Spring Report 2006

Editor in Chief:

Lejla Fajić

The Spring Report 2006 was prepared by:

Part I: Analysis and forecasts of economic developments

Lejla Fajić *(editor in chief, economic developments in 2005, expenditure structure of GDP)*

Marijana Bednaš *(main findings, effects of EU membership on economic developments in 2005, fulfilment of the Maastricht criteria, main risks to the realisation of the spring forecast, scenario of economic trends after 2008, comparison with forecasts made by other institutions)*

Arjana Brezigar Masten *(forecasting GDP using a model of leading indicators)*

Jure Brložnik *(international environment)*

Maja Ferjančič *(price trends and policy, validity assessment of the IMAD's forecasts)*

Barbara Ferk *(private consumption, household borrowing in 2005)*

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

Slavica Jurančič *(international competitiveness, methodological changes in measuring price and cost competitiveness)*

Rotija Kmet Zupančič *(production structure of GDP)*

Jasna Kondža *(general government expenditures, revenues and deficit in 2000-2005, current public finance trends)*

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

Mateja Kovač *(agriculture, fishing)*

Saša Kovačič *(wages)*

Gorazd Kovačič *(manufacturing)*

Dušan Kidrič *(long-term sustainability of public finances)*

Tomaž Kraigher *(employment and unemployment)*

Janez Kušar *(gross capital formation, construction)*

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

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

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

Branka Tavčar *(national accounts)*

Miha Trošt *(price trends and policy, monetary developments)*

Ivanka Zakotnik *(expenditure structure of GDP, national disposable income, gross savings and investment)*

Eva Zver *(public services)*

External collaborators:

Timotej Jagrič *(forecasting industrial production trends using a system of leading indicators and a non-linear econometric model),* Igor Masten *(monetary developments),* Slaven Mićković *(output gap, long-term sustainability of public finance, breakdown of general government deficit)*

Part II: Changes in the Slovenian labour market in the 1995-2005 period

Editor: Alenka Kajzer

Authors:

Alenka Kajzer *(introduction and main findings, changes in the regulation of employment contracts, changes in the system of unemployment benefits, trends of employment rates, analysis of ILO unemployment trends and a comparison with registered unemployment, labour market flexibility and incidence of temporary and part-time employment)*

Arjana Brezigar Masten *(response of wages and employment to higher GDP growth)*

Tanja Čelebič *(changes in the education structure)*

Saša Kovačič *(relative earnings)*

Gorazd Kovačič *(structural changes and intensity of the structural shift in employment within Slovenian manufacturing)*

Dušan Kidrič *(key elements of the pension reform)*

Tomaž Kraigher *(changes in registered unemployment and analysis of registered unemployment flows)*

Franci Klužer, external collaborator, Government Office for Growth *(active labour market policy)*

Technical support *(graphs, statistical appendix, data processing)*

Marjeta Žigman, Bibijana Cirman-Naglič

Ema Bertina Kopitar *(technical editor, DTP)*

Contents

List of tables

List of figures

List of boxes

List of acronyms and abbreviations used in the Report

AJPES – Agency for Public Legal Records and Related Services
AP – Agency for Payments
BS – Bank of Slovenia
BIS – Bank for International Settlements
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)
ESS – Employment Service of Slovenia
GDP – gross domestic product
HICP – Harmonised Index of Consumer Prices
IMF – International Monetary Fund
MF – Ministry of Finance
MMTS – Market Making Trading Segment
OECD – Organisation for Economic Co-operation and Development
OFO – other financial organisations
p.p. – percentage points
PDII – Pension and Disability Insurance Institute
SCA – Standard Classification of Activities
SITC – Standard International Trade Classification
SORS – Statistical Office of the Republic of Slovenia
SRE – Statistical Register of Employment
WIIW – Vienna Institute for International Economic Studies

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 – Wholesale and Retail Trade, Repair of Motor Vehicles; 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.

Foreword

The **Spring Report** provides an analytical background to the spring forecasts of economic trends and comprises a short-term analysis of economic trends, forecasts of macroeconomic aggregates for the current and the next two years, and a scenario of economic developments beyond 2008. The Report also presents the main estimated risks to the realisation of the forecasts. The Spring Report does not revise the spring forecasts but it does comment on data released in April 2006 when the forecasts have already been adopted and published.

The spring forecasts of economic trends for 2006-2008 are based on available official data on economic developments for 2005 and the initial months of 2006 released up until 31 March 2006. The forecasts are aligned with the adopted economic policy measures and the effective budgets for 2006 and 2007. The assumptions for the international environment are also based on current data and the available forecasts of international institutions published before 31 March.

Main findings of the Spring Report

Economic trends in 2005 were favourable. According to the first statistical estimates, GDP growth totalled 3.9%, average inflation fell to 2.5%, employment growth rose to 0.7%, while real wage growth totalled 2.2% and was within the agreed limits as regards it lagging behind productivity growth. Given the favourable export dynamics, the low growth of merchandise imports and a higher surplus in services, the current account deficit narrowed compared to 2004 despite the significantly deteriorated terms of trade in 2005 resulting from the rising prices of energy and commodities. The macroeconomic indicators for public finance improved as well, as the general government deficit and debt as shares of GDP narrowed.

Against the background of stable economic growth and the absence of any major macroeconomic imbalances, Slovenia also met the Maastricht inflation criterion in November 2005 and thus fulfilled the conditions required for adoption of the euro. This confirmed the correctness of Slovenia's decision on early entry to the Exchange Rate Mechanism ERM II in June 2004 and, as a result of the co-ordinated economic policy measures of the Bank of Slovenia and the government defined in the Programme for Entering the ERM II and Introducing the Euro (November 2003), Slovenia has thereby achieved its main short-term economic policy objective. Already while preparing to join the ERM II, since Q1 2003 the Bank of Slovenia gradually cut its interest rates, and since the entry to the ERM II it has kept the tolar exchange rate stable, which was an important contributor to the sustainable disinflation. The government supported monetary policy measures by applying the stringent plan of administered price rises, cushioning the volatility of oil prices and pursuing the incomes policy agreed in the social agreement. However, although both fiscal indicators used to check nominal convergence with the set reference values have improved further thanks to the favourable GDP growth seen last year, some other fiscal indicators, notably the level and dynamics of changes in the structural deficit observed in the last few years show that changes are needed in the fiscal area. The fact that the structural deficit is narrowing slowly despite the relatively strong economic growth is an indication that, bearing in mind the restrictions imposed by the Stability and Growth Pact, a potential deterioration of economic activity would leave little room for automatic fiscal stabilisers and the stabilising role of fiscal policy. Therefore, government expenditure needs to be cut and restructured so as to increase its flexibility.

Convergence with the criteria for adopting the euro and the economic prospects for this and the next year provide an adequate macroeconomic framework for launching the planned economic and social reform. The spring forecasts for this and next year project a continuation of favourable economic trends. GDP growth is forecast to total 4.2% in 2006 and 4.0% in 2007. Due to the expected economic recovery in the international environment, foreign demand will be a significant driver of economic growth again this year. Total export growth will thus remain at a high level (8.2%) although it will be slightly lower than last year as exports of vehicles are expected to soften this year, following their robust growth in 2005. Domestic consumption will gather momentum this year, mainly thanks to the accelerated growth of gross fixed capital formation, which will be fed largely by the accelerated motorway construction. The expected favourable export trends will boost investment in

machinery and equipment while the growth of housing construction will keep its robust pace. The growth of private consumption will be slightly higher than last year but will remain within sustainable limits as wages are projected to grow moderately and household borrowing from banks is expected to be predominantly long-term. The slight cooling off of the economy in 2007 will mainly be caused by the expected slowdown in export markets growth and the softening of the strong growth of investment in motorway construction. Otherwise, the structure of economic growth will remain similar as this year. In the given circumstances inflation will stabilise at the achieved level of around 2%. It is of vital importance that the government remains committed to disinflationary macroeconomic policies also in 2007 after the entry to the Economic and Monetary Union so as to avoid price rises becoming relatively higher in Slovenia than in its main trading partners, which could lead to a deterioration of the tradable sector's competitiveness.

The spring forecasts are based on already implemented economic policy measures and the adopted budgets for 2006 and 2007. Among measures adopted since the preparation of the 2005 autumn forecasts and taken into account in the current forecast, the phased lifting of payroll tax and the changes in investment relief have had a significant effect on the dynamics of macroeconomic aggregates. Their implications for economic growth and employment are expected to be positive. However, the forecast does not account for the effects of the proposed reform measures that have not been implemented yet and could therefore not be quantified with sufficient accuracy when the forecasts were being made. A comprehensive estimate of the reform's impact will be provided by an economic model that is being developed by the Institute for Economic Research. These effects will be first considered in the autumn forecasts.

Oil prices are the main risk factor to the realisation of the spring forecasts of economic trends. They affect both national and international economic developments. The average price of Brent crude assumed for 2006 in the spring forecast is USD 63.5/barrel (around USD 64/barrel in Q2 and Q3 and around USD 63/barrel towards the end of the year). However, the average price of a barrel of Brent crude totalled USD 70.2 in April. The rise was provoked by a combination of geopolitical factors that could not have been envisaged in the middle of March during the preparation of the forecasts. However, April's oil price surge, which also pushed up the prices of petroleum products in Slovenia in April and May, currently still does not deviate from the spring projections. Its effect on economic activity would begin to be felt if oil prices remained this high for a longer period. If the average price of a barrel of oil were to be USD 10 higher in 2006 than projected in the baseline scenario, we estimate that real export growth would slow down by 0.2 p.p. due to the slower growth of export markets. Higher oil prices would add an additional 0.3 p.p. to average inflation which would, in combination with the deteriorated terms of external trade, depress the real growth of domestic consumption aggregates (notably of investment and slightly less of private consumption). The overall impact of these effects would result in about 0.2 p.p. lower economic growth. Other risks to the realisation of the spring forecast, which could only exert an upward pressure on consumer prices in 2007, include the potential consumer price rise following the adoption of the euro and the possible increase in inflation due to the liberalisation of the household electricity market on 1 July 2007. However, given that there are no

economically justified reasons for such rises, the probability of these risks is small, and if they were to be realised, they would push inflation upwards by a maximum of 0.3 p.p. in 2007.

This year, the Spring Report includes an extended analysis of trends in the labour market. The first part of the Report includes analyses of the current trends and forecasts, including those for the labour market, while the second part focuses in greater detail on Slovenia's labour market performance in the last ten years. The current analysis finds that trends in the labour market were favourable last year, particularly in employment which rose much more than the year before. Business and financial services and construction recorded the biggest rise in the number of people employed in these sectors, while drops in employment were observed in almost all manufacturing sub-industries (except in the manufacture of transport equipment, rubber and metal), the biggest ones in the textile and leather industries. On the other hand, the falling of the registered unemployment rate slowed down slightly last year, especially towards the end as a result of the fewer deletions of unemployed people from unemployment registers for reasons other than employment. The ILO unemployment rate, however, was slightly higher than in 2004. The projected economic outlook and the positive effects of the already enforced changes in the tax system indicate that employment will grow further this and the next year, registered unemployment should continue to decline, the ILO unemployment will remain at approximately the achieved level, and the activity rate will rise. According to the agreed restrictive incomes policy, gross wages growth should continue to lag behind productivity growth by 1 p.p. this year while this lag should be reduced gradually in the next few years in a sustainable way so as to avoid any deterioration of the Slovenian economy's cost competitiveness.

The key indicators of developments in the labour market for 1995-2000 reveal an improvement of trends. Unemployment fell in this period although certain structural problems still persist. The long-term unemployment rate, for example, did not decrease significantly and the share of low-skilled unemployed people is still relatively high. The youth unemployment rate also remains relatively high although it did decrease somewhat in the ten years. The employment rate of the population aged 15-64 rose but the youth employment rate fell, presumably due to one of the highest rates of young people's inclusion in education in the EU. On the other hand, the employment rate of people aged 55-64 rose substantially as the effects of the adopted pension reform have begun to show in the last few years. Nevertheless, this rate is still one of the lowest in the EU. The education structure of the entire and the employed populations improved in the last 10 years, however the share of high-skilled workers in the private sector, particularly in industry, rose very slowly, which was probably an important contributor to the relatively slow structural changes seen in manufacturing. The increase in the share of employed people with a tertiary education was matched by a rise in the employment rate of high-skilled people and rises in their relative wages in 1998-2002. The structure of employees changed in favour of the service sector in the last ten years, but Slovenia is still far below the EU average according to the share of people employed in certain services whose development offers unused potential to employ older and less educated people – two groups exhibiting low employment rates.

In order to make employment more responsive to economic growth, the labour market requires a more comprehensive reform. The institutional changes of the labour market carried out in 1995-2000 were only partial. Within flexible types of employment, only the share of temporary employment increased in the last ten years. The share of partial employment remains meagre, and the Employment Protection Legislation Index dropped from 3.1 to 2.7 following the enforcement of the amended Employment Relationships Act (in 2003).

