98,810	125,505	136,147	141,104	166,901	178,160	696	743
Subsidies on products and services	29,857	31,436	35,271	35,276	30,346	32,393	127	135
Other subsidies on production	68,953	94,069	100,876	105,828	136,555	145,768	570	608
Gross operating surplus	1,468,650	1,594,182	1,668,523	1,804,588	2,006,188	2,185,290	8,372	9,119
Gross mixed income	467,691	512,432	544,274	588,659	654,420	712,843	2,731	2,975
Gross domestic product	5,813,540	6,271,795	6,620,145	7,055,200	7,586,400	8,098,200	31,657	33,793

	structure in %, current prices					
	2003	**2004**	**2005**	**2006** Estim.	**2007 *** Forecast	**2008 *** Forecast
Compensation of employees	51.8	52.0	52.2	52.0	51.3	51.2
Wages and salaries	44.6	44.6	44.8	44.5	44.0	43.9
Employers' social contributions	7.2	7.5	7.5	7.4	7.3	7.3
Taxes on production and imports	16.6	16.4	16.4	16.1	15.8	15.2
Taxes on products and services	13.7	13.5	13.4	13.4	13.4	13.4
Other taxes on production	2.9	2.9	3.0	2.7	2.4	1.8
Subsidies	1.7	2.0	2.1	2.0	2.2	2.2
Subsidies on products and services	0.5	0.5	0.5	0.5	0.4	0.4
Other subsidies on production	1.2	1.5	1.5	1.5	1.8	1.8
Gross operating surplus	25.3	25.4	25.2	25.6	26.4	27.0
Gross mixed income	8.0	8.2	8.2	8.3	8.6	8.8
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0

Source of data: SORS 1995-2005, estimates and forecasts by IMAD..
Note: * To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro

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

SIT million, current prices

	1995	1996	1997	1998	1999	2000	2001	2002
1 GROSS DOMESTIC PRODUCT (1=4+5)	**2,404,561**	**2,770,603**	**3,148,957**	**3,494,600**	**3,918,974**	**4,300,350**	**4,799,552**	**5,355,440**
2 EXPORTS OF GOODS AND SERVICES	1,231,105	1,428,975	1,672,966	1,844,918	1,914,406	2,390,328	2,745,667	3,059,878
3 IMPORTS OF GOODS AND SERVICES	1,274,551	1,455,282	1,696,140	1,895,169	2,078,886	2,539,626	2,780,830	2,986,139
4 SURPLUS WITH THE REST OF THE WORLD (4=2-3)	-43,445	-26,307	-23,175	-50,251	-164,480	-149,298	-35,163	73,739
5 TOTAL DOMESTIC CONSUMPTION (5=6+9)	2,448,007	2,796,910	3,172,131	3,544,851	4,083,454	4,449,648	4,834,715	5,281,701
6 FINAL CONSUMPTION (6=7+8)	1,897,596	2,167,093	2,420,623	2,668,462	3,007,247	3,297,482	3,676,235	4,030,745
7 PRIVATE CONSUMPTION	1,438,852	1,641,753	1,828,485	2,013,523	2,271,871	2,467,667	2,718,270	2,973,258
households	1,407,857	1,606,805	1,789,599	1,971,358	2,225,614	2,415,081	2,657,823	2,903,445
NPISHs	30,995	34,947	38,887	42,165	46,257	52,586	60,447	69,814
8 GOVERNMENT CONSUMPTION (individual and collective)	458,744	525,340	592,138	654,940	735,376	829,816	957,965	1,057,486
9 GROSS CAPITAL FORMATION (9=10+11)	550,411	629,817	751,508	876,388	1,076,207	1,152,166	1,158,480	1,250,957
10 GROSS FIXED CAPITAL FORMATION	503,145	604,208	727,429	842,872	1,033,197	1,098,894	1,158,679	1,211,519
11 CHANGES IN INVENTORIES AND VALUABLES	47,266	25,609	24,079	33,517	43,010	53,271	-199	39,438

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

| | SIT million, current prices | | | | | | EUR million | |
| | 2003 | 2004 | 2005 | 2006 | 2007 * | 2008 * | 2007 | 2008 |
				Estim.	Forecast	Forecast	Forecast	
1 **GROSS DOMESTIC PRODUCT (1=4+5)**	**5,813,540**	**6,271,795**	**6,620,145**	**7,055,200**	**7,586,400**	**8,098,200**	**31,657**	**33,793**
2 EXPORTS OF GOODS AND SERVICES	3,246,774	3,761,735	4,276,117	4,902,934	5,447,396	5,978,850	22,732	24,949
3 IMPORTS OF GOODS AND SERVICES	3,251,285	3,836,743	4,312,210	4,949,697	5,445,360	5,959,368	22,723	24,868
4 SURPLUS WITH THE REST OF THE WORLD (4=2-3)	-4,511	-75,009	-36,093	-46,763	2,037	19,483	9	81
5 TOTAL DOMESTIC CONSUMPTION (5=6+9)	5,818,051	6,346,804	6,656,237	7,101,963	7,584,363	8,078,717	31,649	33,712
6 FINAL CONSUMPTION (6=7+8)	4,381,447	4,666,049	4,931,809	5,226,119	5,556,432	5,900,320	23,187	24,622
7 PRIVATE CONSUMPTION	3,242,319	3,438,530	3,636,387	3,855,644	4,099,739	4,347,683	17,108	18,143
households	3,167,528	3,363,221	3,559,682	3,774,583	4,014,076	4,257,155	16,750	17,765
NPISH's	74,791	75,309	76,706	81,061	85,664	90,528	357	378
8 GOVERNMENT CONSUMPTION (individual and collective)	1,139,128	1,227,519	1,295,422	1,370,475	1,456,693	1,552,637	6,079	6,479
9 GROSS CAPITAL FORMATION (9=10+11)	1,436,604	1,680,755	1,724,428	1,875,844	2,027,930	2,178,397	8,462	9,090
10 GROSS FIXED CAPITAL FORMATION	1,353,058	1,536,746	1,617,250	1,792,285	1,942,902	2,090,262	8,108	8,723
11 CHANGES IN INVENTORIES AND VALUABLES	83,547	144,009	107,178	83,559	85,029	88,135	355	368

Source of data: SORS 1995-2005, BS, estimates and forecasts by IMAD.
Note: * To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro.IT.

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

structure in %, current pricese

	1995	1996	1997	1998	1999	2000	2001
1 GROSS DOMESTIC PRODUCT (1=4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 EXPORTS OF GOODS AND SERVICES	51.2	51.6	53.1	52.8	48.8	55.6	57.2
3 IMPORTS OF GOODS AND SERVICES	53.0	52.5	53.9	54.2	53.0	59.1	57.9
4 SURPLUS WITH THE REST OF THE WORLD (4=2-3)	-1.8	-0.9	-0.7	-1.4	-4.2	-3.5	-0.7
5 TOTAL DOMESTIC CONSUMPTION (5=6+9)	101.8	100.9	100.7	101.4	104.2	103.5	100.7
6 FINAL CONSUMPTION (6=7+8)	78.9	78.2	76.9	76.4	76.7	76.7	76.6
7 PRIVATE CONSUMPTION	59.8	59.3	58.1	57.6	58.0	57.4	56.6
households	58.5	58.0	56.8	56.4	56.8	56.2	55.4
NPISH's	1.3	1.3	1.2	1.2	1.2	1.2	1.3
8 GOVERNMENT CONSUMPTION (individual and collective)	19.1	19.0	18.8	18.7	18.8	19.3	20.0
9 GROSS CAPITAL FORMATION (9=10+11)	22.9	22.7	23.9	25.1	27.5	26.8	24.1
10 GROSS FIXED CAPITAL FORMATION	20.9	21.8	23.1	24.1	26.4	25.6	24.1
11 CHANGES IN INVENTORES AND VALUABLES	2.0	0.9	0.8	1.0	1.1	1.2	0.0

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

structure in %, current pricese

		2002	2003	2004	2005	2006	2007	2008
						Estimate	Forecast	Forecast
1	GROSS DOMESTIC PRODUCT (1=4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	EXPORTS OF GOODS AND SERVICES	57.1	55.8	60.0	64.6	69.5	71.8	73.8
3	IMPORTS OF GOODS AND SERVICES	55.8	55.9	61.2	65.1	70.2	71.8	73.6
4	SURPLUS WITH THE REST OF THE WORLD (4=2-3)	1.4	-0.1	-1.2	-0.5	-0.7	0.0	0.2
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	98.6	100.1	101.2	100.5	100.7	100.0	99.8
6	FINAL CONSUMPTION (6=7+8)	75.3	75.4	74.4	74.5	74.1	73.2	72.9
7	PRIVATE CONSUMPTION	55.5	55.8	54.8	54.9	54.6	54.0	53.7
	households	54.2	54.5	53.6	53.8	53.5	52.9	52.6
	NPISH's	1.3	1.3	1.2	1.2	1.1	1.1	1.1
8	GOVERNMENT CONSUMPTION (individual and collective)	19.7	19.6	19.6	19.6	19.4	19.2	19.2
9	ROSS CAPITAL FORMATION (9=10+11)	23.4	24.7	26.8	26.0	26.6	26.7	26.9
10	GROSS FIXED CAPITAL FORMATION	22.6	23.3	24.5	24.4	25.4	25.6	25.8
11	CHANGES IN INVENTORES AND VALUABLES	0.7	1.4	2.3	1.6	1.2	1.1	1.1

Source of data: SORS 1995-2005, BS, estimates and forecasts by IMAD.

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

SIT million

		1996	1997	1998	1999	2000	2001	2002	2003	2004
					Constant previous year prices					
1	GROSS DOMESTIC PRODUCT (1=4+5)	**2,494,285**	**2,904,768**	**3,270,919**	**3,684,010**	**4,079,676**	**4,414,601**	**4,965,320**	**5,497,364**	**6,070,840**
2	EXPORTS OF GOODS AND SERVICES	1,264,856	1,586,863	1,798,212	1,874,305	2,167,682	2,540,812	2,929,909	3,155,890	3,651,048
3	IMPORTS OF GOODS AND SERVICES	1,304,230	1,616,064	1,859,755	2,040,601	2,230,383	2,616,276	2,913,616	3,186,667	3,685,560
4	SURPLUS WITH THE REST OF THE WORLD (4=2-3)	-39,374	-29,200	-61,543	-166,296	-62,701	-75,464	16,294	-30,777	-34,512
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	2,533,659	2,933,968	3,332,462	3,850,305	4,142,378	4,490,065	4,949,026	5,528,140	6,105,352
6	FINAL CONSUMPTION (6=7+8)	1,954,680	2,227,026	2,505,802	2,812,270	3,042,055	3,387,059	3,743,709	4,150,646	4,505,482
7	PRIVATE CONSUMPTION	1,482,780	1,683,977	1,884,982	2,135,458	2,287,852	2,525,157	2,754,950	3,075,724	3,327,207
	households	1,451,679	1,650,188	1,845,393	2,090,220	2,240,139	2,470,027	2,691,390	3,005,307	3,255,194
	NPISHs	31,102	33,789	39,589	45,239	47,713	55,130	63,561	70,417	72,013
8	GOVERNMENT CONSUMPTION (individual and collective)	471,899	543,049	620,820	676,812	754,203	861,902	988,758	1,074,922	1,178,275
9	GROSS CAPITAL FORMATION (9=10+11)	578,979	706,942	826,659	1,038,035	1,100,323	1,103,006	1,205,317	1,377,495	1,599,870
10	GROSS FIXED CAPITAL FORMATION	555,236	685,687	794,807	996,422	1,051,703	1,103,046	1,169,330	1,296,953	1,459,991
11	CHANGES IN INVENTORIES AND VALUABLES	23,744	21,255	31,853	41,614	48,620	-39	35,988	80,542	139,879