Part I

Analysis and forecasts of economic developments

1. Economic developments in 2005

GDP grew by 3.9% last year. This growth was mainly driven by foreign demand since domestic consumption eased off considerably compared to the year before. The contribution of external trade to GDP growth has been positive since the second half of 2004. It was particularly high in Q2 of 2005 (4.8 p.p.), which strongly boosted economic growth in this period (from 2.8% in Q1 to 5.4%, year on year). In the second half of the year, GDP growth was more level (3.6% in Q3 and 3.7% in Q4), while the contribution of external trade gradually waned (2.2 p.p. and 0.9 p.p., respectively) due to the slight softening in the growth of goods and services exports and considerably higher growth of goods and services imports (see Chapter 4.1). Domestic consumption strengthened in the second half of the year, notably in Q4 when gross fixed capital formation surged (its growth rose from 1.6% in Q3 to 8.2%, year on year), whereas the increase in private consumption was lower than in the first half of the year in year-on-year terms (see Chapter 4.2).

*Despite the subdued economic activity in most of Slovenia's main trading partners, the growth of merchandise **exports** remained relatively strong last year thanks to the burgeoning road vehicles exports. The concurrent slowdown in **imports growth** was mainly the result of modest growth of domestic investment in machinery and equipment. **Exports and imports of services** rose at a faster pace than did trade in goods.* As projected, the growth of goods exports slowed down in 2005 over 2004 (from 12.8% to 8.7%) although this slowdown was smaller than expected considering the weaker GDP growth in the main EU trading partners. This development was mainly underpinned by the booming road vehicles exports as a result of the relocation of the manufacture of cars to Slovenia in Q4 of 2004. Exports of road vehicles recorded a notable year-on-year surge in the first half of the year. In the second half growth eased off, which was also the main reason for the slowdown in total merchandise exports. In the year as a whole exports of road vehicles were up 35% (in nominal terms, EUR). Exports to new member states, which achieved even higher average GDP growth last year than in 2004 (when they joined the EU), strengthened and exceeded the growth of Slovenia's exports to the old member states. A regional comparison of exports for 2005 and 2004 thus shows that the deceleration seen last year was largely caused by the smaller growth of exports to non-members. The abolition of free-trade agreements resulted in a further decline of exports to Macedonia and the weak growth of exports to BiH last year. Compared to 2004, exports to Serbia & Montenegro, Croatia and Russia dropped as well. Exports to the USA fell for the second consecutive year in 2005 after the surge in 2003. The real growth of services exports, which still fell behind the growth of goods exports in the first half of the year, stepped up strongly in the second half, hence their annual growth (11.6%) topped the level from 2004 as well as that projected in the autumn forecast. Imports of goods and services rose by 5.3% last year, much less than a year before (13.2%). Imports of investment goods saw the smallest increase (4.9% in nominal terms, EUR). Spurred on by the rising commodity prices and buoyant exports, imports of intermediate goods recorded the biggest growth (13.7%), while imports of consumer goods were up 9.8% over the year before (see Chapter 4.1).

Domestic consumption growth decelerated last year, mainly due to the weaker growth of gross capital formation. Following a two-year period of more vigorous

investment (recording 6%-7% growth), gross fixed capital formation increased by 3.7% in real terms last year. Investment softened particularly in machinery and equipment (up 2.9%, compared to 9.4% in 2004), however its growth gained momentum towards the end of the year, probably owing to the changes in the investment relief regime that is becoming less favourable this year. In line with expectations, the growth of housing construction accelerated last year (13.7%) while the growth of investment in other buildings was about as meagre (1.1%) as in 2004 see Chapter 4.3). Private consumption grew a real 3.3% last year, i.e. slightly more than in 2004 (3.1%; see Chapter 4.2). The growth of government consumption (3%) remained at a similar level as in 2004 (2.9%) and was the slowest growing component of domestic consumption (see Chapter 4.4). After being positive for three years (around 0.8 p.p. per year), the contribution of the changes in inventories to GDP growth was negative in all quarters of 2005 and also higher than estimated in autumn (totalling -1.7 p.p.). Inventories dropped in Q2 and Q3, while their increase in Q1 and Q4 of 2005 was smaller than the comparable increases in 2004.

*According to the national accounts statistics, **employment growth** in 2005 (0.7%) was even higher than in 2004, which was consistent with the autumn forecast.* Employment was up in almost all activities, the most in construction (4.7%), real estate, renting and business services (4.6%) and financial intermediation (4%). On the other hand, employment dropped in agriculture (-2.0%), mining and quarrying (-4.5%), manufacturing (-1.9%) and public administration, defence and social insurance (-0.2%). Within newly filled vacancies, which surged last year (12.8%), jobs that require higher education rose at the fastest pace while low-skill jobs recorded slowest growth. On the other hand, available vacancies rose strongly (19.9%) in 2005 for the second consecutive year.

Registered unemployment rose at the end of 2005 compared to the end of 2004. At the same time, **the ILO unemployment rate** rose as well. In December 2005, a total of 92,575 people were registered as unemployed in Slovenia, 2% more than in December 2004. Due to the lower unemployment in the first half of the year, however, the average registered unemployment rate was nevertheless slightly lower than a year ago (down 0.1 p.p. to 10.2%). The reason why the fall in unemployment came to a halt in 2005 was the 7.0% higher inflow of people who lost work and the lower number of deletions from unemployment registers for reasons other than employment. Together with transfers to other registers, there were 16.9% fewer such deletions in 2005 than in 2004. On the other hand, last year's total inflow into registered unemployment was lower than in 2004 on account of the smaller inflow of first-time job-seekers (-16.6%). Following substantial quarterly swings, the average ILO unemployment rate also rose in 2005 as a whole (from 6.3% in 2004 to 6.5%) despite the increase in employment since activity rates and hence the supply of labour force in the labour market are still rising (see Chapter 7.2).

*The **gross wage per employee** rose by 2.2% in real terms in 2005, lagging behind productivity growth (3.1%) by 0.9% of a percentage point, which is in line with the wages policy framework agreed upon in the social agreement for 2003-2005.* The gross wage per employee in the private sector was adjusted according to the indexation mechanism laid down in the Wages Policy Agreement for the Private Sector for 2004 and 2005. Backed by a supportive economic environment it rose a

real 2.8% while labour productivity in the private sector increased by 3.6%. In the public sector, gross wages were up a real 0.9% as a result of July's 2% adjustment agreed upon between the social partners (in the Act Amending the Salary System in the Public Sector Act), promotions, and the 3% wage increase in the education sector as laid down by the Annex to the Collective Agreement for Education (see Chapter 7.1).

*Last year saw the continuation of gradual **disinflation** and in November 2005 Slovenia met the Maastricht inflation criterion required for adoption of the euro.* The year-on-year decrease in consumer price rises by 1.4 p.p. seen in 2004 was followed by their further fall of 0.9 p.p. in 2005. The consumer price rise (CPI) thus totalled 2.3% in December 2005. Compared to December 2004, average inflation dropped as well, going down by 1.1 p.p. to 2.5%. The average consumer price rise measured by the harmonised index of consumer prices (HICP) converged with the Maastricht criterion for the first time in November last year when it totalled 2.5%. The same happened in December (see Chapter 6). Apart from both fiscal criteria, Slovenia thereby also fulfilled both monetary criteria, i.e. the interest rate criterion and the inflation criterion, at the end of 2005 (see Box 7).

*The **current account** deficit was lower in 2005 than in 2004, largely owing to the higher surplus in the trade in services.* The deficit totalled EUR 310 m (EUR 544 m in 2004) or 1.1% of GDP (2.1% in 2004). Despite the deteriorated terms of trade resulting from the rising prices of oil and other primary commodities, the deficit in goods trade was only slightly higher (EUR 1,034 m) than a year ago (EUR 1,009 m). The increase in the services trade surplus (from EUR 686 m to EUR 898 m), which was critical to the narrowing of the current account deficit, was supported by all of the three main service categories: transport and travel services expanded their surpluses while other services reduced their deficits. In addition, the narrowing of the current account deficit was partly underpinned by the current transfers balance (a higher surplus) and the labour and capital income balance (a smaller deficit; see Chapter 5.1).

Box 1: **Effects of EU membership on economic developments in 2005**

The effects of Slovenia's accession to the EU have interacted with other effects. Last spring we conducted a detailed analysis of the effects of Slovenia's accession to the EU on economic trends[1]. Since the effects of accession to the EU interacted with the impacts of other processes and various factors in the national and international environment, it was difficult to define their significance clearly. The

---

[1] In 2005 the IMAD prepared a special analysis of the effects of Slovenia's accession to the EU on economic developments in 2004. The study showed that most economic entities did not encounter any significant changes after May 2004 but it did identify some changes that may be partly or wholly attributed to Slovenia's accession to the EU. These changes were synthesised into an estimate of accession-related effects on economic trends in 2004, which were divided into direct and indirect ones. The main direct effects identified were: the change of foreign trade regime, the entry to the Exchange Rate Mechanism ERM II, and the implications for public finance. The chief indirect effects, on the other hand, were more long lasting and were felt in many areas of economic activity (for details, see Effects of Slovenia's Accession to the EU on Economic Trends in 2004; Working Paper No. 6, IMAD 2005).

situation in 2005 was similarly complex. We note that the analysis below is largely based on the monitoring of current data on economic trends in the context of last year's findings, and that this year the IMAD has not prepared a separate detailed analysis focusing exclusively on the implications of EU membership in 2005.

Entry to the EU and the ERM II enabled Slovenia to meet the criteria required for adoption of the euro according to schedule and thus to fulfil its primary short-term economic policy goal. Slovenia's accession to the EU and its decision for an early entry to the ERM II and adoption of the euro at the beginning of 2007 were underpinned by a well-co-ordinated economic policy mix that enabled the convergence with all criteria required for adoption of the euro – the central short-term goal of Slovenia's economic policy (see Box 7). The entry to the ERM II had a direct impact that was reflected in the exchange rate's stabilisation and its favourable impact on inflation, whereas for policy-makers it primarily meant a commitment to co-ordinated policies and preservation of the conditions needed for Slovenia's entry to the EMU. The economic policy mix from 2004 continued to be applied in 2005. The Bank of Slovenia ensured the stability of the tolar's exchange rate while the government applied the restrictive administered prices regulation plan, cushioned the volatility of oil prices and pursued the incomes policy agreed in the social agreement. The exchange rate stabilisation upon accession to the EU did not result in a deterioration of Slovenia's price competitiveness (see Chapter 5.2), as the rises of relative prices eased off at the same time, i.e. differences between price rises in Slovenia and its trading partners narrowed.

Interest rates continued to converge towards the euro-area level in 2005, although the decline was slower than in 2004. Lending interest rates fell at a faster pace than deposit rates, which also boosted banks' lending activity. Both enterprises and households strongly increased foreign currency borrowing last year, which may be attributable to the forthcoming adoption of the euro. Household savings growth in banks, however, continued to soften and hit its historically low level in 2005 (see Chapter 9.2).

Important effects of Slovenia's accession to the EU, which continued to impact on developments in the economy in 2005, include the further strengthening of trade with the EU, particularly with the new member states and those old members that were previously not Slovenia's traditional trading partners. Most accession-related effects observed in 2004 in the area of external trade were also prominent in 2005, notably the further expansion of trade with the EU. Merchandise exports to the EU rose by 13.9% in 2005 (12.6% in 2004), specifically by 15.4% to the new members (11.8% in 2004) and by 13.7% to old members (12.8% in 2004). Nevertheless, the robust growth of exports to the EU in 2005 was also strongly underpinned by other factors unrelated to Slovenia's membership in the EU: first, the activity and growth of demand in these countries, and second, the exports to France and partly Austria and United Kingdom were strong as a consequence of the surge in exports of vehicles following the relocation of a part of production to Slovenia in Q4 of 2004. Exports to France alone, stimulated by the burgeoning sales of road vehicles to this market, contributed around 40% to the growth of Slovenia's total exports to the EU. The effects of the abolished free-trade agreements

continued to be felt, particularly in trade with Bosnia and Herzegovina where export growth was relatively low (5%; in 2004: 4.1%) and with Macedonia, to which exports recorded a real drop over the year before (-3.3% over -2.5%). The growth of exports to Croatia slowed down last year but still remained relatively strong (11.8% compared to 15.9% in 2004) as most of its trade with the EU has been liberalised since the beginning of 2004. Exports to Serbia and Montenegro also grew less than in 2004 (15% over 31.4%), however the trade regime with this country did not change upon accession because Slovenia did not have a free-trade agreement with it before it joined the EU.

An analysis by the European Commission on the effects of EU enlargement after two years[2] similarly shows a positive trade creation effect of the accession of the ten new member states in May 2004. The study finds that the level of trade between the new member states and the EU has increased appreciably over the last two years, notably merchandise trade between the new members. Although this impact varies across countries depending on their size and previous integration into the EU market, the external trade of all countries benefited from EU membership.

In both years after EU accession the level of trade in agro-food products rose, which was expected because the food-processing industry was relatively protected before that. Contrary to 2004 when the growth of trade resulted from higher imports rather than exports (the latter fell, mainly due to the changed trade regime with the countries of former Yugoslavia, as well as due to lower agricultural production), the growth in 2005 was underpinned by higher values for both imports and exports. Exports of agro-food products rose considerably (by 15.8%) compared to the year before (in 2004 it dropped by 11.4%). In 2005, the proportion of exports to the markets of former Yugoslavia dropped (to 45%) while the proportion of exports to the EU-15 markets rose (to 43%). The proportion of exports to the new member states remained almost unchanged during this period, totalling around 3%. Imports of agro-food products rose again compared to the year before (by 14.1%) and were 31.1% higher than in 2003. Like before accession, the bulk of these imports came from the EU-15 countries, but the share increased after Slovenia became a member (from 53% in 2003 to 68% in 2005). The share of imports from the new EU members dropped by 4 p.p. to 12% during this time.

Accession to the EU has had the strongest impact on the food-processing industry. The analysis made last year showed that the effects of accession in manufacturing were partial and surfaced only in certain sub-industries. Accession appears to have had the strongest effect on the food-processing industry, where production dropped in 2004 due to the lifting of customs protection on one hand and the imposition of customs duties in the export markets in former Yugoslavia on the other. Production fell further in 2005 (by 1.9%). In other sub-industries it is difficult to single out a clear-cut impact of EU accession. In those industries where production levels and export activity were on the increase throughout the accession process period, the favourable trends generally continued last year. These activities include the manufacture of chemicals and chemical products, metals and metal products, and rubber and plastic products. The decline in the textile industry's production levels

---

[2] Enlargement: Two Years After: An Economic Evaluation (European Commission, 2006).

which was, however, related to globalisation and structural maladjustment rather than to accession to the EU and had begun before accession, continued in 2005.

Trends in tourism and transport improved last year, but it is similarly difficult to assess the impact of accession on this development. Tourism (hotels and restaurants) recorded favourable and improved results in 2005 over 2004. However, it is hard to make an exact assessment as to whether this development was underpinned by Slovenia's accession to the EU and to what extent. Slovenia has certainly become more recognisable as an EU member, which probably contributed to the improved results in this industry. The value added in transport, storage and communications rose substantially last year, as did exports of transport services, which indicates that operators generally managed to adapt quite well to the changed circumstances although their expectations upon accession were different.

Slovenia's net budgetary position vis-à-vis the EU improved slightly last year but it remained lower than planned. According to the Ministry of Finance, Slovenia received 63% of the funds planned in the revised budget for 2005 from the EU budget, which is relatively better than in 2004, when the corresponding share totalled 54.8%. Slovenia's net budgetary position vis-ŕ-vis the EU (SIT 4.5 bn) was slightly better in 2005 than in 2004 (SIT 3.4 bn), and despite being significantly lower than planned (see Chapter 8.3), such dynamics of EU funds acquisition are usual for the first post-accession years and were similar in other new member states. At the same time, this also shows that Slovenia should increase its efforts to spend EU funds and restructure its budgetary expenditure in favour of EU-oriented programmes.

2. International environment

*Last year, the real **growth of the world economy** (4.8%) and **trade** (7.3%) slowed down less than expected in the autumn forecasts. Prospects for the world economy in the next two years remain favourable, provided there are no abrupt corrections to the global external imbalances and assuming that oil price rises will not rise above the current level.* The International Monetary Fund recently made a slight upward revision to its autumn forecasts of economic trends for 2006 and 2007. This year, global economic growth is projected to remain at a similar level as in 2005 (4.9%), trade is expected to grow even more vigorously (8.0%) but both indicators are projected to decelerate in 2007 (to 4.7% and 7.5%, respectively). Regional variation in economic activity will moderate this year as GDP growth is expected to gain momentum in the EU and Japan and ease off somewhat in the USA. Other Asian economies are expected to continue growing at robust rates.

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

	2004	2005	2006		2007
			Oct. 05	April 06	April 06
World economic growth (real growth, %)	5.3	4.8	4.3	4.9	4.7
World trade in goods and services (real growth, %)	10.4	7.3	7.4	8.0	7.5
World commodity prices excluding energy* (growth, %)	18.5	10.3	-2.1	10.2	-5.5
6-month LIBOR** interest rates on USD deposits (%)	1.8	3.8	4.5	5.0	5.1
6-month LIBOR** interest rates on EUR deposits (%)	2.1	2.2	2.4	3.0	3.4

Source of data: IMF World Economic Outlook (April 2006, October 2005).
Notes: *weighted average relative to the shares in world exports. **LIBOR - London interbank offered rate.

The assumed international economic trends underlying the IMAD's spring forecast are based on forecasts that were available up until end-March (see Table 2). The IMF's and Consensus Forecasts published in April do not deviate from the assumptions except for the Czech Republic and Poland where the GDP growth forecasts are even higher.

*The assumed **oil prices** are lower than in autumn but they are still expected to remain at a level above 60 USD/barrel.* Following the oil price hike seen in the summer months last year when the price of Brent crude soared to around 68 USD/barrel, the autumn forecast assumed that oil prices would persist at this level until the end of 2005 as well as in 2006 and decrease slightly in 2007. In reality, oil prices were lower in Q4 of 2005 (at USD 56.9/barrel) and consequently in the year as a whole when the average price was USD 54.4/barrel (the autumn forecast assumption was USD 58/barrel). Nevertheless, oil prices still surged by more than 40% compared to 2004. Brent crude was also cheaper than expected in the first two months of 2006 (USD 62.3/barrel), while its price hovered around USD 64/barrel at the beginning of March when the spring forecast was being prepared. International analysts expect oil prices to persist at a high level owing to the continued boom in demand, particularly in the swiftly growing Asian economies. These developments are

Table 2: **IMAD's assumptions of economic growth in Slovenia's main trading partners, 2006-2008**

	2004	2005	2006		2007		2008
			Autumn forecast (Sept. 2005)	Spring forecast (March 2006)	Autumn forecast (Sept. 2005)	Spring forecast (March 2006)	Spring forecast (March 2006)
Euro area	2.0	1.3	1.7	2.0	2.0	1.8	1.9
Germany	1.6	0.9	1.3	1.6	1.5	1.0	1.5
Italy	1.1	0.0	1.0	1.3	1.4	1.3	1.5
Austria	2.4	1.9	2.1	2.2	2.2	2.0	2.2
France	2.3	1.4	1.8	1.9	2.2	2.0	2.1
UK	3.1	1.8	2.2	2.2	2.2	2.4	2.3
Czech Rep.	4.7	6.0	4.2	4.5	3.7	4.2	4.3
Hungary	4.6	4.1	3.7	4.2	3.9	4.0	4.0
Poland	5.3	3.2	4.0	4.0	4.0	4.2	4.5
Croatia	3.8	4.3	3.0	3.7	3.7	3.8	3.8
Bosnia & Herzegovina	6.0	6.5	6.0	6.0	5.4	6.0	5.4
Serbia	9.3	6.3	5.0	4.0	5.0	4.0	4.0
Macedonia	4.1	3.6	4.0	4.0	4.5	4.0	4.5
USA	4.2	3.5	3.3	3.2	3.3	3.0	3.1
Russia	7.2	6.4	5.0	6.0	5.0	6.0	5.0

depleting the already limited excess capacities and increasing price instability[3]. Therefore, our forecasts are based on the expectation that oil prices will remain at an average level of USD 64/barrel in Q2 and Q3 and ease off slightly in Q4 of 2006 and in 2007. The price of oil is thus expected to average out at USD 63.5/barrel in 2006 and USD 61.5/barrel in 2007, i.e. slightly less than anticipated in autumn.

In 2005, **the price rises of other commodities** *slowed down and were much lower than the oil price rises. Contrary to the autumn expectations, commodity prices will rebound strongly in 2006 and are not expected to decline before 2007.* This year's

Table 3: **Price of Brent crude assumed in the Spring forecasts**

	2005	2006		2007	
		Autumn forecast (Sept. 2005)	Spring forecast (March 2006)	Autumn forecast (Sept. 2005)	Spring forecast (March 2006)
Average oil price per barrel, USD	54.4	68.0	63.5	66.0	61.5

---

[3] As a result of a combination of several geopolitical factors that were unforeseeable during the preparation of the forecasts in the middle of March 2006, the price of Brent crude rose by 11.5% in April over March, averaging out at USD 70.2/barrel.

prise rises in commodities (excluding energy) will be fed by the climbing global prices of food and metals (particularly gold, silver, copper and zinc). The latter already hit record highs in Q1 this year. Next year, commodity prices (excluding energy) are projected to fall, particularly as a result of a slowdown in food price rises and a drop in prices of metals.

*The technical assumption of the **EUR/USD exchange rate** has also been revised slightly downwards in the spring forecasts and totals 1.20 for the entire forecasting span (1.256 in the autumn forecast).* This technical assumption is based on developments recorded in the six months between September 2005 and February 2006, when the euro was weaker against the dollar than in the period that served as the basis for the autumn assumption (March-August 2005). The average ratio between the two currencies in 2005 totalled 1.244 (1.242 in 2004), noting that the euro predominantly depreciated from March onwards when it achieved the highest value in the year (1.32 on average).

*The **key interest rates** of the US Federal Reserve and the European Central Bank are expected to rise further this year and in 2007.* At the end of March 2006, the FED's Open Market Committee raised the US leading interest rate for the fifteenth time in a row, pursuing the interest rate raising policy launched in June 2004. The rate totalled 4.75% at the end of April and is expected to be raised once more to 5% in May and to remain at this level for a while thereafter. The ECB has also started to raise its key interest rate; so far it was raised twice, each time by 25 basis points (at the beginning of December 2005 and March 2006) and currently totals 2.5%. The raising in December 2005 was the first change in the ECB's interest rate since June 2003 and the first rise since 2000. Financial markets expect further rises of the interest rate in the euro area, which is projected to total 3% by the end of the year.

Risks related to international economic developments remain significant this year. The possibility of rocketing oil prices remains the major risk as oil prices tend to react quickly and potently to any political instability in major producer countries against the tight ratio of global supply to demand. Moreover, imbalances in the global balance of payments persist, posing a threat to the global financial system. Finally, new geopolitical tensions may build up and push commodity prices up.

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

*Largely owing to the weaker growth in the first half of the year, economic growth in the **euro area** decelerated to 1.3% (in the EU to 1.6 %) in 2005 over 2004, which was in line with the IMAD's autumn assumptions. The spring forecasts for 2006 project an even stronger acceleration of economic growth compared to the autumn forecasts (to 2.0% over 1.7%) whereas a slight slowdown, albeit less pronounced than in 2005, is expected in 2007-2008.* Most indicators from business and consumer confidence surveys, which have hit record highs in a number of countries, show that the positive developments in the euro area that began in Q3 of 2005 are set to continue this year. Domestic consumption will mainly contribute to GDP growth in the euro area mainly through the growth of investment consumption. The growth of

private consumption is expected to gain considerable momentum towards the end of the year, which however mainly reflects the expected stronger growth of household consumption in Germany due to its planned raising of VAT at the beginning of 2007. As world trade is expected to continue expanding at a rapid pace, exports are also projected to contribute significantly to economic activity this year although the net contribution of international trade to GDP growth will be negative as imports will also grow more rapidly in response to the pick-up in domestic demand. According to the latest forecasts, GDP growth in the euro area will cool off slightly in 2007 (to 1.8%), chiefly as a result of the lower projected growth in Germany (1.0%), while in other trading partners growth will decelerate only marginally. In 2008 GDP growth in the euro area will rebound slightly (to 1.9%).

Germany's GDP growth slowed down in 2005 but a recovery is expected this year. Following the temporary slowdown in 2007, economic growth in Germany will rebound to this year's level in 2008. External trade, driven by dynamic global demand, was the main contributor to Germany's GDP growth last year (0.9%). On the other hand, growth of gross fixed capital formation and private consumption stagnated. A favourable outlook for the German economy in 2006 is indicated by Ifo's Business Climate index which climbed to its highest value in 15 years in March, and the consumer confidence index which hit its five-year high in February. Gross fixed capital formation is also expected to boom. Strengthened private consumption would be the key factor of a more lasting economic recovery but the planned raising of VAT at the beginning of 2007 will provide just a transient stimulus to its growth in 2006. GDP growth in Germany is thus projected to total 1.6% this year, ease off to 1.0% in 2007 and rebound to 1.5% in 2008.

*Economic growth in **Italy** came to a complete halt in 2005 but is expected to regain momentum this year and in the next two years.* The weak growth of exports that lasted for several years and was caused by the slumping competitiveness coupled by weak domestic demand, led to stagnation of the Italian economy last year. In addition to the drop in investment, private consumption was suppressed by the low growth of disposable income and the high prices of energy. The economy is expected to recover considerably in the first quarter this year as the business confidence indicator reached the highest value in five years in March and consumer confidence in January was highest since September 2002. Data on industrial production are encouraging as well. As the recovery of economic activity is expected to continue throughout the year, the forecast of Italy's GDP growth for 2006 has been revised upwards by 0.3 p.p. since autumn, to 1.3%. The same growth is projected for 2007, while in 2008 it should strengthen further to 1.5%.

*Like in other Slovenia's main trading partners, **Austria's** economy also softened last year (it grew by 1.9%). Following the dynamics of Germany's GDP growth, the Austrian economy's growth is projected to accelerate to 2.2% this year, ease off somewhat in 2007 and rebound to this year's level in 2008.* In 2005, Austria's GDP growth dropped in the first three quarters and strengthened again towards the end of the year. These dynamics were largely caused by the deceleration in investment and private consumption growth where the effect of the tax breaks on personal income introduced at the beginning of the year did not begin to show until the end of the year. Nevertheless, GDP growth was driven by domestic demand that will also be

its main generator this year and in the two years ahead. Due to the expected economic recovery of Germany, one of Austria's main export partners, the growth of exports in 2006 is expected to be twice as high as in 2005. The anticipated slight slowdown of economic growth in 2007 (2.0%) will be the result of the weaker growth in Germany. In 2008, the Austrian economy is projected to grow by 2.2%, the same as this year.