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

| | | Constant 2004 prices (SIT million) | | | | EUR million | |
		2005	2006 Estimate	2007 * Forecast	2008 * Forecast	2007 Forecast	2008 Forecast
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**6,524,427**	**6,828,400**	**7,118,800**	**7,415,000**	**29,706**	**30,942**
2	EXPORTS OF GOODS AND SERVICES	4,157,224	4,570,863	4,950,245	5,368,590	20,657	22,403
3	IMPORTS OF GOODS AND SERVICES	4,106,912	4,480,641	4,827,779	5,201,931	20,146	21,707
4	SURPLUS WITH THE REST OF THE WORLD (4=2-3)	50,312	90,222	122,466	166,659	511	695
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	6,474,115	6,738,178	6,996,334	7,248,340	29,195	30,247
6	FINAL CONSUMPTION (6=7+8)	4,811,325	4,964,448	5,130,029	5,301,594	21,407	22,123
7	PRIVATE CONSUMPTION	3,556,451	3,675,039	3,808,384	3,943,591	15,892	16,456
	households	3,482,790	3,599,463	3,730,843	3,864,034	15,569	16,124
	NPISH's	73,661	75,576	77,541	79,557	324	332
8	GOVERNMENT CONSUMPTION (individual and collective)	1,254,875	1,289,409	1,321,644	1,358,003	5,515	5,667
9	GROSS CAPITAL FORMATION (9=10+11)	1,662,790	1,773,730	1,866,305	1,946,746	7,788	8,124
10	GROSS FIXED CAPITAL FORMATION	1,559,267	1,694,144	1,786,491	1,866,008	7,455	7,787
11	CHANGES IN INVENTORIES AND VALUABLES	103,523	79,586	79,814	80,738	333	337

Source of data: SORS 1996-2005, BS, estimates and forecasts by IMAD.
Note: *To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro.

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

Real growth rates in %

							Constant previous year prices			
		1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**3.7**	**4.8**	**3.9**	**5.4**	**4.1**	**2.7**	**3.5**	**2.7**	**4.4**
2	EXPORTS OF GOODS AND SERVICES	2.7	11.0	7.5	1.6	13.2	6.3	6.7	3.1	12.5
3	IMPORTS OF GOODS AND SERVICES	2.3	11.0	9.6	7.7	7.3	3.0	4.8	6.7	13.4
4	SURPLUS WITH THE REST OF THE WORLD[1]	0.2	-0.1	-1.2	-3.3	2.6	1.7	1.1	-2.0	-0.5
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	3.5	4.9	5.1	8.6	1.4	0.9	2.4	4.7	4.9
6	FINAL CONSUMPTION (6=7+8)	3.0	2.8	3.5	5.4	1.2	2.7	1.8	3.0	2.8
7	PRIVATE CONSUMPTION	3.1	2.6	3.1	6.1	0.7	2.3	1.3	3.4	2.6
	households	3.1	2.7	3.1	6.0	0.7	2.3	1.3	3.5	2.8
	NPISH's	0.3	-3.3	1.8	7.3	3.1	4.8	5.2	0.9	-3.7
8	GOVERNMENT CONSUMPTION (individual and collective)	2.9	3.4	4.8	3.3	2.6	3.9	3.2	1.6	3.4
9	GROSS CAPITAL FORMATION (9=10+11)	5.2	12.2	10.0	18.4	2.2	-4.3	4.0	10.1	11.4
	in which:									
10	GROSS FIXED CAPITAL FORMATION	10.4	13.5	9.3	18.2	1.8	0.4	0.9	7.1	7.9
11	*CHANGES IN INVENTORIES AND VALUABLES* [1]	*-1.0*	*-0.2*	*0.2*	*0.2*	*0.1*	*-1.2*	*0.8*	*0.8*	*1.0*

Cont. on the next page.

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

Real growth rates in %

	2005	2006 Estimate	2007	2008
		Constant 2004 prices		
			Forecast	
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**4.0**	**4.7**	**4.3**	**4.2**
2	EXPORTS OF GOODS AND SERVICES	10.5	9.9	8.3	8.5
3	IMPORTS OF GOODS AND SERVICES	7.0	9.1	7.7	7.7
4	SURPLUS WITH THE REST OF THE WORLD[1]	2.0	0.6	0.5	0.6
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	2.0	4.1	3.8	3.6
6	FINAL CONSUMPTION (6=7+8)	3.1	3.2	3.3	3.3
7	PRIVATE CONSUMPTION	3.4	3.3	3.6	3.6
	households	3.6	3.3	3.6	3.6
	NPISH's	-2.2	2.6	2.6	2.6
8	GOVERNMENT CONSUMPTION (individual and collective)	2.2	2.8	2.5	2.8
9	GROSS CAPITAL FORMATION (9=10+11)	-1.1	6.7	5.2	4.3
10	GROSS FIXED CAPITAL FORMATION	1.5	8.6	5.5	4.5
11	*CHANGES IN INVENTORIES AND VALUABLES [1]*	*-0.6*	*-0.4*	*0.0*	*0.0*

Source of data: SORS 1996-2005, BS, estimates and forecasts by IMAD.
Note: [1]Contribution to real GDP growth (percentage points).

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

SIT million, current prices

		1995	1996	1997	1998	1999	2000	2001	2002
1	**GROSS DOMESTIC PRODUCT**	**2,404,561**	**2,770,603**	**3,148,957**	**3,494,600**	**3,918,974**	**4,300,350**	**4,799,552**	**5,355,440**
2	Net primary incomes with the rest of the world (a-b)	22,593	21,092	12,292	10,586	14,226	4,480	12,461	-30,892
	a) primary incomes receivable from the ROW	41,523	50,694	57,330	65,830	73,981	91,877	107,063	107,128
	b) primary incomes payable to the ROW	18,931	29,601	45,039	55,244	59,755	87,396	94,602	138,020
3	GROSS NATIONAL INCOME (3 =1+2)	2,427,154	2,791,695	3,161,248	3,505,186	3,933,200	4,304,830	4,812,013	5,324,548
4	Net current transfers with the rest of the world (c-d)	11,206	11,221	18,854	20,080	22,231	26,388	32,130	13,653
	c) current transfers receivable from the ROW	33,156	39,172	46,681	54,950	63,955	80,909	100,484	117,797
	d) current transfers payable to the ROW	21,950	27,951	27,827	34,870	41,724	54,521	68,354	104,144
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	2,438,359	2,802,917	3,180,103	3,525,266	3,955,431	4,331,218	4,844,143	5,338,201
6	FINAL CONSUMPTION EXPENDITURE (e+f)	1,897,596	2,167,093	2,420,623	2,668,462	3,007,247	3,297,482	3,676,235	4,030,745
	e) Private consumption	1,438,852	1,641,753	1,828,485	2,013,523	2,271,871	2,467,667	2,718,270	2,973,258
	f) Government consumption	458,744	525,340	592,138	654,940	735,376	829,816	957,965	1,057,486
7	GROSS SAVING (7=5-6)	540,764	635,824	759,479	856,804	948,184	1,033,736	1,167,908	1,307,456
8	GROSS CAPITAL FORMATION	550,411	629,817	751,508	876,388	1,076,207	1,152,166	1,158,480	1,250,957
	in which:								
	Gross fixed capital formation	503,145	604,208	727,429	842,872	1,033,197	1,098,894	1,158,679	1,211,519
	Changes in inventories and valuables	47,266	25,609	24,079	33,517	43,010	53,271	-199	39,438
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-9,647	6,007	7,971	-19,585	-128,023	-118,430	9,428	56,500

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

	2003	2004	2005	2006 Estimate	2007* Forecast	2008* Forecast	2007 Forecast	2008 Forecast
	SIT million, current prices						EUR million	
1 GROSS DOMESTIC PRODUCT	**5,813,540**	**6,271,795**	**6,620,145**	**7,055,200**	**7,586,400**	**8,098,200**	**31,657**	**33,793**
2 Net primary incomes with the rest of the world (a-b)	-46,845	-75,400	-61,078	-88,667	-89,625	-110,953	-374	-463
a) primary incomes receivable from the ROW	114,650	134,182	175,716	179,730	196,505	215,916	820	901
b) primary incomes payable to the ROW	161,494	209,582	236,794	268,397	286,130	326,869	1,194	1,364
3 GROSS NATIONAL INCOME (3 =1+2)	**5,766,695**	**6,196,395**	**6,559,066**	**6,966,533**	**7,496,775**	**7,987,246**	**31,283**	**33,330**
4 Net current transfers with the rest of the world (c-d)	3,527	-14,815	-32,675	-30,674	-33,070	-6,710	-138	-28
c) current transfers receivable from the ROW	113,887	132,971	153,354	184,523	206,570	256,415	862	1,070
d) current transfers payable to the ROW	110,360	147,786	186,029	215,197	239,640	263,125	1,000	1,098
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	**5,770,222**	**6,181,580**	**6,526,391**	**6,935,859**	**7,463,704**	**7,980,536**	**31,145**	**33,302**
6 FINAL CONSUMPTION EXPENDITURE (e+f)	**4,381,447**	**4,666,049**	**4,931,809**	**5,226,119**	**5,556,432**	**5,900,320**	**23,187**	**24,622**
e) Private consumption	3,242,319	3,438,530	3,636,387	3,855,644	4,099,739	4,347,683	17,108	18,143
f) Government consumption	1,139,128	1,227,519	1,295,422	1,370,475	1,456,693	1,552,637	6,079	6,479
7 GROSS SAVING (7=5-6)	**1,388,776**	**1,515,531**	**1,594,581**	**1,709,741**	**1,907,272**	**2,080,216**	**7,959**	**8,681**
8 GROSS CAPITAL FORMATION	**1,436,604**	**1,680,755**	**1,724,428**	**1,875,844**	**2,027,930**	**2,178,397**	**8,462**	**9,090**
in which:								
Gross fixed capital formation	1,353,058	1,536,746	1,617,250	1,792,285	1,942,902	2,090,262	8,108	8,723
Changes in inventories and valuables	83,547	144,009	107,178	83,559	85,029	88,135	355	368
9 SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	**-47,829**	**-165,224**	**-129,846**	**-166,103**	**-120,658**	**-98,181**	**-503**	**-410**

Source of data: SORS 1995-2005, BS, estimates and forecasts by IMAD.
Note: *To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro.

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

structure in %, current pricese

	1995	1996	1997	1998	1999	2000	2001
1 GROSS DOMESTIC PRODUCT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2 Net primary incomes with the rest of the world (a-b)	0.9	0.8	0.4	0.3	0.4	0.1	0.3
a) primary incomes receivable from the ROW	1.7	1.8	1.8	1.9	1.9	2.1	2.2
b) primary incomes payable to the ROW	0.8	1.1	1.4	1.6	1.5	2.0	2.0
3 GROSS NATIONAL INCOME (3=1+2)	100.9	100.8	100.4	100.3	100.4	100.1	100.3
4 Net current transfers with the rest of the world (c-d)	0.5	0.4	0.6	0.6	0.6	0.6	0.7
c) current transfers receivable from the ROW	1.4	1.4	1.5	1.6	1.6	1.9	2.1
d) current transfers payable to the ROW	0.9	1.0	0.9	1.0	1.1	1.3	1.4
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	101.4	101.2	101.0	100.9	100.9	100.7	100.9
6 FINAL CONSUMPTION EXPENDITURE (e+f)	78.9	78.2	76.9	76.4	76.7	76.7	76.6
e) Private consumption	59.8	59.3	58.1	57.6	58.0	57.4	56.6
f) Government consumption	19.1	19.0	18.8	18.7	18.8	19.3	20.0
7 GROSS SAVING (7=5-6)	22.5	22.9	24.1	24.5	24.2	24.0	24.3
8 GROSS CAPITAL FORMATION	22.9	22.7	23.9	25.1	27.5	26.8	24.1
in which:							
Gross fixed capital formation	20.9	21.8	23.1	24.1	26.4	25.6	24.1
Changes in inventories and valuables	2.0	0.9	0.8	1.0	1.1	1.2	0.0
9 SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-0.4	0.2	0.3	-0.6	-3.3	-2.8	0.2

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

structure in %, current prices

	2002	2003	2004	2005	2006 Estimate	2007 Forecast	2008 Forecast
1 GROSS DOMESTIC PRODUCT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2 Net primary incomes with the rest of the world (a-b)	-0.6	-0.8	-1.2	-0.9	-1.3	-1.2	-1.4
a) primary incomes receivable from the ROW	2.0	2.0	2.1	2.7	2.5	2.6	2.7
b) primary incomes payable to the ROW	2.6	2.8	3.3	3.6	3.8	3.8	4.0
3 GROSS NATIONAL INCOME (3=1+2)	99.4	99.2	98.8	99.1	98.7	98.8	98.6
4 Net current transfers with the rest of the world (c-d)	0.3	0.1	-0.2	-0.5	-0.4	-0.4	-0.1
c) current transfers receivable from the ROW	2.2	2.0	2.1	2.3	2.6	2.7	3.2
d) current transfers payable to the ROW	1.9	1.9	2.4	2.8	3.1	3.2	3.2
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	99.7	99.3	98.6	98.6	98.3	98.4	98.5
6 FINAL CONSUMPTION EXPENDITURE (e+f)	75.3	75.4	74.4	74.5	74.1	73.2	72.9
e) Private consumption	55.5	55.8	54.8	54.9	54.6	54.0	53.7
f) Government consumption	19.7	19.6	19.6	19.6	19.4	19.2	19.2
7 GROSS SAVING (7=5-6)	24.4	23.9	24.2	24.1	24.2	25.1	25.7
8 GROSS CAPITAL FORMATION	23.4	24.7	26.8	26.0	26.6	26.7	26.9
in which:							
Gross fixed capital formation	22.6	23.3	24.5	24.4	25.4	25.6	25.8
Changes in inventories and valuables	0.7	1.4	2.3	1.6	1.2	1.1	1.1
9 SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	1.1	-0.8	-2.6	-2.0	-2.4	-1.6	-1.2

Source of data: SORS 1995-2005, BS, estimates and forecasts by IMAD.

Table 8: **Balance of payments**

EUR million

	1996	1997	1998	1999	2000	2001	2002
I. CURRENT ACCOUNT	32	43	-108	-664	-583	38	247
1. GOODS	-671	-684	-708	-1,164	-1,227	-684	-265
1.1. Exports of goods	6,671	7,438	8,088	8,103	9,574	10,454	11,082
1.2. Imports of goods	7,342	8,122	8,796	9,267	10,801	11,139	11,347
2. SERVICES	511	561	447	330	489	536	620
2.1. Exports	1,704	1,810	1,804	1,763	2,052	2,178	2,440
- Transport	384	412	481	490	534	559	635
- Travel	989	1,048	971	900	1,045	1,105	1,143
- Other	331	350	352	373	473	514	662
2.2. Imports	1,193	1,249	1,357	1,434	1,562	1,642	1,820
- Transport	327	327	366	357	385	356	385
- Travel	481	463	501	512	556	601	635
- Other	385	459	490	565	621	685	800
1.+2. BALANCE OF GOODS & SERVICES	-160	-123	-261	-835	-738	-149	355
Exports of goods and services	8,375	9,248	9,893	9,867	11,626	12,632	13,521
Imports of goods and services	8,534	9,372	10,154	10,701	12,364	12,781	13,166
3. INCOME	122	66	49	58	29	43	-168
3.1. Receipts	330	346	368	400	471	511	490
Compensation of employees	187	182	183	194	204	197	207
Investment	143	165	184	206	268	314	282
3.2. Expenditures	208	281	319	342	442	468	657
Compensation of employees	19	23	24	23	29	30	47
Investment	189	257	294	319	413	438	610
4. CURRENT TRANSFERS	70	101	104	112	125	144	60
4.1. In Slovenia	200	230	266	316	371	436	500
4.2. Abroad	130	129	162	203	245	293	439
II. CAPITAL AND FINANCIAL ACCOUNT	-34	-111	53	625	542	-148	3
A. CAPITAL ACCOUNT	-1	1	-1	-1	4	-4	-164
1. Capital transfers	1	2	0	0	1	1	-163
2. Non-produced non-financial assets	-2	-1	-1	-1	3	-5	-1
B. FINANCIAL ACCOUNT	-32	-112	54	625	538	-144	167
1. Direct investment	133	267	199	55	77	251	1,556
Domestic abroad	-6	-28	5	-45	-72	-161	-166
Foreign in Slovenia	138	295	194	99	149	412	1,722
2. Portfolio investment	508	212	82	324	185	80	-69
3. Financial derivatives	0	0	0	0	0	0	0
4. Other investment	-209	549	-81	159	462	964	565
4.1. Assets	-344	230	-405	-540	-576	248	-538
4.2. Liabilities	134	319	324	699	1,038	716	1,104
5. Reserve assets (BS)	-463	-1,141	-146	88	-187	-1,439	-1,885
III. NET ERRORS AND OMISSIONS	2	68	55	40	41	110	-250

Table 8: **Balance of payments**

EUR million

	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
I. CURRENT ACCOUNT	-196	-720	-547	-693	-503	-410
1. GOODS	-543	-1,009	-1,026	-1,113	-985	-950
1.1. Exports of goods	11,417	12,933	14,599	16,922	18,855	20,738
1.2. Imports of goods	11,960	13,942	15,625	18,035	19,840	21,688
2. SERVICES	540	688	856	918	994	1,031
2.1. Exports	2,465	2,783	3,210	3,541	3,877	4,211
- Transport	680	809	923	1,054	1,177	1,309
- Travel	1,186	1,312	1,448	1,533	1,667	1,808
- Other	599	662	839	954	1,032	1,094
2.2. Imports	1,925	2,095	2,354	2,624	2,883	3,180
- Transport	420	485	525	594	657	724
- Travel	664	703	770	826	878	933
- Other	841	906	1,060	1,203	1,348	1,522
1.+2. BALANCE OF GOODS & SERVICES	-3	-322	-170	-195	9	81
Exports of goods and services	13,882	15,715	17,809	20,463	22,732	24,949
Imports of goods and services	13,885	16,037	17,979	20,658	22,723	24,868
3. INCOME	-219	-322	-283	-370	-374	-463
3.1. Receipts	510	530	641	750	820	901
Compensation of employees	192	201	205	201	225	230
Investment	318	329	436	549	595	671
3.2. Expenditures	728	852	924	1,120	1,194	1,364
Compensation of employees	57	63	73	65	75	85
Investment	671	789	851	1,055	1,119	1,279
4. CURRENT TRANSFERS	26	-76	-94	-128	-138	-28
4.1. In Slovenia	474	561	708	770	862	1,070
4.2. Abroad	449	638	802	898	1,000	1,098
II. CAPITAL AND FINANCIAL ACCOUNT	46	698	404	-	-	-
A. CAPITAL ACCOUNT	-165	-96	-114	-	-	-
1. Capital transfers	-164	-96	-109	-	-	-
2. Non-produced non-financial assets	-2	0	-5	-	-	-
B. FINANCIAL ACCOUNT	211	794	518	-	-	-
1. Direct investment	-151	224	-58	-	-	-
Domestic abroad	-421	-441	-503	-	-	-
Foreign in Slovenia	270	665	445	-	-	-
2. Portfolio investment	-223	-637	-1,618	-	-	-
3. Financial derivatives	0	6	-10	-	-	-
4. Other investment	849	945	2,393	-	-	-
4.1. Assets	-730	-1,308	-1,531	-	-	-
4.2. Liabilities	1,579	2,252	3,924	-	-	-
5. Reserve assets (BS)	-264	256	-189	-	-	-
III. NET ERRORS AND OMISSIONS	150	22	144	-	-	-

Source of data: SORS, BS, estimates and forecasts by IMAD.
Note: Exports and imports of goods are based on the F.O.B. parity and coverage adjustment.

Table 9: **Exports and imports of goods and services by end-use of products**

	1996	1997	1998	1999	2000	2001	2002
Absolute data, EUR million							
1. Exports of goods	6,671	7,438	8,088	8,103	9,574	10,454	11,082
capital goods	803	942	1,045	1,023	1,230	1,432	1,559
intermediate goods	3,007	3,386	3,672	3,807	4,684	5,091	5,302
consumption goods	2,861	3,110	3,372	3,273	3,661	3,931	4,221
2. Exports of services	1,704	1,810	1,804	1,763	2,052	2,178	2,440
3. EXPORTS TOTAL	8,375	9,248	9,893	9,867	11,626	12,632	13,522
4. Imports of goods	7,342	8,122	8,796	9,267	10,801	11,139	11,347
capital goods	1,184	1,310	1,570	1,788	1,948	1,973	2,031
intermediate goods	4,207	4,735	5,025	5,100	6,443	6,579	6,682
consumption goods	1,951	2,078	2,202	2,379	2,410	2,587	2,633
5. Imports of services	1,193	1,249	1,357	1,434	1,562	1,642	1,820
6. IMPORTS TOTAL	8,534	9,372	10,154	10,701	12,364	12,781	13,167
7. BALANCE of goods and services	-160	-123	-261	-835	-738	-149	355
Services	511	561	447	330	489	536	620
Goods	-671	-684	-708	-1,164	-1,227	-684	-265
8. Exports to imports ratio (in %)	91	92	92	87	89	94	98
Nominal growth rates in %							
1. Exports of goods	-	11.5	8.7	0.2	18.2	9.2	6.0
capital goods	-	17.3	10.9	-2.0	20.2	16.4	8.9
intermediate goods	-	12.6	8.4	3.7	23.0	8.7	4.1
consumption goods	-	8.7	8.4	-2.9	11.9	7.4	7.4
2. Exports of services	-	6.2	-0.3	-2.3	16.3	6.1	12.0
3. EXPORTS TOTAL	-	10.4	7.0	-0.3	17.8	8.7	7.0
4. Imports of goods	-	10.6	8.3	5.4	16.6	3.1	1.9
capital goods	-	10.6	19.9	13.9	8.9	1.3	3.0
intermediate goods	-	12.5	6.1	1.5	26.3	2.1	1.6
consumption goods	-	6.5	6.0	8.0	1.3	7.3	1.8
5. Imports of services	-	4.7	8.7	5.6	9.0	5.1	10.8
6. IMPORTS TOTAL	-	9.8	8.3	5.4	15.5	3.4	3.0

Table 9: **Exports and imports of goods and services by end-use of products**

	2003	2004	2005	2006 Estim.	2007 Forecast	2008
Absolute data, EUR million						
1. Exports of goods	11,417	12,933	14,599	16,922	18,855	20,738
capital goods	1,653	1,895	2,086	2,454	2,772	3,069
intermediate goods	5,527	6,416	7,088	8,241	9,201	10,141
consumption goods	4,237	4,622	5,424	6,227	6,882	7,528
2. Exports of services	2,465	2,782	3,210	3,541	3,877	4,211
3. EXPORTS TOTAL	13,882	15,715	17,809	20,463	22,732	24,949
4. Imports of goods	11,960	13,942	15,625	18,035	19,840	21,688
capital goods	2,269	2,459	2,594	2,995	3,249	3,467
intermediate goods	6,917	8,230	9,426	11,081	12,375	13,760
consumption goods	2,774	3,253	3,605	3,958	4,217	4,461
5. Imports of services	1,924	2,096	2,354	2,624	2,883	3,180
6. IMPORTS TOTAL	13,884	16,038	17,979	20,658	22,723	24,868
7. BALANCE of goods and services	-2	-323	-170	-195	9	81
Services	541	686	856	918	994	1,031
Goods	-543	-1,009	-1,026	-1,113	-985	-950
8. Exports to imports ratio (in %)	95	93	93	94	95	96
Nominal growth rates in %						
1. Exports of goods	3.0	13.3	12.9	15.9	11.4	10.0
capital goods	6.1	14.6	10.1	17.6	13.0	10.7
intermediate goods	4.2	16.1	10.5	16.3	11.7	10.2
consumption goods	0.4	9.1	17.4	14.8	10.5	9.4
2. Exports of services	1.0	12.9	15.4	10.3	9.5	8.6
3. EXPORTS TOTAL	2.7	13.2	13.3	14.9	11.1	9.8
4. Imports of goods	5.4	16.6	12.1	15.4	10.0	9.3
capital goods	11.7	8.4	5.5	15.4	8.5	6.7
intermediate goods	3.5	19.0	14.5	17.6	11.7	11.2
consumption goods	5.3	17.3	10.8	9.8	6.5	5.8
5. Imports of services	5.7	8.9	12.3	11.5	9.9	10.3
6. IMPORTS TOTAL	5.4	15.5	12.1	14.9	10.0	9.4

Source of data: SORS, BS, estimates and forecasts by IMAD.
Note: Exports and imports of goods are based on the F.O.B. parity and coverage adjustment..