France also witnessed a contraction of growth last year, but its economy is expected to recover gradually this year and in the two years to follow. The contribution of external trade to the growth of France's GDP was still negative last year. The 1.4% growth was therefore mainly underpinned by domestic demand, particularly private consumption. The projected improvement of exports' price competitiveness and the favourable economic trends in the main trading partners (especially Germany) herald higher export and GDP growth rates in 2006. The expected rise in employment will preserve the favourable conditions for the growth of private consumption, which is projected to remain the key driver of economic activity. Economic growth is thus expected to gain momentum and total 1.9% this year, 2.0% in 2007 and 2.1% in 2008.

Last year, GDP growth in Slovenia's three main trading partners among the **new EU members (the Czech Republic, Hungary and Poland)** *exceeded the IMAD's autumn assumptions. This year and in the two years thereafter these economies are expected to continue growing at relatively high rates.* Thanks to external trade, which was an even stronger driver in 2005 than in 2004, GDP growth in the Czech Republic (6.0%), Hungary (4.1%) and Poland (3.2%) remained robust in 2005 compared to the euro area, showing that these countries can achieve relatively high growth rates even when the economies of the old members are sluggish. On the other hand, investment and industrial production in these three countries lost momentum last year and private consumption growth fell behind GDP growth. Strong GDP growth is expected to continue this year and in the following two years. External trade will continue to be a significant factor although domestic demand will be even more decisive due to the expected boost in both private consumption and investment. The latter is projected to record much higher growth in 2007 and 2008 when funding from the EU will increase as well. Due to the higher economic growth in 2005 than expected and more balanced growth in the years to come, the spring forecasts for these countries are slightly higher than in autumn (see Table 2).

Economic growth in the **countries of former Yugoslavia** *exceeded the autumn forecasts (except in Macedonia). The expected growth for this year was revised upwards for Croatia and downwards for Serbia while remaining unchanged for BiH and Macedonia. Their growth is expected to remain at this year's level in the next two years.* The expanding private consumption remains the main contributor to growth in the region. External trade was another significant driver of economic activity as cross-regional trade promisingly picked up last year, although it still fell behind the increase in trade with the EU and other countries and its proportion remains relatively low. This year and in the two years to follow, upbeat economic activity is expected to continue in the face of occasional political instability. **Croatia's** growth in 2005 was 1.3 p.p. higher than projected in autumn, particularly on account of the 5.2% growth in Q3, the highest year-on-year growth in three years. Growth is

expected to soften slightly this year and in 2007 but will nevertheless exceed the autumn forecasts and total between 3.7% and 3.8%. In **Bosnia and Herzegovina**, GDP grew more than projected in autumn, by 6.5% according to the first estimates. Although data are still unreliable, international institutions estimate that this growth was driven by the robust growth of industrial production, as well as the pick-up in private consumption stimulated by the slightly higher real wages and employment. A minor deceleration of GDP growth (to 6%) is expected in 2006-2007. **Macedonia** recorded 3.6% GDP growth in 2005, which was slightly less than projected and mainly fed by industrial production. As exports rose faster than imports, the current account deficit (1%) was much lower than projected (6-7%). In the next two years, growth is expected to rebound to the level of 2004, i.e. to around 4%. **Serbia's** economy softened considerably in 2005 over 2004 but nevertheless grew by 6.3%, which is more than we projected in autumn. The deceleration reflected the weaker growth of industrial and agricultural production, whereas exports were favourable. Inflation exceeded 16% in 2005 and represents a serious problem. Growth is expected to slow down further and total 4% in 2006-2008.

*The slowdown of economic growth in the **USA** seen last year was consistent with the autumn forecasts (3.5%). In the next few years, the growth of the US economy will gradually ease off to 3.1%.* Last year's growth was based on gross fixed capital formation and private consumption. The final quarter of 2005 witnessed the lowest quarter-on-quarter GDP growth in three years. Given the favourable trends in the labour market and the record high consumer confidence index in almost four years recorded in March, private consumption growth is estimated to have accelerated at the beginning of the year and will remain the main motor of economic activity. Despite the higher interest rates, investment will continue to grow robustly this year on the back of the high returns of enterprises and foreign demand; in 2007, however, it is projected to cool off somewhat. The US current account deficit, which ballooned to the record-high 7% of GDP in Q4 of 2005 (6.4% of GDP at the annual level), remains the country's main problem. The US GDP is thus expected to grow by 3.2% this year, slow down slightly in 2007 (to 3.0%) and rebound to 3.1% 2008.

3   Gross domestic product

3.1   Expenditure structure of gross domestic product

*The **real growth of GDP in 2005** matched our autumn forecast and totalled 3.9% according to the SORS' estimate.* Economic growth in 2005 was mainly generated by strong export growth and moderate growth of imports. Foreign trade contributed 2.3 percentage points to last year's economic growth of 3.9%, which is considerably higher than expected (1.4 p.p.). Exports of goods and services rose by 9.2% in real terms in 2005 and thus exceeded the growth forecast in autumn (8.6%). On the other hand, the growth of domestic consumption was 1.6%, which is 3.0 p.p. below that of the last year. It contributed 1.6 p.p. to the GDP growth in 2005, mostly owing to the increased private consumption (Table 4). Because of the lower domestic consumption imports also increased less (5.3%) than was forecast in autumn (6.0%).

*The main reason for the slowdown of **domestic consumption last year** was the shrinking of gross capital formation (by 3.0%).* Throughout 2005, changes in inventories contributed negatively to real GDP growth. After three years of the positive contribution of changes in inventories to GDP growth (about 0.8 p.p.) last year's contribution was extremely negative, totalling 1.7 p.p., which is much more than the autumn estimate (-1.0 p.p.). Further, gross fixed capital formation (3.7%) was lower than in the previous two years (an increase of between 6% and 7%) and also below the autumn estimate (4.0%). In particular, investment in machinery and equipment slowed down, while investment in buildings grew more rapidly than the year before. The real rate of household and government spending in 2005 is comparable to that of the previous year. Compared to our autumn forecast, the growth of private consumption in 2005 (3.3%) was slightly below the forecast (3.6%) that was based on higher current data and wage growth forecasts (see Chapters 4.2 and 7.1). In 2005 the growth of government spending (3.0%) was slightly higher than that projected in autumn (2.5%). Like in the two previous years the growth of government spending was the slowest growing part of domestic consumption last year.

Table 4: **Contributions to GDP growth**

	in percentage points							
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
						forecast		
GROSS DOMESTIC PRODUCT	2.7	3.5	2.7	4.2	3.9	4.2	4.0	3.9
Goods and services trade balance (exports-imports)	1.7	1.1	-2.0	-0.4	2.3	0.4	0.4	0.4
Domestic consumption, total	1.0	2.4	4.7	4.6	1.6	3.8	3.6	3.5
- private consumption	1.3	0.8	1.9	1.7	1.8	1.8	1.8	1.9
- government consumption	0.7	0.6	0.3	0.6	0.6	0.5	0.5	0.5
- gross fixed capital formation	0.1	0.2	1.7	1.4	0.9	1.4	1.2	1.0
- changes in inventories	-1.2	0.8	0.8	0.9	-1.7	0.1	0.1	0.1

Source of data: SORS, forecast by IMAD.

The spring forecast of economic growth for 2006 *is 4.2%.* Estimated higher GDP growh compared to last year is the result of the expected higher growth of gross capital formation and thus this year the contribution of domestic consumption to economic growth (3.8 p.p.) will greatly exceed that of 2005 (see Table 4). Last year's investment consumption was lower than predicted but the prospects for 2006 have improved. The strong growth of housing construction, indicated by the number of building permits issued, will continue and, unlike in autumn, we expect a major increase in motorway construction (the DARS plans to increase motorways investment funds by more than 30%). Besides the growth in infrastructure investments we anticipate that favourable export trends will encourage businesses to invest more in equipment and machinery. This is also shown by the high exploitation of production capacities in late 2005 and early 2006 (see Chapter 4.3). A robust increase in gross capital formation is also expected as a consequence of a halt in the decrease in changes in inventories, whose contribution to economic growth that last year considerably reduced GDP growth is expected to be more neutral this year (+0.1 p.p.). Private consumption growth is expected to remain at last year's level (3.3%). Compared to our autumn forecast, there will be a slightly lower rise in wages and a more important increase in the number of employees, resulting is the 3.3% rise in the wage bill in real terms this year. Households' disposable income is estimated to increase by the same percentage. Considering the spending in 2005 and the adopted budget, government consumption growth will decrease from last year's 3% to 2.7% this year. Owing to favourable prospects of economic revival in the main trading partners the growth of exports of goods and services will exceed the autumn forecast. Still, the rise of exports of goods and services will be lower (8.2%) than in 2005 (9.2%) due to an expected slowdown of export growth in road vehicles and services. The rise of domestic consumption will cause imports growth to strengthen and thus the contribution of international trade (0.4 of a p.p.) will be considerably lower than last year (2.3 p.p.).

In 2007 economic growth *will be slightly below this year's figures, i.e. 4%.* In the international environment a slight economic slowdown is expected and the growth of exports of goods and services in 2007 is therefore estimated to be somewhat lower (7.9%) than in 2006. With the growth of imports of goods and services

Table 5: **Growth in demand components**

	Real growth rates (%)							
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
						forecast		
Total aggregate demand	3.4	3.6	3.2	5.7	4.8	5.0	4.7	4.7
of which:								
Foreign demand (exports)	6.3	6.7	3.1	12.5	9.2	8.2	7.9	8.0
Domestic demand	2.7	2.8	3.3	3.9	3.5	4.1	3.7	3.7
- intermediate consumption	3.2	3.9	2.7	4.0	3.7	4.3	3.8	3.9
- private consumption	2.3	1.3	3.4	3.1	3.3	3.3	3.3	3.6
- government consumption	3.9	3.2	1.6	2.9	3.0	2.7	2.8	2.4
- gross fixed capital formation	0.4	0.9	7.1	5.9	3.7	6.0	5.0	4.0

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

Box 2: **GDP forecast using a model of leading indicators**

The IMAD verifies its GDP expenditure structure by using a model of leading indicators[4]. This flexible model tests the accuracy of forecasting for each forecast variable against more than thirty specifications of the forecast equation. In all forecast equations it is possible to use the method of correction of the constant in the preparation of forecasts that are robust to structural breaks. This is particularly useful for forecasting variables with marked breaks, owing to which models without a correction of the constant show a pronounced bias. The forecast horizon of the present model version is 2006. Forecasts for the above variables are made with a considerable number of models, which enables a more robust forecast in the forecasting process of individual variables. All IMAD point forecasts from Spring Report fall within the interval defined by different equations of the leading indicators model. Owing to the pronounced stability of GDP growth in the past the forecast uncertainty of this variable is extremely low, and this is shown in the low forecast dispersion. The interval of real GDP growth for 2006 is between 3.8% and 4.2%. The model predicts 3.2% growth of final consumption. The forecast dispersion of fixed capital formation growth is higher; the interval is between 5.2% and 6.5%, with a concentration of forecasts above 6%. The model predicts export growth at between 8.5% and 10%, with a concentration of forecasts around 9%. Import growth will be slightly lower, between 5.8% and 8.4%, with a concentration of forecasts around 7.3%. Industrial production should grow by 4.7% to 5.5% at the yearly level.

---

projected to total 7.4%, the contribution of international trade will remain at last year's level (0.4 p.p.). Domestic consumption will, like in 2006, contribute the biggest part to GDP growth (3.6 p.p.). Private consumption growth that will roughly follow the estimated growth of household disposable income is set to maintain last year's level (3.3%). In 2007 gross fixed capital formation will experience slower growth (5%) compared to 2006 (6%). The forecast assumes that the volume of motorway construction activity will remain at the high level of 2006 and that the growth in investments in equipment and machinery will increase since in 2008 certain types of tax relief will be cut and the progressive reduction of payroll tax will continue (in compliance with the adopted act). In 2008 new dwellings will no longer benefit from a reduced-rate VAT, therefore in 2007 we expect investment in residential building construction to continue to rise, as already shown by the number of building permits issued.

GDP growth in real terms in 2008 (3.9%) will maintain about the same level as in 2007 (4%). If conditions in international environment remain favourable, the real growth of exports of goods and services will be 8.0%. Growth of gross fixed capital formation will slow down compared to 2007, since owing to the introduction of a higher rate of VAT for new flats the high growth of residential building construction of the last two years is expected to slow down. However, investment consumption will be fuelled by the inflow of larger EU funds and further payroll tax reduction

---

[4] The model is based on a methodology of diffusion indices developed by Stock, J. H. and Watson, M. W. (1998) and adapted for the IMAD by Igor Masten of the Faculty of Economics at the University of Ljubljana.