Table 10a: **Foreign trade by geographical area**

						EXPORTS (f.o.b.) EUR million					
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
TOTAL	6,637	7,405	8,053	8,031	9,492	10,347	10,962	11,285	12,783	14,397
DEVELOPED INDUSTRIAL COUNTRIES	4,665	5,125	5,738	5,820	6,706	7,046	7,249	7,437	9,410	10,681
EUROPEAN UNION	4,286	4,703	5,271	5,303	6,056	6,432	6,509	6,595	8,505	9,770
Germany	2,032	2,174	2,289	2,466	2,575	2,715	2,714	2,610	2,760	2,863
Italy	881	1,103	1,113	1,103	1,290	1,290	1,323	1,478	1,664	1,818
France	478	409	665	460	672	703	734	638	822	1,185
United Kingdom	129	133	143	160	203	290	268	252	289	358
Netherlands	100	109	127	135	164	172	183	197	190	207
Belgium	61	75	140	125	106	112	97	93	141	159
Spain	35	47	61	71	91	100	116	164	195	258
Denmark	38	48	67	75	89	97	97	102	127	146
Greece	18	21	20	23	26	33	36	39	63	59
Ireland	3	5	4	8	15	15	14	17	20	21
Portugal	10	12	11	11	17	17	22	20	24	50
Luxembourg	2	1	3	9	4	3	8	26	35	47
Austria	440	501	553	584	714	773	774	827	955	1,160
Finland	16	16	17	16	24	30	27	26	29	40
Sweden	43	49	58	57	66	82	97	105	124	155
Cyprus	-	-	-	-	-	-	-	-	4	5
Malta	-	-	-	-	-	-	-	-	1	1
Estonia	-	-	-	-	-	-	-	-	8	12
Latvia	-	-	-	-	-	-	-	-	15	12
Lithuania	-	-	-	-	-	-	-	-	29	31
Czech Republic	-	-	-	-	-	-	-	-	245	320
Hungary	-	-	-	-	-	-	-	-	249	284
Poland	-	-	-	-	-	-	-	-	344	364
Slovakia	-	-	-	-	-	-	-	-	174	213
EFTA	66	76	87	106	136	134	207	176	166	219

Cont. on the next page.

Table 10a: **Foreign trade by geographical area**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
				EXPORTS (f.o.b.) EUR million						
Switzerland	54	62	69	84	111	108	180	150	139	188
Norway	10	12	14	17	19	19	22	22	21	27
Liechtenstein	2	2	3	3	5	6	4	3	3	2
Island	0	0	1	2	1	1	1	1	3	2
OTHER OECD	272	301	340	364	440	400	447	586	634	561
of which:										
United States of America	196	215	225	243	293	273	297	410	400	294
Other countries	76	86	115	121	147	128	150	176	234	267
OTHER DEVELOPED COUNTRIES	42	44	40	47	74	80	85	80	105	131
DEVELOPING COUNTRIES	1,967	2,277	2,310	2,207	2,784	3,301	3,713	3,848	3,373	3,716
COUNTRIES OF FORMER YUGOSLAVIA	1,106	1,229	1,244	1,220	1,486	1,750	1,952	1,967	2,251	2,476
Croatia	683	742	727	631	750	894	955	1,007	1,167	1,304
Macedonia	136	132	142	167	171	147	159	143	139	134
Bosnia and Herzegovina	210	255	283	342	408	445	492	471	491	515
Serbia & Montenegro	77	100	92	80	157	264	347	346	455	523
FORMER USSR COUNTRIES	312	384	297	201	309	460	509	550	604	686
of which: Russian Federation	238	290	212	122	210	315	320	347	420	467
CEFTA COUNTRIES	385	458	540	585	752	828	954	1,044	194	232
Czech Republic	117	130	133	149	165	188	201	205	-	-
Slovakia	46	50	65	58	76	93	132	162	-	-
Hungary	84	107	126	136	183	175	196	223	-	-
Poland	113	138	161	179	245	271	305	311	-	-
Romania	18	22	38	39	53	65	79	91	115	146
Bulgaria	7	11	17	24	30	36	42	52	79	86
Other European countries	10	7	6	6	8	12	13	13	16	18
OTHER COUNTRIES	154	199	223	195	229	250	285	273	308	303
Unclassified	5	3	5	4	2	0	0	0	0	0

Table 10a: Foreign trade by geographical area

	IMPORTS (c.i.f.) EUR million									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL	7,536	8,287	8,999	9,478	10,984	11,344	11,574	12,239	14,143	15,805
DEVELOPED INDUSTRIAL COUNTRIES	5,860	6,375	7,205	7,560	8,595	8,753	8,947	9,368	12,422	13,677
EUROPEAN UNION	5,089	5,586	6,242	6,527	7,444	7,675	7,870	8,233	11,647	12,789
Germany	1,635	1,713	1,860	1,945	2,082	2,178	2,216	2,359	2,872	3,163
Italy	1,274	1,380	1,510	1,586	1,917	2,004	2,070	2,240	2,673	3,014
France	741	867	1,117	1,033	1,128	1,205	1,190	1,230	1,166	1,157
United Kingdom	167	213	208	290	337	292	278	256	243	236
Netherlands	156	177	200	196	230	219	240	257	508	572
Belgium	116	132	138	140	159	176	170	170	268	336
Spain	136	176	207	219	286	295	356	249	385	490
Denmark	33	41	49	50	57	63	67	67	71	71
Greece	10	13	17	23	24	36	51	38	40	43
Ireland	23	23	31	36	41	42	39	49	31	35
Portugal	4	10	12	10	13	17	19	22	26	40
Luxembourg	6	9	15	17	21	25	29	32	38	57
Austria	668	698	713	757	906	944	956	1,052	1,864	1,953
Finland	31	37	38	50	63	62	72	75	43	48
Sweden	89	97	127	175	180	115	116	137	146	126
Cyprus	-	-	-	-	-	-	-	-	13	9
Malta	-	-	-	-	-	-	-	-	3	0
Estonia	-	-	-	-	-	-	-	-	2	1
Latvia	-	-	-	-	-	-	-	-	6	2
Lithuania	-	-	-	-	-	-	-	-	3	4
Czech Republic	-	-	-	-	-	-	-	-	345	380
Hungary	-	-	-	-	-	-	-	-	540	603
Poland	-	-	-	-	-	-	-	-	189	239
Slovakia	-	-	-	-	-	-	-	-	173	211
EFTA	199	171	185	226	230	192	202	221	240	219

Table 10a: **Foreign trade by geographical area**

	IMPORTS (c.i.f.) EUR million									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Switzerland	143	143	153	204	175	170	186	200	229	205
Norway	54	26	31	21	53	20	15	20	9	12
Liechtenstein	1	1	1	1	1	1	1	1	1	2
Island	1	1	0	0	1	0	0	0	0	0
OTHER OECD	467	482	657	673	738	732	715	761	452	550
of which:										
United States of America	260	254	263	275	325	333	333	294	166	145
Other countries	207	228	394	398	413	399	382	467	287	405
OTHER DEVELOPED COUNTRIES	105	136	121	134	183	154	160	154	83	119
DEVELOPING COUNTRIES	1,675	1,911	1,794	1,917	2,388	2,591	2,627	2,870	1,721	2,129
COUNTRIES OF FORMER YUGOSLAVIA	567	525	528	539	648	604	575	613	805	1,034
Croatia	472	412	385	418	487	451	419	445	514	609
Macedonia	57	50	42	35	53	30	26	22	26	29
Bosnia and Herzegovina	12	26	41	52	63	70	69	78	152	208
Serbia & Montenegro	26	37	60	34	45	53	61	68	113	188
FORMER USSR COUNTRIES	189	250	194	189	286	361	342	381	359	390
of which: Russian Federation	166	220	160	150	251	315	269	311	300	334
CEFTA COUNTRIES	518	638	692	801	997	1,081	1,094	1,121	109	171
Czech Republic	189	207	236	264	273	278	288	308	-	-
Slovakia	74	92	80	86	144	160	162	163	-	-
Hungary	191	259	217	252	320	352	341	352	-	-
Poland	39	52	69	104	150	161	168	189	-	-
Romania	19	15	43	43	61	95	98	70	86	126
Bulgaria	6	13	47	52	49	35	36	38	24	45
Other European countries	14	2	2	2	2	6	2	3	1	2
OTHER COUNTRIES	387	496	378	386	455	539	614	752	446	532
Unclassified	1	1	0	1	1	0	0	0	0	0

Source of data: SORS.
Note: Exports by destination country, imports by country of origin (extrastat) and imports by country of consignment (intrastat).

Table 10b: **Foreign trade by geographical area**

					EXPORTS (f.o.b.) structure in %					
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	70.3	69.2	71.3	72.5	70.7	68.1	66.1	65.9	73.6	74.2
EUROPEAN UNION	64.6	63.5	65.5	66.0	63.8	62.2	59.4	58.4	66.5	67.9
Germany	30.6	29.4	28.4	30.7	27.1	26.2	24.8	23.1	21.6	19.9
Italy	13.3	14.9	13.8	13.7	13.6	12.5	12.1	13.1	13.0	12.6
France	7.2	5.5	8.3	5.7	7.1	6.8	6.7	5.7	6.4	8.2
United Kingdom	1.9	1.8	1.8	2.0	2.1	2.8	2.4	2.2	2.3	2.5
Netherlands	1.5	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.5	1.4
Belgium	0.9	1.0	1.7	1.6	1.1	1.1	0.9	0.8	1.1	1.1
Spain	0.5	0.6	0.8	0.9	1.0	1.0	1.1	1.5	1.5	1.8
Denmark	0.6	0.6	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0
Greece	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.5	0.4
Ireland	0.0	0.1	0.0	0.1	0.2	0.1	0.1	0.2	0.2	0.1
Portugal	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Luxembourg	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.2	0.3	0.3
Austria	6.6	6.8	6.9	7.3	7.5	7.5	7.1	7.3	7.5	8.1
Finland	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.3
Sweden	0.6	0.7	0.7	0.7	0.7	0.8	0.9	0.9	1.0	1.1
Cyprus	-	-	-	-	-	-	-	-	0.0	0.0
Malta	-	-	-	-	-	-	-	-	0.0	0.0
Estonia	-	-	-	-	-	-	-	-	0.1	0.1
Latvia	-	-	-	-	-	-	-	-	0.1	0.1
Lithuania	-	-	-	-	-	-	-	-	0.2	0.2
Czech Republic	-	-	-	-	-	-	-	-	1.9	2.2
Hungary	-	-	-	-	-	-	-	-	1.9	2.0
Poland	-	-	-	-	-	-	-	-	2.7	2.5
Slovakia	-	-	-	-	-	-	-	-	1.4	1.5
EFTA	1.0	1.0	1.1	1.3	1.4	1.3	1.9	1.6	1.3	1.5