Table 6: **Expenditure structure of gross domestic product**
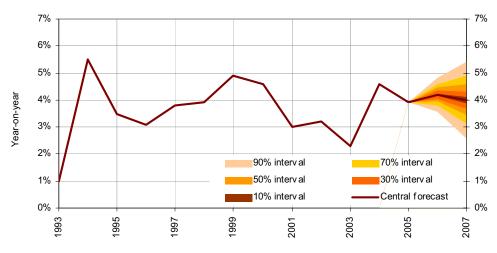
	Structure in %, current prices							
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
						forecast		
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Goods and services trade balance (exports-imports)	-0.7	1.4	-0.1	-1.2	-0.4	-0.8	-0.3	0.0
Domestic consumption, total	100.7	98.6	100.1	101.2	100.4	100.8	100.3	100.0
- private consumption	56.6	55.5	55.8	55.4	55.4	55.0	54.3	53.9
- government consumption	20.0	19.7	19.6	19.5	19.6	19.6	19.4	19.3
- gross fixed capital formation	24.1	22.6	23.3	24.1	24.8	25.5	25.8	25.9
- changes in inventories	0.0	0.7	1.4	2.2	0.5	0.7	0.8	0.9

Source of data: SORS, forecast by IMAD.

for businesses. On the other hand, we estimate that the growth of private consumption will strenghten to 3.6% in 2008 due to favourable forecasts regarding employment and increased purchases of durable and semi-durable goods, following the rise in purchases of dwellings in the previous period. Considering the projected trends of exports and domestic consumption the forecast of real growth of imports of goods and services is 7.5%.

The risks of economic growth in 2006 and 2007 diverging from the central forecast are symetrically distributed in both directions. There is a 90% probability that economic growth in 2006 will be in the interval from 3.6% to 4.8%, and that in 2007 economic growth will not be below 2.6% and above 5.4% (Figure 1). Provided that the presented macroeconomic policies are consistently implemented, we estimate

Figure 1: **Central forecast of economic growth – probability of divergence**

Source of data: SORS; forecast by IMAD.

that the biggest risks to realisation of the forecast economic growth in 2006 are changes in the international environment.

3.1.1 Gross national disposable income

In 2005 the real growth of gross domestic income (GDI) was considerably lower than the real growth of gross domestic product. In the next years this gap should progressively narrow. Gross domestic income measures changes in the volume of gross domestic product and changes in the purchasing power of income as the result of the changed terms of international trade. In 2005 GDI was estimated by the IMAD to grow by 2.5%. A big difference in comparison with GDP growth (3.9%) shows that changes in external economic conditions and the purchasing power of the national economy considerably influence the income of economic factors and the performance of economic subjects. This fact is particularly prominent in the Slovenian economy considering its volume, integration in international trade and structure of imports and exports. The real income of residents depends not only on higher domestic production but also on the relative movements of import and export prices. Last year the growth of import prices exceeded the growth of exporters' prices by 2.2 p.p., mainly due to the impact of high oil prices on the world market, followed by increased prices of other commodities and higher producer prices in the main trading partners. As resident producers obtained lower price growth in exports than in imports, the terms of trade were relatively adverse, which was shown in lower real income, i.e. a drop in the purchasing power of both their income and the total national economy's income. Income from domestic production was therefore able to finance smaller purchases of foreign products than before the deterioration of terms of trade. This is also one of the reasons for last year's hesitant growth of imports. The deterioration of terms of trade slowed down the growth of all basic domestic consumption aggregates, which were below the GDP growth. Gross fixed capital formation experienced the greatest slowdown.

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

	Structure in %, current prices							
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
						forecast		
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net primary income from the rest of the world	0.3	-0.5	-0.6	-0.9	-0.6	-1.1	-1.2	-1.4
GROSS NATIONAL INCOME	100.3	99.5	99.4	99.1	99.4	98.9	98.8	98.6
Net current transfers with the rest of the world	0.6	0.6	0.4	0.2	0.2	0.2	0.2	0.5
GROSS NATIONAL DISPOSABLE INCOME	100.9	100.1	99.8	99.2	99.5	99.2	99.0	99.1
Final consumption	76.6	75.3	75.4	74.9	75.0	74.6	73.7	73.2
GROSS SAVINGS	24.3	24.8	24.4	24.3	24.5	24.6	25.3	25.9
Current account balance	0.2	1.5	-0.3	-2.0	-0.8	-1.7	-1.3	-0.9
GROSS CAPITAL FORMATION	24.1	23.4	24.7	26.3	25.3	26.3	26.6	26.8
of which: - gross fixed capital formation	24.1	22.6	23.3	24.1	24.8	25.5	25.8	25.9

Source of data: SORS, forecast by IMAD.

As a result of the weaker investment activity and slightly increased volume of savings *in 2005 the gap between savings and investment shrank by* 1.2 p.p. compared to *the previous year.* The share of gross savings slightly increased in 2005 (by 0.2 p.p. to 24.5% of GDP). Even though domestic gross capital formation decreased considerably – resulting in a 1.0 p.p. fall of the share of gross capital formation relative to GDP – the level of national savings was too low to cover it, and the current account deficit according to the national accounts amounted to 0.8% of GDP[5].
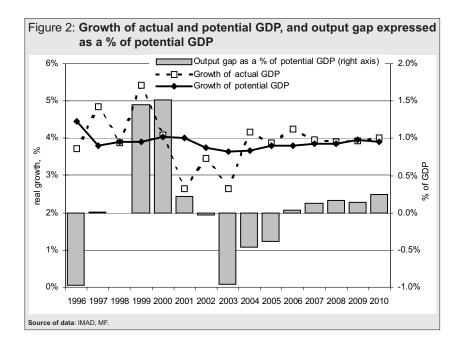
The investment-savings gap will increase *in 2006* yet it will gradually narrow in *the following years.* We expect the share of gross domestic savings in GDP to remain at approximately the same level as last year (24.6%). The anticipated higher rise of gross capital formation will increase its share in GDP by 1 p.p. to 26.3%, which will result in a bigger current account deficit, totalling EUR 480 million (1.7% of GDP). In 2007 and 2008 we expect the conditions for the creation of national savings to improve. In the next two years we expect a rise in enterprise savings (gross operating surpluses) owing to the disburdening of enterprises through the reduced payroll tax, more favourable terms of trade and the anticipated keeping of wage growth below the growth rate of productivity. The share of gross savings in GDP should thus increase in 2007 by 0.7 p.p. (to 25.3%). This level of savings would make it possible to finance gross fixed capital formation, which should grow by 5.0%, with net external borrowing amounting to EUR 390 million (1.3% of GDP). We expect the savings-investment gap to narrow after 2007 also owing to a greater positive balance of current transfers with the rest of the world resulting from increased allocations from the EU budget (according to the new financial perspective for 2007-2013). The spring forecast for 2008 projects that the share of gross savings will rise by a further 0.6 p.p. As the increase in the share of gross capital formation is expected to be smaller (by 0.2 p.p.), the current account deficit will again drop below 1% of GDP in 2008.

Box 3: **Output gap**

We anticipate that the level of actual GDP in 2006 will be equal to the potential GDP[6], and to exceed it slightly in the following years. Considering the higher spring forecast for the observed years compared to the autumn one, we expect the level of GDP to already equal the level of potential GDP in 2006 (according to the autumn forecast this should happen in 2007). We expect that up until 2010 the level of actual GDP will be slightly above the level of potential GDP. A breakdown of the potential growth estimate shows that this growth will mainly be the consequence of the contribution of total factor productivity and the contribution of capital. Although total factor productivity's contribution will continue to decline slightly, it will still contribute most robustly to the total growth of potential GDP.

---

[5] Data of the BS balance of payments and SORS national accounts for 2005 are not yet completely harmonised. According to the balance of payments, last year's current account deficit was 1.1 % of GDP.

[6] The output gap is the mean estimate of the estimate according to the production function method and the estimate obtained by the Hodric-Prescott filter for lambda = 100 and lambda = 6.25.

Figure 2: **Growth of actual and potential GDP, and output gap expressed as a % of potential GDP**

Source of data: IMAD, MF.

3.2 Production structure of gross domestic product

Value-added growth in 2005 slowed down but remained at a relatively high level. Growth totalled 4.1% in 2004 and 3.7% last year. Value-added growth was spurred on mostly by the service sector (a 5% rise in value added in real terms compared to 4.6% in 2004), while it slowed down in primary activities (from 4.2% to 2.5%). In the service sector, compared to last year, the most propulsive were market-oriented activities (5.7%) while the value-added growth in public services remained at roughly last year's level (3.4%), although the structure of growth was more favourable. Among market-oriented activities growth was strongest in transport, storage and communications, hotels and restaurants and wholesale & retail trade, while the sector of financial intermediation saw the high growth from last year continue. Among primary activities that in 2004 experienced strong growth mostly owing to favourable climatic conditions, valued added decreased in agriculture and electricity, gas and water supply. Manufacturing also saw smaller growth (by 1 p.p.) compared to last year due to the deteriorated international environment. Last year there was an improvement in the construction sector, particularly in housing construction.

*We estimate that **value-added growth** will accelerate **in 2006**, but will slow down **in the 2007-2008 period**.* The forecast value-added growth for 2006 is 4.3%, for 2007 3.8% and for 2008 3.9%. As regards primary activities, considering favourable trends in the international economic environment, value-added growth is expected to be vigorous in manufacturing but in the next two years it should ease off due to the slowdown in some of the main trading partners. Owing to the projected intensive building of motorways and housing the construction industry will also experience higher value-added growth compared to last year. This growth should be strongest

Table 8: **Value added by activities**

	Real growth rates (%)			
	Constant prices 2004			
	2005	**2006**	**2007**	**2008**
		forecast		
A. Agriculture, forestry, hunting	-3.7	4.0	-5.0	-3.0
B. Fishery	-4.2	4.0	0.0	0.0
C. Mining	2.3	-1.0	0.0	-0.5
D. Manufacturing	3.2	4.9	4.3	4.3
E. Electricity, gas, water supply	-0.8	0.0	0.5	1.5
F. Construction	3.8	6.0	4.0	3.2
G. Wholesale & retail trade, repair of motor vehicles	4.4	3.7	3.7	3.8
H. Hotels and restaurants	2.9	4.3	4.8	4.7
I. Transport, storage and communications	4.8	4.6	4.4	4.6
J. Financial intermediation	12.7	6.0	7.0	6.5
K. Real estate, renting and business activities	3.7	4.5	4.0	4.0
L. Public administration, defence and social security	3.4	3.2	3.0	2.5
M. Education	2.7	2.5	2.6	2.8
N. Health and social work	3.8	4.0	4.2	4.5
O. Other social and personal services	4.1	4.3	4.5	5.0
P. Private households with employed persons	5.3	2.0	1.0	1.0
VALUE ADDED (A...P)	3.7	4.3	3.8	3.9

Source of data: SORS; forecast by IMAD.

in 2006 and should slow down in 2008 because of the decrease in housing construction. The service sector will be characterised by the slowdown of growth in 2006 after achieving favourable results last year, particularly in the segment of market services (down to 4.6%) and should remain at this level for the next two-year period. Among market-oriented activities relatively high value-added growth is nevertheless expected in financial intermediation, business services, hotels and restaurants, transport, storage and communications. Value-added growth in public services should remain at last year's levels (between 3.4% and 3.5%) in the 2006-2008 period, but the trend of the expansion of the market-oriented services in its composition will continue.

*After the high rise in 2004, in 2005 **value added in agriculture, forestry and hunting dropped by 3.7% in real terms.*** According to preliminary estimates for the Economic Accounts for Agriculture, the value of agricultural production in basic prices (including subsidies on products to producers) fell by 2.2%, and the value of intermediate production fell by 1.0% in real terms. Production output also decreased by 0.5%. Arable crops production was at the same level as in the previous year, despite the adverse weather conditions (abundant precipitation), but in livestock it diminished by 1.2%.

Value added in agriculture, forestry and hunting is expected to increase and reach the 2004 levels **this year***, but should decrease slowly again in the* **next two years***.* That value added in agriculture will grow this year is indicated by larger areas sown in autumn compared to previous year (cereals up by 8%), the higher number of all livestock seen early this year (cattle by 0.3%, pigs by 3%, poultry by 13%, and sheep and goats by 9%) and higher financial incentives granted to maintain the income position of farmers. In 2007 and 2008 agricultural production will already feel the impact of the new common agricultural policy. Subsidies on production will be introduced and it will be possible to choose between several reform schemes and combinations of financial assistance. When this spring forecast was being prepared, Slovenia was still deciding on a suitable scheme. The scheme that will be chosen should not cause a massive redistribution between production orientations and should, in particular, allow for the gradual adoption of the new policy. Calculations based on such assumptions show that the value of production in producers' prices will not change significantly but modified payments will decrease the valued added of this sector.[7] In forestry, the growth of value added is expected throughout the forecasting period owing to the planned higher tree removals and timber yield.

For the third consecutive year **value added in mining** *rose,* **in 2005** *by 2.3%, due to the high growth of the non-energy segment of mining.* According to the SORS' data, the industrial production in mining rose by 2.6% last year. The non-energy segment of mining grew by 12.5%. According to these figures, coal mining slightly decreased and this is also supported by data on the excavation of coal and lignite in both mines that are still operational in Slovenia. Employment in mining was down 4.5%.