Table 10b: **Foreign trade by geographical area**

	EXPORTS (f.o.b.) structure in %									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Switzerland	0.8	0.8	0.9	1.0	1.2	1.0	1.6	1.3	1.1	1.3
Norway	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Liechtenstein	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER OECD	4.1	4.1	4.2	4.5	4.6	3.9	4.1	5.2	5.0	3.9
of which:										
United States of America	3.0	2.9	2.8	3.0	3.1	2.6	2.7	3.6	3.1	2.0
Other countries	1.1	1.2	1.4	1.5	1.5	1.2	1.4	1.6	1.8	1.9
OTHER DEVELOPED COUNTRIES	0.6	0.6	0.5	0.6	0.8	0.8	0.8	0.7	0.8	0.9
DEVELOPING COUNTRIES	29.6	30.7	28.7	27.5	29.3	31.9	33.9	34.1	26.4	25.8
COUNTRIES OF FORMER YUGOSLAVIA	16.7	16.6	15.4	15.2	15.7	16.9	17.8	17.4	17.6	17.2
Croatia	10.3	10.0	9.0	7.9	7.9	8.6	8.7	8.9	9.1	9.1
Macedonia	2.0	1.8	1.8	2.1	1.8	1.4	1.4	1.3	1.1	0.9
Bosnia and Herzegovina	3.2	3.4	3.5	4.3	4.3	4.3	4.5	4.2	3.8	3.6
Serbia & Montenegro	1.2	1.4	1.1	1.0	1.7	2.5	3.2	3.1	3.6	3.6
FORMER USSR COUNTRIES	4.7	5.2	3.7	2.5	3.3	4.5	4.6	4.9	4.7	4.8
of which: Russian Federation	3.6	3.9	2.6	1.5	2.2	3.0	2.9	3.1	3.3	3.2
CEFTA COUNTRIES	5.8	6.2	6.7	7.3	7.9	8.0	8.7	9.3	1.5	1.6
Czech Republic	1.8	1.8	1.7	1.9	1.7	1.8	1.8	1.8	-	-
Slovakia	0.7	0.7	0.8	0.7	0.8	0.9	1.2	1.4	-	-
Hungary	1.3	1.4	1.6	1.7	1.9	1.7	1.8	2.0	-	-
Poland	1.7	1.9	2.0	2.2	2.6	2.6	2.8	2.8	-	-
Romania	0.3	0.3	0.5	0.5	0.6	0.6	0.7	0.8	0.9	1.0
Bulgaria	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.5	0.6	0.6
Other European countries	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OTHER COUNTRIES	2.3	2.7	2.8	2.4	2.4	2.4	2.6	2.4	2.4	2.1
Unclassified	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 10b: **Foreign trade by geographical area**

	IMPORTS (c.i.f.) structure in %									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	77.8	76.9	80.1	79.8	78.2	77.2	77.3	76.5	87.8	86.5
EUROPEAN UNION	67.5	67.4	69.4	68.9	67.8	67.6	68.0	67.3	82.3	80.9
Germany	21.7	20.7	20.7	20.5	19.0	19.2	19.1	19.3	20.3	20.0
Italy	16.9	16.7	16.8	16.7	17.5	17.7	17.9	18.3	18.9	19.1
France	9.8	10.5	12.4	10.9	10.3	10.6	10.3	10.1	8.2	7.3
United Kingdom	2.2	2.6	2.3	3.1	3.1	2.6	2.4	2.1	1.7	1.5
Netherlands	2.1	2.1	2.2	2.1	2.1	1.9	2.1	2.1	3.6	3.6
Belgium	1.5	1.6	1.5	1.5	1.4	1.6	1.5	1.4	1.9	2.1
Spain	1.8	2.1	2.3	2.3	2.6	2.6	3.1	2.0	2.7	3.1
Denmark	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5	0.5
Greece	0.1	0.2	0.2	0.2	0.2	0.3	0.4	0.3	0.3	0.3
Ireland	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.2	0.2
Portugal	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Luxembourg	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4
Austria	8.9	8.4	7.9	8.0	8.2	8.3	8.3	8.6	13.2	12.4
Finland	0.4	0.4	0.4	0.5	0.6	0.5	0.6	0.6	0.3	0.3
Sweden	1.2	1.2	1.4	1.8	1.6	1.0	1.0	1.1	1.0	0.8
Cyprus	-	-	-	-	-	-	-	-	0.1	0.1
Malta	-	-	-	-	-	-	-	-	0.0	0.0
Estonia	-	-	-	-	-	-	-	-	0.0	0.0
Latvia	-	-	-	-	-	-	-	-	0.0	0.0
Lithuania	-	-	-	-	-	-	-	-	0.0	0.0
Czech Republic	-	-	-	-	-	-	-	-	2.4	2.4
Hungary	-	-	-	-	-	-	-	-	3.8	3.8
Poland	-	-	-	-	-	-	-	-	1.3	1.5
Slovakia	-	-	-	-	-	-	-	-	1.2	1.3
EFTA	2.6	2.1	2.1	2.4	2.1	1.7	1.7	1.8	1.7	1.4

Table 10b: **Foreign trade by geographical area**

	IMPORTS (c.i.f.) structure in %									
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Switzerland	1.9	1.7	1.7	2.2	1.6	1.5	1.6	1.6	1.6	1.3
Norway	0.7	0.3	0.3	0.2	0.5	0.2	0.1	0.2	0.1	0.1
Liechtenstein	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER OECD	6.2	5.8	7.3	7.1	6.7	6.5	6.2	6.2	3.2	3.5
of which:										
United States of America	3.5	3.1	2.9	2.9	3.0	2.9	2.9	2.4	1.2	0.9
Other countries	2.7	2.8	4.4	4.2	3.8	3.5	3.3	3.8	2.0	2.6
OTHER DEVELOPED COUNTRIES	1.4	1.6	1.3	1.4	1.7	1.4	1.4	1.3	0.6	0.8
DEVELOPING COUNTRIES	22.2	23.1	19.9	20.2	21.7	22.8	22.7	23.5	12.2	13.5
COUNTRIES OF FORMER YUGOSLAVIA	7.5	6.3	5.9	5.7	5.9	5.3	5.0	5.0	5.7	6.5
Croatia	6.3	5.0	4.3	4.4	4.4	4.0	3.6	3.6	3.6	3.9
Macedonia	0.8	0.6	0.5	0.4	0.5	0.3	0.2	0.2	0.2	0.2
Bosnia and Herzegovina	0.2	0.3	0.5	0.5	0.6	0.6	0.6	0.6	1.1	1.3
Serbia & Montenegro	0.3	0.4	0.7	0.4	0.4	0.5	0.5	0.6	0.8	1.2
FORMER USSR COUNTRIES	2.5	3.0	2.2	2.0	2.6	3.2	3.0	3.1	2.5	2.5
of which: Russian Federation	2.2	2.7	1.8	1.6	2.3	2.8	2.3	2.5	2.1	2.1
CEFTA COUNTRIES	6.9	7.7	7.7	8.5	9.1	9.5	9.5	9.2	0.8	1.1
Czech Republic	2.5	2.5	2.6	2.8	2.5	2.5	2.5	2.5	-	-
Slovakia	1.0	1.1	0.9	0.9	1.3	1.4	1.4	1.3	-	-
Hungary	2.5	3.1	2.4	2.7	2.9	3.1	2.9	2.9	-	-
Poland	0.5	0.6	0.8	1.1	1.4	1.4	1.5	1.5	-	-
Romania	0.3	0.2	0.5	0.5	0.6	0.8	0.8	0.6	0.6	0.8
Bulgaria	0.1	0.2	0.5	0.5	0.4	0.3	0.3	0.3	0.2	0.3
Other European countries	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
OTHER COUNTRIES	5.1	6.0	4.2	4.1	4.1	4.8	5.3	6.1	3.2	3.4
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source of data: SORS.
Note: Exports by destination country, imports by country of origin (extrastat) and imports by country of consignment (intrastat).

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

SIT million, current prices

CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2001	2002
I. TOTAL GENERAL GOVERNMENT REVENUES	1,000,873	1,135,799	1,270,079	1,450,626	1,648,043	1,793,528	2,048,224	2,176,399
TAX REVENUES	959,015	1,076,270	1,203,590	1,355,476	1,557,456	1,666,398	1,878,782	2,002,134
TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	311,429	357,877	395,045
Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634	289,102	319,822
Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795	68,775	75,223
SOCIAL SECURITY CONTRIBUTIONS	405,687	420,168	448,121	501,121	554,397	619,265	701,347	774,355
TAXES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071	83,369	93,897
Payroll tax	809	14,943	33,994	42,058	51,454	63,849	79,031	88,994
Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222	4,338	4,903
TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513	32,965	34,428
DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895	673,380	672,703
TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089	29,607	31,341
OTHER TAXES	451	242	208	787	101	136	237	365
NON-TAX REVENUES	39,564	56,851	60,924	88,230	79,825	110,035	148,455	144,877
CAPITAL REVENUES	1,824	1,738	3,805	4,471	6,430	9,674	10,199	15,165
GRANTS	470	940	1,760	2,449	4,332	7,421	10,788	14,223
RECEIPTS FROM THE EU BUDGET	-	-	-	-	-	-	-	-

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

CONSOLIDATED GENERAL GOVERNMENT REVENUES	SIT million, current prices						EUR million	
	2003	2004	2005	2006	2007 *	2008 *	2007	2008
				Estimate	Forecast	Forecast	Forecast	
I. TOTAL GENERAL GOVERNMENT REVENUES	2,477,425	2,683,056	2,869,949	3,085,781	3,277,995	3,443,240	13,679	14,368
TAX REVENUES	2,291,070	2,446,900	2,608,231	2,812,944	2,945,185	3,099,598	12,290	12,934
TAXES ON INCOME AND PROFIT	460,520	506,878	537,261	660,363	672,096	707,633	2,805	2,953
Personal income tax	353,126	382,523	394,860	431,743	425,796	477,613	1,777	1,993
Corporate income tax	107,394	124,355	142,401	228,620	246,300	230,020	1,028	960
SOCIAL SECURITY CONTRIBUTIONS	839,216	899,400	955,611	1,012,199	1,068,253	1,132,943	4,458	4,728
TAXES ON PAYROLL AND WORKFORCE	107,424	117,676	126,097	111,479	95,123	54,879	397	229
Payroll tax	102,968	113,189	121,219	105,893	89,224	48,626	372	203
Tax on contracting work	4,456	4,487	4,878	5,586	5,899	6,253	25	26
TAXES ON PROPERTY	34,419	39,513	40,834	42,632	44,650	45,978	186	192
DOMESTIC TAXES ON GOODS AND SERVICES	814,577	856,610	938,118	974,420	1,045,349	1,139,232	4,362	4,754
TAXES ON INTERN. TRADE AND TRANSACTIONS	34,653	19,339	9,360	11,001	12,046	13,251	50	55
OTHER TAXES	261	7,484	950	850	7,668	5,682	32	24
NON-TAX REVENUES	157,114	169,690	159,895	153,867	174,012	180,495	726	753
CAPITAL REVENUES	15,857	20,751	27,181	27,346	17,921	15,828	75	66
GRANTS	13,384	1,877	2,173	1,380	1,375	1,404	6	6
RECEIPTS FROM THE EU BUDGET	-	43,838	72,469	90,244	139,502	145,915	582	609

Sources of data: Ministry of Finance, Bulletin of Government Finance, for 2006-2008: Consolidated general government accounts and draft national budgets for 2007 and 2008 (October 2006). SORS; calculations by IMAD.
Note: *To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239,640 for 1 euro.