Value added in mining should gradually decline **during the current and the next two years***.* In 2006 value added in mining will drop by 1% in real terms. According to contracts signed by both mines, the production of brown coal and lignite should be below last year's level as local thermal power plants should produce less power, as planned by the electricity production-consumption balance. In 2007 value added in mining should remain unchanged; in 2008 it should drop by 0.5%. The further decline is justified by the necessary cutting of the operating costs of mines, that will result in the gradual reduction of employment, in order to obtain lower, more competitive prices for coal that are a prerequisite to survive in the liberalised energy market.

In 2005 *the activity of* **manufacturing,** *which is a highly export-oriented sector,[8] somewhat slowed down due to development in the international environment.* Economic growth in the EU member states, Slovenia's main import partners, slowed down in 2005 (see Chapter 2). This affected the growth of exports (see Chapter 4.1)

---

[7] As recommended by the SNA 93 and ESA 95, production by sectors is evaluated in basic prices. Evaluation in basic prices excludes from the value of production taxes on goods and services and includes subsidies on products and services (without subsidies on production).

[8] In 2004 manufacturing accounted for 97.9% of Slovenia's merchandise exports, which represent 49.4% of GDP (SORS, Statistical Yearbook 2005). According to AJPES data for 2004, ten out of fourteen manufacturing sub-sectors make more than half of their net revenue in foreign markets, while the whole sector makes 58.5% of its net revenues through exports.

and the growth of value added in manufacturing which was 3.2%, one p.p. less than the year before. Still, the 4.8% growth of net turnover was exclusively due to the increased turnover from sales made abroad. These increased by 9.2% in real terms as turnover in the home market was down 3.1%. A comparison on the basis of data adjusted for working days shows that moderate growth of value added of 1.0% in the first quarter of 2005 was followed by more robust growth in the second quarter (4.3%), and after a slowdown in the third quarter (2.4%) there was a surge in the fourth quarter (4.9%). A similar trend was seen in 2005 in the growth of manufacturing production that was 3.5% higher compared to the year before.

The best results were again achieved by those manufacturing industries that earn most of their turnover from sales in foreign markets. The highest production growth (6.8%) and a 0.7% increase in employment was seen in highly export-oriented industries[9]. The manufacture of transport equipment performed the best, in 2005 exceeding the production level of 2004 by 18.2%, and it contributed one percentage point (i.e. more than a quarter) to the total production growth in manufacturing[10]. At the same time the number of employees increased (by 7.3% according to SRE data). Favourable results in the manufacturing of transport equipment are mainly due to the increased production of road vehicles as discontinued production in other countries was moved to Slovenia. Mainly export-oriented industries[11] recorded 3.9% average growth in production, however, employment dropped by 1.7%. The highest growth in this group (8.8%) was recorded by the manufacture of metals and metal products, which contributed with 1.4 p.p. (40%) to the total production growth in manufacturing. Production activity in mainly domestic market-oriented industries[12] dropped by 0.8% in 2005, together with a drop in employment of 2.7%.

In the first months of 2006 *production activity is showing considerable growth.* In the first two months the value of production was 7.6% higher compared with the same period last year (up 7.3% according to data adjusted for working days). Production growth is still trending up (Figure 3). The best results were obtained by the highly export-oriented industry of electrical and optical equipment, which grew only modestly last year. Good results were also obtained in the machinery and equipment industry, and the manufacturing of chemical products. The mainly export-oriented industry of metals and metallic products was the second highest contributor to the total growth of manufacturing industries' output.

---

[9] Highly export-oriented industries are those manufacturing industries that, according to statistical data from balance sheets and profit and loss accounts achieve more than 70% of their average net turnover from sales in foreign markets (manufacture of chemical products, manufacture of machinery and equipment, manufacture of transport equipment).

[10] The share of this sector in the total value added of manufacturing is much smaller than the comparable share in exports which, despite the subdued economic activity in the main trading partners, resulted in a relatively high increase of exports in 2005 (also see Chapter 4.1).

[11] The share of average net turnover from sales in foreign markets in net turnover is between 50% and 70% (manufacture of textile products, fur and fur products, leather and leather products, wood processing, rubber and plastic products, metals and metal products, electrical and optical equipment, and furniture).

[12] The share of average net turnover from sales in foreign markets in net turnover is below 50% (manufacture of food and beverages; pulp and paper; publishing; coke; petroleum products and nuclear fuel, and non-metallic and mineral products).

Figure 3: **Trends in manufacturing production**

*The business climate in manufacturing[13] began to improve notably at the **beginning of this year***. The composite confidence indicator had been on an increase for four months running by March 2006, and a marked rising trend is also shown by the seasonally adjusted series. In March indicator values were much higher compared to the same period of 2005 and 2004. The share of surveyed enterprises expecting an improvement in the business climate was 6.0 p.p. bigger than the share of those expecting a worsening. Business expectations of export and total demand growth for the next three months (not included in the calculation of the composite confidence indicator) were considerably above last March's levels.

*In 2006, manufacturing economic activity will grow rapidly but **in the next two years** there will be a moderate slowdown*. Considering the higher growth of domestic consumption and the forecast higher economic activity in main foreign trading partners[14] that will result in a high rate of merchandise exports, the average yearly growth of industrial production should accelerate considerably compared with last year, and value added in real terms should reach 4.9% (confirmed by forecasts prepared with forecast models, see Box 4). In 2007 and 2008 we expect a moderate slowdown in production activity growth because of the lower growth in domestic consumption and the anticipated economic slowdown in the EU that will result in lower growth of exports. Value added in real terms will be 4.3%.

*In 2005, value added dropped by 0.8% in **electricity, gas and water supply**, owing primarily to unfavourable weather conditions for electricity production*. According

---

[13] The level of the business climate is evaluated on the basis of the SORS' survey on business trends in manufacturing and illustrated by the composite confidence indicator (composed of total order books, stock levels and production expectations).

[14] Except in Austria, manufacturing production growth will increase by 1 to 2 p.p. in Germany, France and Italy in 2006 (Consensus Forecasts, March 2006).

Box 4: **Industrial production forecast (activities C + D + E) on the basis of the system of leading indicators and a non-linear econometric model***

The system of leading indicators, representing a base prognostic model, shows the possible acceleration of industrial sector economic activity in the first half of 2006. The basic aim of the model is to define the turning point in the business cycle of the reference series (i.e. industrial production). The composite index that represents the weighted average of movements of ten leading indicators from national and foreign economic environments showed a turning point already in March 2005. The value of the diffusion index that shows the share of leading indicators with positive growth began to increase markedly after July 2005. Both indices suggest that the bottom turning point in economic activity was already reached. Possibilities for high growth in the next six or seven months are thus strong.
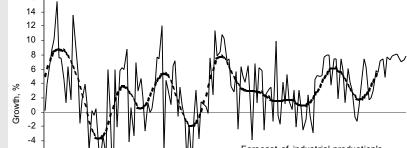
Figure 4: **Non-linear econometric forecasting model**

Source of data: Jagrič T.

The non-linear econometric forecast model also predicts a marked rise in economic activity through at least three quarters of 2006. This model has a constant forecast period of 12 months and thus eliminates the main weakness of the system of leading indicators, i.e. that it does not allow us to precisely define the turning point in the future since it lacks a constant forecast horizon. The non-linear econometric model that includes about 400 monthly time series that cover all key elements of economic activity both in Slovenia and in the international environment suggests robust growth of economic activity until September 2006 (Figure 4). In the last quarter of 2006 that is not reliably covered by the base model of leading indicators, there are indications of the peak turning point in economic activity. The last three data do not suggest a trend decrease of the forecast value; consequently, at this point we are not in a position to forecast that a slowdown will occur in the final quarter of 2006.

* The model was developed by Timotej Jagrič, PhD, Department for Quantitative Economic Analysis, Faculty of Economics and Business, University of Maribor.

to ELES' data, electricity production dropped by 1.1% mainly because power plants generated 15.7% electricity less due to the low average yearly water levels. This drop could not be offset by the higher production of the nuclear power plant (up by 7.7%) that last year did not undergo a regular overhaul (due to the extension of the interval between regular overhauls). Production of the thermal power plants (mainly fuelled by coal) was one-tenth above the levels planned in the electricity production and consumption balance but only 0.4% above the 2004 level. Data on the consumption of heat and natural gas are not yet available. In the energy balance of RS for 2005 heat consumption was planned to drop by 1.0% and natural gas consumption by 1.6%.

*Value added in electricity, gas and water supply should remain at last year's levels, but for **2007 and 2008** a gradual increase is expected.* According to the electricity consumption-production balance of RS for 2006 total electricity production is to fall slightly (by 0.5%). In normal water conditions the production of hydro-electric power plants should rise by 16.4%, however, the nuclear plant will, because of its regular overhaul, have a one month shorter period of operation than last year and its production will fall by 7.3%. Thermal power plants should also reduce their production by 3.2%. In 2007, when the first of the five planned hydro-electric power plants on the lower Sava River is fully operational, a 0.5% rise in value added is expected in electricity, gas and water supply. A further rise (up to 1.5%) is expected in 2008 as the nuclear plant overhaul is not foreseen in that year.

***In 2005**, **construction activity** intensified, particularly in the segment of housing construction*. Value added growth in construction was 3.8%, while the value of construction put in place by major construction and civil engineering enterprises[15] increased by 3.0% in real terms. Building construction had the best results, here the value of construction put in place rose by 10.3% in real terms, mostly due to the increase of 21.6% in housing construction. In civil engineering the value of construction put in place decreased by 4.5% in real terms.

*There will be vigorous growth of value added in construction **this year***, *followed by an easing of growth **over the next two years***. Forecasts indicate that value added will rise by 6% this year, by 4% in 2007 and by 3.2% for 2008. After a two-year decline in civil engineering a turn is expected in 2006 along with a rise in the value of construction put in place. This will be spurred on by vigorous motorway construction, planned to increase by over 30% in the 2006 Annual Motorway Development and Reconstruction Plan. A relatively high level of motorway construction should be maintained throughout 2007. According to data on issued building permits the robust growth of housing construction is also expected in 2006 (also see Chapter 4.3). This will further increase in 2007 due to the anticipated higher demand triggered by the increase of VAT on housing construction in 2008[16]. Consequently, housing construction will slow down in 2008. Construction in 2007 and 2008 will be further stimulated by funding from the EU's cohesion and structural funds.

---

[15] The analysis covers all contractors whose value of construction put in place totalled at least SIT 300 m according to financial statements for 2003, all units engaged in construction employing at least 20 workers, and some non-construction enterprises that carry out construction work.

[16] Official Gazette of the RS No. 134/2003.

Real value-added growth in **wholesale and retail trade, the repair of motor vehicles, personal and household goods** *further increased* **in 2005** *and reached 4.4%, which is the highest growth since 1997.* These good results are supported by figures in the SORS' monthly survey that indicate that turnover in retail trade, trade and repair of motor vehicles and in the retail trade of automotive fuels rose by 9.7% in 2005[17]. Turnover rose at an above-average level in the maintenance and repair of motor vehicles (by 16.9% in real terms), in the retail trade of automotive fuels (by 15.3%) and in the sale of motor vehicles, motorbikes, spare parts and equipment (by 11.0%). Turnover in retail sales increased by 6.9% in real terms.

After vigorous growth in the previous year, **this year** *value added growth should slow down a little and remain at these levels for the* **next two years**. An increase of 3.7% is expected in 2006 and 2007 and of 3.8% in 2008. Expanding housing construction will have a positive impact on trade this year and this factor will be complemented in 2007 and 2008 by increased purchases of durable and semi-durable goods needed to furnish dwellings.

Growth of value added in **hotels and restaurants** *has been modest in 2004 but gained momentum* **in 2005** *and reached 2.9%.* Turnover in hotels and restaurants increased in 2005 by 3.9% in real terms compared to a year earlier. It rose by 6.4% in restaurants and by 3.3% in prevalently accommodation facilities, while it fell by 2.1% in facilities offering beverages. The increased turnover in tourist catering facilities is linked to a change in the structure of foreign tourists' overnight stays, as the total number of tourists' overnight stays in 2005 was the same as in the year before[18].

Value added in hotels and restaurants is expected to accelerate **in the next few years**. Value added should grow by 4.3% this year and by 4.7% to 4.8% in 2007 and 2008. Provisional figures for the first two months show an encouraging beginning of the tourist year[19] and we expect the skiing season to be extended owing to abundant snow. An additional stimulus for tourism will be the opening of new flight routes between Brnik and London, Brussels, Rome, Barcelona and Tirana. The higher growth of value added in hotels and restaurants in the next two years will depend on the results of the extensive investment cycle that began in 2004 and continued in 2005[20], and on the success of switching from mass tourism to speciality/niche tourism. Such programmes could fill facilities outside of the main seasons and could be sold at higher prices.

In **transport, storage and communications** *value added increased to 4.8%* **in 2005**, *mostly due to the high rise of road freight transport, postal and telecommunications services, and the halted decrease in shipping services.* As regards freight transport,

---

[17] This is the highest increase recorded since the establishment of the survey, and twice as high as in 2004.

[18] In 2005 Italians accounted for most overnight stays among foreign tourists for the second consecutive year (an increase by 8.5% compared with 2004, according to provisional data). According to a survey of foreign tourists in Slovenia in the summer, their average daily expenditure per tourist was the highest in absolute terms.