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

per cent share relative to GDP

CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2001
I. TOTAL GENERAL GOVERNMENT REVENUES	41.6	41.0	40.3	41.5	42.0	41.7	42.7
TAX REVENUES	39.9	38.8	38.2	38.8	39.7	38.8	39.1
TAXES ON INCOME AND PROFIT	6.7	7.1	7.2	7.2	7.0	7.2	7.5
Personal income tax	6.1	6.3	6.2	6.1	5.9	6.0	6.0
Corporate income tax	0.5	0.8	1.1	1.1	1.1	1.2	1.4
SOCIAL SECURITY CONTRIBUTIONS	16.9	15.2	14.2	14.3	14.1	14.4	14.6
TAXES ON PAYROLL AND WORKFORCE	0.2	0.7	1.2	1.3	1.4	1.6	1.7
Payroll tax	0.0	0.5	1.1	1.2	1.3	1.5	1.6
Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TAXES ON PROPERTY	0.5	0.5	0.6	0.8	0.7	0.6	0.7
DOMESTIC TAXES ON GOODS AND SERVICES	12.4	12.6	13.1	13.7	15.3	14.0	14.0
TAXES ON INTERN. TRADE AND TRANSACTIONS	3.3	2.8	1.9	1.4	1.2	0.9	0.6
OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NON-TAX REVENUES	1.6	2.1	1.9	2.5	2.0	2.6	3.1
CAPITAL REVENUES	0.1	0.1	0.1	0.1	0.2	0.2	0.2
GRANTS	0.0	0.0	0.1	0.1	0.1	0.2	0.2
RECEIPTS FROM THE EU BUDGET	-	-	-	-	-	-	-

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

per cent share relative to GDP%

CONSOLIDATED GENERAL GOVERNMENT REVENUES	2002	2003	2004	2005	2006 Estimate	2007 Forecast	2008 Forecast
I. TOTAL GENERAL GOVERNMENT REVENUES	40.6	42.6	42.8	43.3	43.7	43.2	42.5
TAX REVENUES	37.4	39.4	39.0	39.4	39.9	38.8	38.3
TAXES ON INCOME AND PROFIT	7.4	7.9	8.1	8.1	9.4	8.9	8.7
Personal income tax	6.0	6.1	6.1	6.0	6.1	5.6	5.9
Corporate income tax	1.4	1.8	2.0	2.2	3.2	3.2	2.8
SOCIAL SECURITY CONTRIBUTIONS	14.5	14.4	14.3	14.4	14.3	14.1	14.0
TAXES ON PAYROLL AND WORKFORCE	1.8	1.8	1.9	1.9	1.6	1.3	0.7
Payroll tax	1.7	1.8	1.8	1.8	1.5	1.2	0.6
Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TAXES ON PROPERTY	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DOMESTIC TAXES ON GOODS AND SERVICES	12.6	14.0	13.7	14.2	13.8	13.8	14.1
TAXES ON INTERN. TRADE AND TRANSACTIONS	0.6	0.6	0.3	0.1	0.2	0.2	0.2
OTHER TAXES	0.0	0.0	0.1	0.0	0.0	0.1	0.1
NON-TAX REVENUES	2.7	2.7	2.7	2.4	2.2	2.3	2.2
CAPITAL REVENUES	0.3	0.3	0.3	0.4	0.4	0.2	0.2
GRANTS	0.3	0.2	0.0	0.0	0.0	0.0	0.0
RECEIPTS FROM THE EU BUDGET	-	-	0.7	1.1	1.3	1.8	1.8

Sources of data: Ministry of Finance, Bulletin of Government Finance, for 2006-2008 Consolidated general government accounts and draft national budgets for 2007 and 2008 (October 2006), SORS; calculations by IMAD.

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

SIT million, current prices

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001	2002
II. TOTAL EXPENDITURE	999,960	1,127,569	1,304,159	1,476,218	1,671,340	1,848,249	2,111,417	2,332,422
CURRENT EXPENDITURE	464,035	530,932	611,832	694,701	765,951	863,813	1,004,446	1,118,538
SALARIES, WAGES AND OTHER PERSONEL EXPENDITURE	193,687	234,452	284,769	312,605	350,639	387,501	456,410	514,924
SOCIAL SECURITY CONTRIBUTIONS	42,687	43,984	47,491	52,723	58,026	66,804	80,439	92,540
EXPENDITURE ON GOODS AND SERVICES	200,838	219,592	243,150	276,939	295,789	335,955	385,770	417,688
INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	60,956	72,809	83,528
RESERVES	1,225	1,783	1,736	10,713	10,552	12,597	9,018	9,858
CURRENT TRANSFERS	442,621	489,258	571,145	641,153	737,619	813,491	908,026	1,006,977
SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951	63,161	60,435
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077	821,358	910,391
OTHER CURRENT DOMESTIC TRANSFERS	9,090	10,527	12,076	18,094	26,460	23,463	23,507	36,151
CAPITAL EXPENDITURE TOTAL	93,304	107,379	121,181	140,364	167,770	170,945	198,945	206,907
CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	111,003	127,996	128,733
CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942	70,949	78,174
PAYMENTS TO THE EU BUDGET	-	-	-	-	-	-	-	-
III. SURPLUS / DEFICIT (I. - II.)	913	8,230	-34,081	-25,591	-23,297	-54,721	-63,193	-156,023

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

	2003	2004	2005	2006	2007 *	2008 *	2007	2008
					SIT million, current prices		EUR million	
				Estimate	Forecast		Forecast	
II. TOTAL EXPENDITURE	**2,555,894**	**2,768,427**	**2,941,756**	**3,164,271**	**3,346,521**	**3,504,960**	**13,965**	**14,626**
CURRENT EXPENDITURE	**1,225,523**	**1,234,112**	**1,283,018**	**1,356,412**	**1,428,355**	**1,499,395**	**5,960**	**6,257**
SALARIES, WAGES AND OTHER PERSONEL EXPENDITURE	561,191	588,659	613,836	634,689	667,108	686,395	2,784	2,864
SOCIAL SECURITY CONTRIBUTIONS	101,585	111,690	113,235	114,862	118,974	122,738	496	512
EXPENDITURE ON GOODS AND SERVICES	451,440	429,861	453,690	512,580	542,822	580,093	2,265	2,421
INTEREST PAYMENTS	92,661	91,933	89,183	83,521	82,537	83,592	344	349
RESERVES	18,646	11,969	13,074	10,760	16,914	26,577	71	111
CURRENT TRANSFERS	**1,097,369**	**1,249,909**	**1,341,642**	**1,425,096**	**1,493,159**	**1,579,908**	**6,231**	**6,593**
SUBSIDIES	69,470	77,571	91,362	98,256	110,017	128,856	459	538
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	986,100	1,053,417	1,109,197	1,169,852	1,220,817	1,279,953	5,094	5,341
OTHER CURRENT DOMESTIC TRANSFERS	41,799	118,921	141,083	156,988	162,325	171,099	677	714
CAPITAL EXPENDITURE TOTAL	**233,002**	**243,769**	**248,658**	**308,580**	**349,007**	**341,019**	**1,456**	**1,423**
CAPITAL EXPENDITURE	142,131	151,305	156,784	201,458	224,481	204,529	937	853
CAPITAL TRANSFERS	90,871	92,464	91,874	107,122	124,526	136,490	520	570
PAYMENTS TO THE EU BUDGET	**-**	**40,637**	**68,438**	**74,183**	**76,000**	**84,638**	**317**	**353**
III. SURPLUS / DEFICIT (I. - II.)	**-78,469**	**-85,371**	**-71,807**	**-78,490**	**-68,526**	**-61,720**	**-286**	**-258**

Sources of data: Ministry of Finance, Bulletin of Government Finance, for 2006-2008 Consolidated general government accounts and draft national budgets for 2007 and 2008 (October 2006), SORS; calculations by IMAD.
Note: *To allow comparison with previous years, the forecasts for 2007 and 2008 are also shown in SIT at the exchange rate of SIT 239.640 for 1 euro.

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

per cent share relative to GDP

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001
II.							
TOTAL EXPENDITURE	**41.6**	**40.7**	**41.4**	**42.2**	**42.6**	**43.0**	**44.0**
CURRENT EXPENDITURE	**19.3**	**19.2**	**19.4**	**19.9**	**19.5**	**20.1**	**20.9**
SALARIES, WAGES AND OTHER PERSONNEL EXPENDITURE	8.1	8.5	9.0	8.9	8.9	9.0	9.5
SOCIAL SECURITY CONTRIBUTIONS	1.8	1.6	1.5	1.5	1.5	1.6	1.7
EXPENDITURE ON GOODS AND SERVICES	8.4	7.9	7.7	7.9	7.5	7.8	8.0
INTEREST PAYMENTS	1.1	1.1	1.1	1.2	1.3	1.4	1.5
RESERVES	0.1	0.1	0.1	0.3	0.3	0.3	0.2
CURRENT TRANSFERS	**18.4**	**17.7**	**18.1**	**18.3**	**18.8**	**18.9**	**18.9**
SUBSIDIES	1.7	1.2	1.3	1.4	1.6	1.4	1.3
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	16.3	16.0	16.5	16.4	16.5	17.0	17.1
OTHER CURRENT DOMESTIC TRANSFERS	0.4	0.4	0.4	0.5	0.7	0.5	0.5
CAPITAL EXPENDITURE TOTAL	**3.9**	**3.9**	**3.8**	**4.0**	**4.3**	**4.0**	**4.1**
CAPITAL EXPENDITURE	2.4	2.3	2.1	2.4	2.8	2.6	2.7
CAPITAL TRANSFERS	1.5	1.6	1.7	1.7	1.5	1.4	1.5
PAYMENTS TO THE EU BUDGET	**-**	**-**	**-**	**-**	**-**	**-**	**-**
III. **SURPLUS / DEFICIT (I. - II.)**	**0.0**	**0.3**	**-1.1**	**-0.7**	**-0.6**	**-1.3**	**-1.3**

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

per cent share relative to GD

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	2002	2003	2004	2005	2006 Estimate	2007 Forecast	2008 Forecast
II. **TOTAL EXPENDITURE**	**43.5**	**44.0**	**44.1**	**44.4**	**44.8**	**44.1**	**43.3**
CURRENT EXPENDITURE	**20.9**	**21.1**	**19.7**	**19.4**	**19.2**	**18.8**	**18.5**
SALARIES, WAGES AND OTHER PERSONNEL EXPENDITURE	9.6	9.7	9.4	9.3	9.0	8.8	8.5
SOCIAL SECURITY CONTRIBUTIONS	1.7	1.7	1.8	1.7	1.6	1.6	1.5
EXPENDITURE ON GOODS AND SERVICES	7.8	7.8	6.9	6.9	7.3	7.2	7.2
INTEREST PAYMENTS	1.6	1.6	1.5	1.3	1.2	1.1	1.0
RESERVES	0.2	0.3	0.2	0.2	0.2	0.2	0.3
CURRENT TRANSFERS	**18.8**	**18.9**	**19.9**	**20.3**	**20.2**	**19.7**	**19.5**
SUBSIDIES	1.1	1.2	1.2	1.4	1.4	1.5	1.6
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.0	17.0	16.8	16.8	16.6	16.1	15.8
OTHER CURRENT DOMESTIC TRANSFERS	0.7	0.7	1.9	2.1	2.2	2.1	2.1
CAPITAL EXPENDITURE TOTAL	**3.9**	**4.0**	**3.9**	**3.8**	**4.4**	**4.6**	**4.2**
CAPITAL EXPENDITURE	2.4	2.4	2.4	2.4	2.9	3.0	2.5
CAPITAL TRANSFERS	1.5	1.6	1.5	1.4	1.5	1.6	1.7
PAYMENTS TO THE EU BUDGET	**-**	**-**	**0.6**	**1.0**	**1.1**	**1.0**	**1.0**
III. **SURPLUS / DEFICIT (I. - II.)**	**-2.9**	**-1.4**	**-1.3**	**-1.1**	**-1.1**	**-0.9**	**-0.8**

Table 13: **Indicators of international competitiveness**

Annual growth rates in %

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast
Effective exchange rate[1]												
Nominal	-10.1	-4.9	-2.0	-5.1	-8.0	-5.7	-3.6	-0.4	-1.3	-0.7	0.2	0.2
Real - based on consumer prices	-4.3	0.4	3.6	-0.8	-2.3	-0.3	1.7	3.2	0.1	-0.4	0.7	0.5
Real - based on unit labour costs [2]	-5.5	3.6	2.8	2.1	-2.3	-0.2	0.8	2.8	2.7	-0.9	-2.3	-0.2
Unit labour costs in manufactoring[3]												
In SIT nominal	7.8	6.7	5.3	7.8	4.1	7.5	5.9	3.7	1.4	-0.1	-2.7	0.4
In the basket of currencies	-3.1	1.4	3.1	2.3	-4.2	1.4	2.1	3.2	0.1	-0.8	-2.5	0.5
Labour costs per employee - real [4]	4.6	2.9	2.7	3.2	2.6	1.9	1.9	1.6	3.8	2.7	2.9	3.0
Net wages and other remunerations	7.5	4.9	1.9	2.9	1.7	1.2	1.1	0.8	4.0	3.4	3.2	3.4
Tax burden on wages [5]	-1.6	-1.4	0.6	0.5	0.8	0.4	0.3	0.4	0.1	-1.4	-0.6	-0.4
Labour productivity	6.6	4.5	5.3	1.7	7.4	2.7	3.4	3.4	6.0	5.3	8.5	5.4
Prices/effective exchange rate	-1.3	3.0	5.7	0.7	0.2	2.3	3.6	5.1	2.2	1.7	2.8	2.8

Sources of data: APP, BS, SORS, EC, OECD, calculations, estimates and forecasts by IMAD.
Notes:
[1]Changed methodology of effective exchange rate calculation: weighted geometric currency average of 17 trading partners. Weights are shares of trading partners in Slovenia's exports (double-weighted) and imports of goods in manufacturing in 2001-2003 (on average). A rise in the value indicates appreciation of the tolar and vice versa.
[2]In manufacturing, for enterprises and other organisations.
[3]Only domestic factors.
[4]Measured by consumer prices.
[5]Ratio of gross wages, taxes and employers' contributions to net wages.

Table 14: **Population and labour force**

												2005	2006 Estim.	2007 Forecast	2008 Forecast
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Numbers in thousands, indicators in percents															
POPULATION (in thousand)	1987.5	1991.2	1986.8	1982.6	1985.6	1990.3	1992.0	1995.7	1996.8	1997.0	2001.1	2004.4	2007.4	2010.5
Age structure (in perc.s): 0-14 years	18.4	17.8	17.2	16.8	16.4	15.9	15.6	15.2	14.8	14.5	14.2	13.9	13.8	13.7
15-64 years	69.3	69.5	69.7	69.8	69.9	70.1	70.1	70.2	70.4	70.4	70.3	70.4	70.3	70.1
65 years & more	12.3	12.7	13.0	13.4	13.7	14.0	14.3	14.6	14.9	15.2	15.5	15.7	15.9	16.2
LABOUR FORCE (A=B+C1)	952.0	946.0	978.0	978.0	959.0	968.0	979.0	971.0	962.0	1007.0	1016.0	1023.0	1026.0	1029.0
Persons in employment - ILO definition (B)	882.0	878.0	906.0	901.0	886.0	901.0	916.0	910.0	897.0	943.0	949.0	957.0	961.0	963.0
Persons in paid employment (B1)*	642.0	634.7	651.2	652.5	671.0	715.4	722.1	721.4	722.1	724.4	731.6	738.9	745.4	752.0
Formally self-employed persons (B2)	107.9	109.6	92.2	92.7	87.5	85.1	84.2	87.3	79.2	83.1	81.5	82.3	82.0	82.7
Informally employed (B3=B1-B2)	132.2	133.7	162.6	155.8	127.5	100.5	109.7	101.3	95.6	135.5	136.1	136.1	133.6	128.4
Unemployed persons - ILO definition (C1)	70.0	69.0	72.0	77.0	73.0	68.0	63.0	62.0	64.0	64.0	67.0	66.0	65.0	66.0
Registered unemployed persons (C2)	121.5	119.8	125.2	126.1	119.0	106.6	101.9	102.6	97.7	92.8	91.9	89.4	86.5	83.6
Annual growth rates (%)															
Persons in employment - ILO definition	3.6	-0.5	3.2	-0.6	-1.7	1.7	1.7	-0.7	-1.4	5.1	0.7	0.9	0.4	0.2
Persons in formal employment**	-0.4	-0.7	-2.3	0.2	1.0	1.3	0.7	0.3	-0.9	0.8	0.7	1.0	0.8	0.9
Persons in paid employment**	-0.8	-1.1	0.1	0.2	1.9	1.8	0.9	-0.1	0.1	0.3	1.0	1.0	0.9	0.9
Formally self-employed persons	2.6	1.6	-15.9	0.5	-5.6	-2.7	-1.1	3.6	-9.2	4.9	-1.9	1.0	-0.3	0.8
Informally employed**	34.2	1.2	33.6	-4.1	-14.3	18.2	9.1	-7.6	-5.6	41.7	0.5	0.0	-1.8	-3.9
Registered unemployed	-4.4	-1.4	4.5	0.7	-5.7	-10.4	-4.5	0.8	-4.8	-5.0	-1.0	-2.7	-3.2	-3.4
Labour force - ILO definition	1.7	-0.6	3.4	0.0	-1.9	0.9	1.1	-0.8	-0.9	4.7	0.9	0.7	0.3	0.3
Working age population	-0.1	0.5	0.1	-0.1	0.3	0.5	0.1	0.3	0.3	0.0	0.1	0.3	0.0	-0.1
Population	-0.1	0.2	-0.2	-0.2	0.1	0.2	0.1	0.2	0.1	0.0	0.2	0.2	0.2	0.2
Population, 65 years and more	3.4	3.2	2.4	2.6	2.5	2.2	2.4	2.5	1.7	2.0	2.2	1.5	1.9	1.9

Source of data: SORS, ESS, estimates and forecasts by IMAD.
Note *monthly statistics; until 2000 based on the ZAP-M survey and statistical data of the national Health Protection Institute (until 1997 excluding enterprises with 1-2 employees; until 1999 excluding people employed in public works); from 2000, based on the Statistical Register of Employment; ** figures for 1997, 1999 and 2000 are based on comparable time data.

Table 15: Labour market indicators

in %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
LABOUR MARKET INDICATORS														
Activity rate (15-64 years)	**68.0**	**66.7**	**68.7**	**68.8**	**67.7**	**67.8**	**68.3**	**67.8**	**67.1**	**69.8**	**70.9**	**71.3**	**71.4**	**71.6**
men	73.5	71.5	73.2	73.3	72.3	72.2	73.1	72.5	72.0	74.5	75.1	74.7	74.5	74.5
women	62.4	62.0	64.0	64.1	63.0	63.2	63.5	63.0	62.1	65.0	66.1	67.8	68.2	68.5
Activity rate (65 years and more)	6.5	8.9	10.3	9.8	7.2	7.9	8.7	7.3	6.5	8.7	5.5	5.3	5.9	6.0
Employment rate (15-64 years)	**62.9**	**61.9**	**63.5**	**63.3**	**62.5**	**62.9**	**63.9**	**63.4**	**62.6**	**65.3**	**66.0**	**66.6**	**66.7**	**66.9**
men	67.7	66.2	68.0	67.6	66.9	67.2	68.7	68.2	67.4	70.0	70.4	70.1	69.7	69.7
women	58.0	57.7	59.0	58.9	57.8	58.5	58.9	58.6	57.6	60.5	61.3	63.1	63.8	64.1
Employment rate (55-64 years)	23.5	22.9	23.5	24.2	22.2	22.5	25.0	24.4	23.5	29.0	30.8	32.6	33.2	34.1
Unemployment rate - ILO definition (C1/A)	**7.4**	**7.3**	**7.4**	**7.9**	**7.6**	**7.0**	**6.4**	**6.4**	**6.7**	**6.3**	**6.5**	**6.4**	**6.4**	**6.4**
men	7.7	7.5	7.1	7.7	7.3	6.8	5.9	5.9	6.4	5.9	6.1	5.4	5.5	5.6
women	7.0	7.0	7.6	8.1	7.9	7.3	7.0	6.8	7.1	6.9	7.1	7.7	7.4	7.4
young people (15-24 years)	18.8	18.8	17.6	18.6	18.1	16.8	18.1	16.7	17.4	16.2	16.0	15.7	15.6	15.7
Registered unemployment rate (C2/(B1+B2+C2))	**13.9**	**13.9**	**14.4**	**14.5**	**13.6**	**11.8**	**11.2**	**11.3**	**10.9**	**10.3**	**10.2**	**9.8**	**9.5**	**9.1**
men	14.2	13.8	13.6	13.4	12.4	10.6	10.1	10.0	9.4	8.8	8.5	8.2	8.1	8.1
women	13.6	14.0	15.3	15.7	15.0	13.1	12.6	12.7	12.6	12.1	12.1	11.8	11.1	10.4
Structure of persons in employment - ILO definition														
in agriculture	10.4	10.2	12.7	11.5	10.1	10.0	10.4	9.2	8.4	9.9	9.1	8.5	8.1	7.8
in industry and construction	43.2	42.3	40.2	39.4	38.3	38.1	38.5	38.7	37.8	36.7	37.1	35.9	35.7	35.1
in services	46.3	47.5	47.0	49.1	51.5	51.9	51.1	52.1	53.8	53.4	53.8	55.6	56.2	57.2