[19] According to the SORS' data the number of tourists in January and February grew by 4.3% and the number of overnight stays grew by 5.4% compared with the same period last year.

[20] Investments in tourism were also stimulated by the funding of the European Regional Development Fund.

the SORS' data indicate that maritime transport increased the most, by 33.5%. Unfortunately, maritime transport makes up a relatively small share of value added in this activity. Second was road transport that grew by 24.4%. In 2004 it accounted for 22.3% of all valued added in transport, storage and communications. Railway passenger and freight transport increased by 3% and harbour transhipment grew by 4.7%. Bus passenger transport continued to decrease (inter-city transport was down by 13.4%, city transport by 3.0%), while air transport and airport traffic recorded high growth rates (13.8% and 17.3%, respectively). In ancillary transport activities and tourist agents' activities, including shipping, nominal turnover increased by 2.2%, after showing a strong downward trend during the first half of the year. Evidently the negative trend in shipping that was due to Slovenia's accession to the EU has already reversed. A strong rise in nominal turnover – by 11.6% – was also achieved in postal and telecommunications services.

*In the period from **2006 to 2008** the relatively high rates of value added are expected to persist in transport, storage and communications (4.6%, 4.4% and 4.6%, respectively).* Slovenia's membership in the EU should continue to have a net positive impact on the national transport sector that – since Slovenia is small – provides most services in international transport. Further, growth in this sector will be spurred on by the expected rapid development of telecommunications.

*The vigorous growth of value added in **financial intermediation** continued **in 2005 and reached 12.7%.*** The lending activity of banks expanded and net flows of domestic banks' loans to non-banking sectors increased by 42% in real terms. Foreign currency lending increased the most (by 2.1-times in real terms) as it was more attractive than tolar lending (see Chapter 9.2). Moreover, the rapid growth of financial leasing remains one of the factors of value-added growth in financial intermediation. In 2005, after relatively modest growth in the year earlier the value of financial leasing increased by more than one-third. Employment in financial intermediation was up by 3.5% and reached its highest level since 2000. The increase was highest (by 20.1%) in financial intermediation ancillary activities (particularly financial counselling) and insurance (life insurance).

In this and the next two years the growth of value added in financial intermediation should slow down. Nevertheless, considering the relative underdevelopment of our financial sector compared with other European countries[21] it should exceed the growth of the total economy's value added. The supply and quality of financial services, particularly investments in capital markets and life insurance, will continue to expand. In 2006 value added in financial intermediation should increase by 6.0% in real terms. The lower rise will not only be due to the high levels reached in 2005 but also to the increase in the ECB reference interest rate. This will slow down the lending activity of banks in the second half of the year. In 2007 growth of value added in financial intermediation should again strengthen (to reach 7%) and remain at a relatively high level throughout 2008 (6.5%). In 2007 we expect a surge in the demand for dwellings due to the anticipated change in VAT to be introduced in early 2008, which should have an impact on household borrowing.

---

[21] For more information see the Development Report 2006.

*Value-added growth in **real estate, renting and business services** decelerated in 2005 and reached 3.7%.* Figures on employment paint a different picture: in 2005 employment increased by 6.6%[22], in the year earlier by 4.1% (SRE data). Employment increased in enterprises and companies (by 6.7%) and the number of self-employed persons grew even more (by 7.3%). The number of people in employment in the two largest branches of business services[23] increased by 6.5%; in computer and related activities by 10.5% and in other business services by 5.8%. Exports of computer and information services also increased considerably in 2005 (11.2% in nominal terms against only 0.8% a year earlier), as did exports of other business services (by 30.7% against 14.2% in 2004).

In 2006 growth of value added in real estate, renting and business services should rise by 4.5% and remain at the level of 4% *in 2007 and 2008.* Considering that the share of knowledge-based services (of which business services in particular) in Slovenia's economic structure is below the European average[24] we expect a relatively rapid expansion of other business activities as well as computer services. In particular there should be an increase in demand for computer services in 2006 due to the project of double marking of prices (in tolars and euros) and the adaptation of systems to the introduction of the euro in early 2007. January's figures on people in employment already indicate favourable trends in the computer and related activities (an increase by 8.3% year on year). In real estate, renting and business services employment was up 6.7%[25].

In 2005 the growth of value added in **public services** (activities L to P) remained at 2004 level (3.4% in real terms), but had a more favourable structure compared with a year earlier. It decreased considerably in the public administration, defence and compulsory social insurance, and rose in other community, social and personal services. The slowdown of value added growth in the *public administration, defence and compulsory social insurance* in 2005 (from 5.8% to 3.4%) was the result of the reduction of employment in these services (by 0.5%, SRE data). In *education* the relatively high (2.7%) growth of value added persisted. The number of people in employment increased by 2.2%, which is the highest figure seen in the last five years. This high growth was mainly due to the 2.3% increase of employment in primary education in the context of putting the nine-year primary school in place. The number of employed people in secondary education was also higher than a year earlier. This is due to the introduction of a series of new vocational training programmes and according to our estimates to the encouragement of adult education. In high education employment growth decreased (from 2.7% in 2004 to 2.3% in 2005), although new programmes were introduced and the number of students rose. The ratio of the number of students to the number of teaching staff in tertiary education was thus again less favourable at 22.5 (against 21.5 in 2004) and was far below the OECD average (14.9 in 2003)[26]. In *health and social work* value added

---

[22] If we exclude a major enterprise that was registered as activity K only from January to May 2005, growth totalled 6.0%.

[23] 87% of all employees in activity K were employed in these two branches.

[24] For more information see the Development Report 2006.

[25] If we exclude a major enterprise that was registered in activity K only from January to May 2005.

[26] For more information see the Development Report 2006.

growth rose only slightly (from 3.5% to 3.8%). The trend of high employment in social work continued (5.4%) owing to the continued expansion of the network of homes for the elderly (5 new private homes with a concession). In the health sector a relatively high employment rate (1.8%) also persisted. Value-added growth rose to 4.1% (against 3.6% in 2004) in the mainly market-oriented *other community, social and personal services*. Turnover increased by 22.1% in nominal terms (against 16.8% in 2004), while the growth of the people in employment was 2.6% (as against 1.3% in 2004).
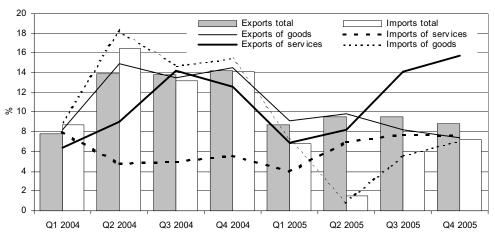
*We estimate that **in 2006-2008** the real growth of value added in public services will remain at the 2005 levels (between 3.4% and 3.5%) and thus remain below the total value added of the economy.* Based on projections of a further reduction of employees in the public administration and a relative modest increase in wages (see Chapter 7.1), we estimate that value added growth in the *public administration, defence and compulsory social insurance* will continue to slow down (from 3.2% in 2006 to 2.5% in 2008). In *education*, value added growth in 2006-2008 will be between 2.5% and 2.8%. Employment growth is expected to come to a halt in primary education but to increase in secondary and tertiary education. Owing to the increased investments planned in the National Programme of Adult Education, increased employment growth is also expected in adult education. In *health and social work* the growth of value added will remain high (between 4.0% and 4.5%), owing to the forecast average rise of employment in the health sector by 2% annually and the planned expansion of social care networks. Positive trends should also persist in *other community, social and personal services* with a consequent rise in value added growth (from 4.3% in 2006 to 5.0% in 2008). A survey of business trends in these services suggests that there will be increased demand and employment growth. Especially encouraging are expectations in entertainment, cultural and sports activities that already account for more than 60% of the value added of the whole sector.

4 Consumption aggregates

4.1 Export-import flows

*As the growth of imports of goods and services eased off more than the growth of exports in 2005, the **contribution of international trade** to GDP growth was highly positive.* According to the quarterly national accounts data, the real growth of goods and services exports slowed down in 2005 (9.2%) over 2004 (12.5%). As a result of the slower real growth of both export flows and domestic consumption, the real growth of goods and services imports was similarly much lower in 2005 (5.3%) than in 2004 (13.2%). Despite the deceleration in export flows seen in Q4, these flows recorded faster year-on-year growth than import flows in all quarters of 2005 (see Figure 5). After a negative contribution of net exports to economic growth was recorded for two years (-2.0 p.p. in 2003 and -0.4 p.p. in 2004) it turned positive in 2005 and totalled 2.3 p.p. It was highest in Q2, and gradually decreased thereafter, which was in accordance with expectations.

Figure 5: **Exports and imports of goods and services by quarter, year-on-year real growth rates, %**

Source of data: SORS.

*The growth of merchandise export flows seen in 2005 was mainly driven by exports to the **EU countries**. This indicates that the trade creation effect between the EU countries is still active. The dynamics of goods export were also determined strongly by exports of road vehicles.* The growth of merchandise exports to the EU countries, which totalled 13.9% (nominal terms, EUR), contributed 77.1% to the overall growth of goods exports (12%). Exports to new EU members rose by 15.4%, more than exports to old members (13.7%). Exports of road vehicles, which recorded a particularly strong year-on-year rise in the first half of the year and began to ease off in the second, surged by a nominal 35.4% in 2005 over 2004. The available data on regional exports in 2005 show that exports to Germany were up 3.3% year on year. Among Slovenia's main trading partners, exports to France rose robustly

(42.2%) as did exports to the United Kingdom (23.0%) and Austria (20.3%). In all three countries, growth was mostly fed by the exporting of road vehicles. Last year also saw further rises in exports to the less traditional EU markets (Belgium, Denmark, Luxembourg, Portugal, Spain and Sweden).

Exports of goods to non-member states *rose by a nominal 8.2% last year, which is less than in 2004 (14.6%).* The expiry of free-trade agreements was reflected particularly in the further dropping of exports to Macedonia (-3.7%, nominal terms, EUR) and the weak growth of exports to BiH (5%). Exports of goods to Croatia, with which EU had concluded a Stabilisation and Accession Agreement, rose by 11.8%, slightly less than in 2004 (15.9%). The growth of exports was mainly generated by exports of road vehicles, machinery specialised for particular industries, transport equipment, general industrial machinery, miscellaneous manufactured goods, and clothing. Growth of goods exports to Russia almost halved last year, totalling 11.3% (20.9% in 2004). As exports of medical and pharmaceutical products, metal products, industrial and electrical machinery, paper, cardboard and pulp continued to rise, the slowdown was mainly caused by the drop in exports of telecommunications equipment (-49.9%). Merchandise exports to the USA plummeted for the second year in 2005 (-26.5%), primarily owing to the drops in exports of medical and pharmaceutical products (-67.8%) which accounted for 16% of Slovenia's exports to the USA in 2005 (36.5% in 2004).

Exports of services *rose at a faster pace than exports of goods last year.* Exports of services grew by a real 11.6% in 2005 (10.9% in 2004). The biggest rise was seen in exports of other services (all services except transport and travel), notably exports of merchanting, although the significance of the latter is diminishing in the long term due to electronic commerce which has increased the availability and transparency of price information and the possibility of doing business directly. Within other services, exports of computer and communication services recorded the smallest rise, partly reflecting the fact that demand for these services is relocating to the cheaper Eastern European and Asian markets.

Imports of goods *from non-member states rose much more than imports from the EU last year. According to data by end-use product, imports of intermediate goods rose most rapidly.* Imports of goods grew a real 5.1% in 2005 (14.5% in 2004). In 2005 over 2004, imports from the EU increased by 9.2% (nominal terms, EUR) while imports from elsewhere were up 20.4%. The slower growth of merchandise imports from the EU was partly linked to the strong imports of intermediate and consumer goods following Slovenia's accession to the EU and consequently the higher comparative basis in 2004. According to end-use product groups, imports of intermediate goods enjoyed the strongest growth (up a nominal 13.7%, in EUR) as a result of the rising prices of oil and other primary commodities, as well as booming exports. Parallel to the relatively large increase in exports, the import component (the proportion of intermediate goods in merchandise exports) was also strong last year, having grown by 1 p.p. (to 66.3%) compared to 2004. Imports of consumer goods were up a nominal 9.8% while slowest growth was seen in imports of investment goods (4.9%). The latter reflected the modest growth of gross investment in machinery and equipment.

Imports of services recorded a slightly smaller real rise (6.8%) than their exports last year but nevertheless exceeded its growth from 2004 (5.6%). Like in exports of services, the growth of imports was also largely generated by imports of other services (contributing around two-thirds). The fastest growth was observed in imports of construction services while imports of licences, patents and copyrights recorded the biggest drop.