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

Table 16: **Labour force flows during the year**

Numbers in thousands, indicators in percents

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
FORMAL LABOUR FORCE, year-end	**873.1**	**867.0**	**871.1**	**868.3**	**880.5**	**906.5**	**909.2**	**906.9**	**896.7**	**898.2**	**906.1**	**909.6**	**921.2**	**921.4**
Formal employment	746.4	742.5	742.5	741.7	766.2	801.9	804.9	807.3	800.7	807.4	813.6	821.7	835.8	838.9
Registered unemployment	126.8	124.5	128.6	126.6	114.3	104.6	104.3	99.6	96.0	90.7	92.6	87.9	85.3	82.5
Registered unemployment rate, year-end (%)	**14.5**	**14.4**	**14.8**	**14.6**	**13.0**	**11.5**	**11.5**	**11.0**	**10.7**	**10.1**	**10.2**	**9.7**	**9.3**	**9.0**
New first-time job seekers	**25.7**	**25.6**	**25.3**	**24.7**	**25.0**	**24.9**	**21.3**	**26.2**	**21.8**	**21.9**	**21.5**	**23.8**	**23.5**	**23.6**
of whom became unemployed	22.1	21.1	17.9	18.6	19.6	20.5	21.9	21.4	25.4	26.0	21.7	19.2	16.9	14.4
- in % of the generation	86.3	82.4	70.8	75.3	78.5	82.4	102.6	81.9	116.9	118.4	100.6	80.6	72.0	61.0
Additional no. of work permits for foreigners	**2.6**	**0.2**	**-2.9**	**-0.5**	**2.6**	**2.9**	**-6.4**	**2.1**	**3.5**	**-0.5**	**3.9**	**3.7**	**1.6**	**3.7**
Share of foreigners in formally active population	4.5	4.7	4.6	4.0	4.3	4.4	4.2	3.9	4.4	4.4	4.6	4.9	5.0	5.0
Employed having lost their jobs	**57.5**	**65.4**	**60.6**	**58.4**	**61.1**	**61.8**	**65.8**	**66.0**	**68.8**	**69.6**	**67.2**	**65.6**	**64.3**	**63.5**
- per 100 persons in formal employment	7.7	8.8	8.1	7.8	8.1	7.7	8.2	8.2	8.6	8.6	8.3	8.0	7.8	7.6
Registered unemployed having found a job	**60.0**	**54.6**	**56.1**	**55.4**	**62.4**	**60.2**	**52.7**	**52.2**	**50.5**	**54.3**	**53.9**	**56.0**	**56.7**	**57.5**
- per 100 persons in formal employment	8.0	7.3	7.5	7.4	8.2	7.5	6.5	6.5	6.3	6.7	6.6	6.8	6.9	6.9
Retirements (-)*	**11.5**	**14.8**	**15.1**	**14.8**	**15.0**	**15.3**	**15.5**	**15.9**	**16.1**	**16.4**	**16.7**	**19.5**	**20.8**	**21.8**
of which: registered unemployed persons	3.4	7.1	3.8	4.9	5.0	7.0	7.6	6.9	5.0	4.3	3.3	3.6	3.4	2.9
Deaths (-)*	**2.8**	**2.7**	**2.7**	**2.7**	**2.7**	**2.6**	**2.7**	**2.6**	**2.6**	**2.5**	**2.7**	**2.8**	**2.8**	**2.7**
Other inflows into formal labour force (net)*,*	**-12.2**	**-14.6**	**-0.5**	**-9.5**	**2.3**	**-18.3**	**6.1**	**-12.2**	**-16.7**	**-1.1**	**1.9**	**-1.8**	**9.9**	**-2.5**
of which: other persons who found a job (net)	0.4	12.0	13.6	8.8	27.7	6.3	33.4	20.6	25.4	40.9	31.4	27.7	33.4	17.7
other deleted from unemployment registers (-)	12.6	26.6	14.1	18.2	25.4	24.6	27.4	32.8	42.1	42.0	29.5	29.5	23.5	20.2
- per 100 registered unemployed	10.4	22.2	11.3	14.5	21.3	23.1	26.9	31.9	43.1	45.2	32.1	33.0	27.2	24.1
Education structure of school-leavers (estimated, %)														
- low or no education	33.7	27.7	32.0	34.8	26.0	28.9	18.0	24.0	17.8	17.1	12.8	13.5	12.9	13.4
- vocational education	26.6	27.8	28.2	19.8	18.9	18.5	19.4	15.4	16.4	14.9	18.0	17.2	15.8	13.5
- finished secondary school	20.0	21.8	16.7	22.0	30.3	26.0	31.3	29.4	29.1	31.1	31.9	32.1	32.9	33.2
- graduates	19.7	22.6	23.2	23.4	24.9	26.6	31.3	31.2	36.7	37.0	37.3	37.2	38.4	39.9

Source of data: SORS, ESS, estimates and forecasts by IMAD.
Notes: * IMAD's estimate based on SORS, PDII and ESS data, **Estimate for 2000 based on comparable data.

Table 17: Employment and productivity (according to the national accounts methodology)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
PERSONS IN EMPLOYMENT (according to SNA) in thousand*	912.4	893.8	876.6	875.1	887.7	894.8	898.9	912.5	908.8	913.5	916.2	924.0	930.9	939.6
Annual growth rate (in %), Total**:	1.0	-2.0	-1.9	-0.2	1.4	0.8	0.5	-0.3	-0.4	0.5	0.3	0.9	0.8	0.9
Production activities (A-F)	0.4	-5.0	-2.6	-1.5	-0.5	-0.2	-0.7	-1.9	-2.2	-1.3	-1.0	-1.1	-1.0	-1.0
Mainly market-oriented services (G-K)**	1.9	0.8	-3.0	1.5	1.6	2.4	1.3	1.5	0.6	1.8	1.2	3.0	2.2	2.6
Public and personal services (L-P)	1.4	2.5	2.2	1.0	6.6	0.8	2.0	0.8	2.2	2.7	1.7	1.7	2.1	2.3
A Agriculture, hunting, forestry	0.0	-6.4	-2.4	-3.4	-4.2	-3.2	-3.3	-2.7	-3.5	-2.4	-2.4	-2.4	-2.8	-2.7
B Fishing	-33.3	2.3	-7.0	-3.0	-1.0	-3.7	-2.5	42.5	1.3	-0.2	1.5	-3.0	0.0	0.0
C Mining and quarrying	1.2	-17.7	-2.6	-3.0	-4.8	-15.9	-6.8	-5.9	-5.2	-8.9	-4.6	-4.6	-6.1	-6.1
D Manufacturing	-1.3	-5.3	-3.4	-1.0	-0.6	0.0	0.4	-1.9	-2.2	-0.9	-1.9	-2.2	-1.3	-1.4
E Electricity, gas and water supply	2.5	-0.1	-5.7	-1.7	0.5	-3.6	-0.5	0.2	-0.6	-1.6	0.9	-1.9	0.3	-0.5
F Construction	9.8	0.6	1.2	0.0	7.5	6.6	0.0	-1.0	-0.1	-0.5	4.2	4.8	2.1	2.1
G Wholesale and retail trade, motor vehicle repair	1.9	1.8	-4.9	-1.0	-0.2	1.5	-0.3	0.7	-0.1	0.1	0.5	2.9	0.2	1.8
H Hotels and restaurants	0.9	-1.6	-0.7	2.3	2.4	7.3	-0.5	-0.6	-0.8	0.4	3.0	2.8	1.1	1.3
I Transport, storage, communications	-2.8	-0.8	-1.6	1.7	0.6	1.3	1.5	1.3	-0.4	-1.4	1.4	3.4	0.9	0.7
J Financial intermediation	2.9	1.3	4.0	4.4	1.5	4.0	2.6	1.8	-0.9	2.7	2.7	2.8	1.6	1.5
K Real estate, renting and business activities**	7.6	1.4	-3.6	4.9	5.4	2.1	4.4	4.0	3.1	6.1	1.0	3.1	5.6	5.2
L Public administration and comp. soc. sec.	-0.3	5.8	7.6	1.1	3.8	4.2	3.5	2.8	3.9	4.9	-0.2	1.3	1.7	1.7
M Education	2.6	2.7	4.2	0.8	1.5	1.9	1.4	1.7	1.5	1.6	2.3	0.9	1.7	1.7
N Health and social work	1.4	-0.6	-1.7	-0.4	3.9	0.5	1.7	2.3	2.4	2.9	2.7	1.9	3.0	3.5
O Other community, social and personal services	1.8	2.7	-3.6	3.4	27.2	-5.4	1.0	-6.0	1.6	0.7	2.0	3.6	2.2	2.3
P Private households with employed persons	-	7.3	7.3	7.3	7.6	11.1	12.2	-10.3	-34.1	-8.1	5.9	-0.9	0.6	0.6

LABOUR PRODUCTIVITY (GDP per person in employment, according to SNA)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estim.	2007 Forecast	2008 Forecast
SIT m (current prices)	2.6	3.1	3.6	4.0	4.4	4.8	5.3	5.9	6.4	6.9	7.2	7.6	8.1	8.6
in EUR (current prices)	17,212	18,288	19,913	21,440	22,801	23,440	24,585	25,944	27,372	28,743	30,145	31,855	33,997	35,956
Real*** annual growth (in %)*	3.0	5.9	6.9	4.1	3.9	3.3	2.2	3.8	3.1	3.9	3.7	3.8	3.5	3.2

Source of data: SORS, calculations, 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 calculated from data in SIT.

Table 18a: **GDP by expenditure, gross national income (revised data), 2002-2005**

SIT million, current prices

	2002	2003	2004	2005
GROSS DOMESTIC PRODUCT	0	0	20,551	62,447
PRODUCTION APPROACH				
Output at basic prices			28,149	
Less: Intermediate consumption at purchasers' prices			4,540	
Gross value added at basic prices			23,609	
Plus: Taxes on products and services			-3,058	
Less: Subsidies on products and services				
EXPENDITURE APPROACH				
Final consumption	64	144	-14,534	11,520
Households	64	144	-22,961	3,894
NPISH's				-362
General government			8,427	7,989
Gross capital formation			34,584	63,862
Gross fixed capital formation			30,731	-8,520
Changes in inventories and valuables			3,853	72,382
Surplus with the rest of the world	-64	-144	501	-12,936
Exports of goods and services	-98	27	213	26,701
Less: imports of goods and services	-34	171	-289	39,637
INCOME APPROACH				
Compensation of employees		-31,790	-32,849	
Gross operating surplus and mixed income		31,791	69,302	
Taxes on production and imports			12,503	
Less: Subsidies			28,404	
GROSS DOMESTIC PRODUCT	0	0	20,551	62,447
Plus: primary income from the rest of the world	-401	-7,571	-12,759	-6,321
Less: primary income to the rest of the world	2,851	3,137	4,935	14,648
GROSS NATIONAL INCOME	**-3,252**	**-10,708**	**2,856**	**41,477**

Source of data: SORS, calculations by IMAD.

Table 18b: **GDP by production (revised data), 2004 and 2005**

	2004		2005	
	before revision	**after revision**	**before revision**	**after revision**
A Agriculture, hunting, forestry	10.8	17.1	-3.7	-5.2
B Fishing	-4.3	-16.9	-4.2	9.5
C Mining and quarrying	2.5	2.5	2.3	-0.2
D Manufacturing	4.2	4.1	3.2	2.8
E Electricity, gas and water supply	3.1	0.8	-0.8	6.6
F Construction	0.9	1.3	3.8	4.0
G Wholesale and retail trade, motor vehicle repair	3.5	3.1	4.4	4.0
H Hotels and restaurants	0.4	-0.1	2.9	0.7
I Transport, storage, communications	0.8	0.1	4.8	9.0
J Financial intermediation	14.8	17.2	12.7	10.4
K Real estate, renting and business activities	3.8	4.7	3.7	3.6
L Public administration and comp. soc. sec.	5.8	7.3	3.4	2.3
M Education	2.7	2.7	2.7	3.0
N Health and social work	3.5	3.7	3.8	2.9
O Other community, social and personal services	3.6	5.7	4.1	5.8
P Private households with employed persons	-8.1	-8.1	5.3	5.9
TOTAL GROSS VALUE ADDED, basic prices	**4.1**	**4.5**	**3.7**	**3.9**
Taxes on products and services	4.6	4.2	4.6	4.8
Less: Subsidies on products and services	4.5	7.1	-1.7	-0.6
GROSS DOMESTIC PRODUCT	**4.2**	**4.4**	**3.9**	**4.0**

Real growth rates in %

Sources of data: SORS, calculations by IMAD.

Table 18c: **GDP by expenditure (revised data), 2004 and 2005**

<div align="right">Real growth rates in %</div>

	2004		2005	
	before revision	after revision	before revision	after revision
GROSS DOMESTIC PRODUCT	**4.2**	**4.4**	**3.9**	**4.0**
Domestic demand	**4.6**	**4.9**	**1.6**	**2.0**
Households	3.3	2.8	3.3	3.6
NPISH's	-3.7	-3.7	-0.3	-2.2
General government	2.9	3.4	3.0	2.2
Gross fixed capital formation	5.9	7.9	3.7	1.5
Changes in inventories and valuables*	0.9	1.0	-1.7	-0.6
Surplus with the rest of the world*	**-0.4**	**-0.5**	**2.3**	**2.0**
Exports of goods and services	12.5	12.5	9.2	10.5
Imports of goods and services	13.2	13.4	5.3	7.0

Sources of data: SORS, calculations by IMAD.
Note: *As contribution to real GDP growth (in percentage points).

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	Spring Report 2006
	Autumn Report 2006
	Human Development Report Slovenia 2002-2003
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