Against the projected faster GDP growth in the EU **in 2006**, *particularly in the old member states, and strengthened domestic demand growth, we expect slightly stronger* **real growth of the trade in goods and services** *(7.9% compared to 7.2% in 2005).* Exports of goods and services will grow a real 8.2% (goods 8.5%, services 6.8%). Despite the projected recovery in the international environment, exports of goods will go up slightly less (8.5%) than in 2005 (8.7%), as we expect exports of road vehicles to be lower than last year (when these exports surged by 35.4%, nominal terms, EUR). Exports to the EU should continue to grow at higher rates than exports to non-members. The growth of services exports will soften to 6.8% in real terms this year after their vigorous growth seen in the previous two years (around 11%). Specifically, exports of travel are expected to rise moderately while other services will ease off. Exports of transport services are projected to record the fastest growth among all categories of services. Imports of goods and services are predicted to grow a real 7.6% this year (goods 7.6%, services 7.0%). Due to the increased investment in machinery and equipment, imports of investment goods will enjoy the highest growth among all import components (see Table 8 in the Statistical Appendix). We estimate that imports of other services will again record the biggest rise among services imports this year. Apart from that, imports of transport services will also grow substantially this year whereas imports of travel are expected to record the slowest growth. Given the expected deceleration in export flows and the strengthening of import flows compared to 2005, the positive contribution of international trade to economic growth will be much lower this year (0.4 p.p.).
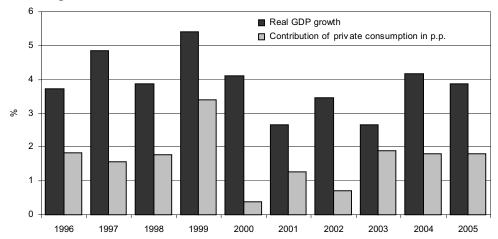
In 2007, *international trade will grow slightly less than this year due to the projected slight economic slowdown in the international environment, but its contribution to economic growth will remain at the same level (0.4 p.p.).* The real growth of goods and services exports will decelerate to 7.9% (goods 8.2%, services 6.7%). We expect that merchandise exports to the EU will continue to achieve higher real growth than exports to other countries. Imports of goods and services will also ease off somewhat, to 7.4% (goods: 7.4%, services: 7.1%) mainly as a result of the slower real growth of exports.

In 2008, *given the projected mild improvement in the economic activity of EU countries, exports of goods and services will strengthen slightly compared to 2007, as will imports of goods and services (by 0.1 p.p.).* The real growth of total exports is estimated at 8% (goods 8.3%, services 6.8%) as trade within the EU should continue growing. With domestic consumption remaining unchanged compared to the year before, the higher growth of total imports (7.5%; the same for goods and services) will rest mainly on the boosted export growth. The contribution of international trade is expected to remain the same as in 2007 (0.4 p.p.).

4.2 Private consumption

Private consumption rose by 3.3% in real terms[27] in 2005, having achieved highest year-on-year growth in Q2 and easing off thereafter. This result was closer to the IMAD's spring forecast from 2005 (3.4%) than the autumn forecast (3.6%), which was greater due to the higher current data on wages (also see Chapter 7.1). Private consumption contributed close to 50% to GDP growth last year (Figure 6). The final consumption expenditure of households recorded the same growth as in 2004 (3.3%), reaching the highest quarterly growth in Q2 (3.8% year on year). This period was also characterised by the biggest year-on-year real rises in three wage-related indicators – the net wage bill rose by 7.4% (in the year as a whole by 5.9%; source: AJPES), the average gross wage grew by 2.9% (2.3% in 2005 as a whole; source: SORS), and the average net wage was up 4.6% (the annual rise was 3.6%; source: SORS). In the second half of the year, household consumption growth slowed down by 0.3 p.p. compared to the first half when it totalled 3.5%. The final consumption expenditure of **non-profit institutions serving households** (NPISH) dropped for the second year in a row (-0.3%; 2004: -3.7%, 2003: 0.9%).

Figure 6: **Real GDP growth rates and the contribution of private consumption to GDP growth in 1996-2005**

Source of data: SORS.

Last year data on retail trade seemed to predict a strong pickup in spending while others suggested moderate consumption growth. The real growth of household receipts (see Table 9), serving as a short-term indicator of household consumption in terms of **sources for consumption**- totalled 2.2%, less than the year before, which was mainly due to the drop in other remuneration (-8.2%) following its large rise in 2004 (11.0%). Another partial contributor to this drop was the 0.4 p.p. slower growth of social transfers (2.7%). Among the short-term indicators of household consumption on the **spending side**, only turnover in retail trade rose more than the year before and considerably more than consumption. Despite this significant

---

[27] By 5.0% in nominal terms.

Table 9: **Private consumption and related indicators, growth rates, %**

	2004	2005
Private consumption[1]	3.1	3.3
Final consumption expenditure of households	3.3	3.3
Final consumption expenditure of non-profit institutions serving households	-3.7	-0.3
Household receipts[2, 3]	5.2	2.2
Real turnover in retail trade[4]	3.8	7.9
VAT charged to final consumers[2]	6.1	-0.1
New car registrations	3.8	-4.9
Imports of consumption goods, EUR	16.3	9.8
Travel — imports, EUR	5.9	6.0
Travel — exports, EUR	10.6	10.3

Sources of data: AJPES, MF, BS, DUNZ, SORS, DURS; calculations by IMAD.
Notes: [1]constant previous-year prices; [2]deflated by CPI; [3]net wage bill and other remuneration (contract-based payments, work-related allowances, other personal income) according to AJPES and transfers to individuals and households according to the MF's consolidated general government revenue and expenditure; [4]according to the monthly TRG/M survey, aggregate level index.

increase, however, the VAT charged to final consumers remained at approximately the same level in real terms as in the previous year. The nominal growth (in EUR) of non-residents' spending in Slovenia and of residents' spending abroad similarly remained roughly the same. The number of registered new cars, measured quarterly, has been dropping since Q4 of 2004.

The **estimated household disposable income** rose by 2.2%[28] in real terms **in 2005**. Among its major components, the wage bill increased by 3.2% against the 1.0% rise in the number of people in employment and the 2.2% rise in the real gross wage per employee[29]. Transfers to individuals and households grew by a real 2.7%. On the expenditure side, personal income tax payments rose by 0.7% in real terms while social security contributions were up 3.7%.

Box 5: **Household borrowing in 2005**

Household borrowing from banks was again strong in 2005. The bulk were long-term foreign currency loans. The year-on-year increase in household loans in banks totalled 25.6% at the end of the year (7.6 p.p. more than in 2004). Tolar borrowing saw the biggest rise in long-term loans (up 13.3%), while overdrafts and advances went up 9.6% and short-term loans remained at the 2004 level. Household borrowing of foreign currency enjoyed the strongest growth last year – these loans recorded a 4.9-fold real rise while their proportion to total loans amounted to 11.7% at the end of the year, 8.8 p.p. more than the year before. The nominal net flows (see Table 10) of foreign currency loans, on the other hand, were 5.6-times

[28] Deflated by the consumer price index. In nominal terms, it rose by 4.7%, 0.3 p.p. less than household consumption.

[29] We estimate that the compensation per employee, representing the largest component of the income side of disposable income rose by slightly less than the gross wage bill due to the described drop in other remuneration.

higher than in 2004 and accounted for 45.4% of total loan net flows (12.2% in 2004). The commercial banks' loan burden on household receipts (the ratio of average monthly volume of loans to average monthly receipts) increased from 2.96 to 3.50 in 2005 over 2004. The difference between the average monthly levels of loans in 2005 and 2004 was 15.1-times higher than the corresponding difference in average monthly receipts (in 2004 over 2003, it was 5.2-times higher).

Table 10: **Loans and household savings in banks and in domestic mutual funds, flows in SIT m**

	2004	2005
Loans to individuals[1]	135,969	202,682
Overdrafts and advances, tolar	8,177	11,930
Long-term, tolar	111,251	98,768
Foreign-currency	16,541	91,984
New loans[2]	269,962	336,109
Housing	56,691	102,128
Consumer	213,271	233,981
Individuals' savings in banks[1,3]	202,716	134,068
Savings in domestic mutual funds[1,3,4]	81,702	33,216

Source of data: BS; calculations by IMAD.
Notes: [1]Net flow, [2]Includes data for 8 banks; see Note 30 in the text [3]Also see Chapter 9.2. [4]Individuals own around 90% of the funds' total assets. Data on the assets of mutual funds managed by foreign administrators are not available, however we estimate that these funds became very attractive to investors in 2005.

Among the new loans taken out in 2005[30], the share of loans used for the purchase of dwellings recorded the biggest rise. Although new loans rose less than in 2004 in real terms (21.5% over 31.1%), housing loans again recorded much more rapid growth (75.8%) than consumer loans (7.0%). The growth of consumer loans was almost a quarter lower than in 2004 (26.4%) while the increase in housing loans was 23 p.p. higher than in the previous year. Apart from the increasing competition between banks and the loans they offer, as well as the convergence of interest rates upon Slovenia's entry to the ERM II, the further growth of loans (particularly housing loans) was also underpinned by the expiry of the one-year period following the release of funds from the first National Housing Savings Scheme (in July 2004) during which savers could take out loans. In 2005 assets from the second NHSS were released as well but their credit potential was smaller. The proportion of housing loans to total new loans amounted to 30.4% in 2005 and 21.0% in 2004. Within consumer loans, for which reporting includes data on maturities[31], the biggest rises was observed in loans with maturity periods of more than five years. The largest rise in housing loans was seen in loans with maturity periods of more than ten years. These data indicate that a large proportion of new loans, according to the national accounts methodology, is not spent on household consumption.

---

[30] The BS' figures comprise data on eight banks, selected according to the criterion of the banks' total assets (Krediti in obrestne mere, 2006).

[31] The reporting on the elements of consumer loan contracts (maturity period, interest rate etc.) is limited by criteria such as loan amount and/or the number of contracts reported on; as a result, less than one-third of consumer loans were included in this reporting in 2005. Housing loans are fully covered. Also see the previous note.

In 2006 the **growth of private consumption** *is expected to remain at the same level as in 2005 (3.3%).* Against the projected further moderate growth of the gross wage per employee (2.4%) and employment (the number of wage earners is expected to rise by 0.9%, slightly less than in 2004 – also see Chapter 7), the gross wage bill will grow by 3.3% while social transfers and payments of personal income tax will also rise slightly more than last year. Disposable income is therefore expected to rise by as much as the wage bill in real terms (3.3%). As the boom in housing construction is set to continue (see Chapters 3.2 and 4.3), long-term household borrowing is expected to also dominate in 2006 although its dynamics will probably be slightly slower than last year.

In 2007, *private consumption growth should roughly equal the growth of the wage bill, i.e. 3.3%.* With the 2.6% growth of the gross wage per employee and the 0.8% increase in wage earners, the gross wage bill should grow by a real 3.4% in 2007, 0.1 p.p. more than this year. The estimated growth of disposable income for 2007 totals 3.7%. Due to the raising of the VAT rate from the reduced rate (8.5%) to the standard rate (20%) levied on the purchases of new dwellings (also see Chapter 4.3) as of January 2008 we expect an increase in the purchases of dwellings and the consequent borrowing and purchases of durable and semi-durable goods (furniture, household equipment etc.) in 2007 and for the latter also in 2008.

Consumption is projected to receive a boost **in 2008** *when it should grow by 3.6%.* Driven by the stronger growth of wages (2.9%) and the 1% rise in wage earners, the gross wage bill will grow by 3.9% in 2008. Household disposable income is projected to grow by just as much. The purchases of durable and semi-durable goods, linked to the purchases of dwellings in previous years, will continue. Despite the stronger growth of wages compared to 2007, consumption is not expected to rise by as much since the repayment of loans taken out in previous years (mainly housing loans, where instalments are relatively high) will cut household budgets.
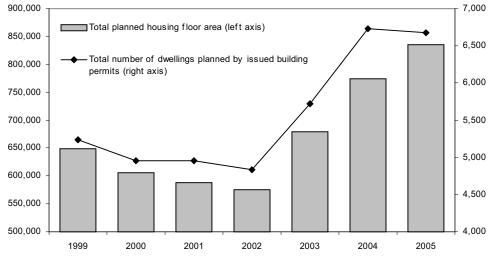
4.3 Gross fixed capital formation and inventories

The growth of gross fixed capital formation slowed down **in 2005.** Following the 7.1% and 5.9% real rises in 2003 and 2004, respectively, growth dropped to 3.7% last year. Compared with 2004, investment in machinery and equipment eased off in particular (from 9.4% to 2.9%) while housing investment picked up (from 5.5% to 13.7%). The growth of investment in other buildings and construction was low in both years (1.1% in 2005 and 1.9% in 2004).

Investment activity surged in the final quarter of 2005, but it is unlikely that it will continue to grow at such a pace. In the first three quarters together, the year-on-year growth of investment totalled just 2.1%, having accelerated to 8.2% in the final quarter, mainly on the back of the 10% rise in investment in machinery and equipment. Increased investment activity in Q4 appears to be related to changes in tax legislation that were enforced on 1 January 2006 and made the investment relief regime less favourable.

*Gross fixed capital formation is projected to rebound **in 2006**.* Investment in transport infrastructure should pick up in particular. According to the annual motorway construction and maintenance plan, the national motorway construction company (DARS) should spend 30% more funds on motorway construction than last year. Data on issued building permits indicate that housing investment will also continue to grow robustly (see Figure 7). Higher GDP growth in the EU and the related favourable export trends, and the high capacity utilisation[32] will stimulate investment in machinery and equipment, although its growth is projected to be lower than in Q4 last year. Gross fixed capital formation is thus projected to grow by a real 6.0% in 2006.

Figure 7: **Number of new dwellings and extensions (planned in issued building permits) and their total floor area**

Source of data: SORS.

*In **2007 and 2008**, gross fixed capital formation is projected to soften.* Due to the raising of the VAT rate on new dwellings in 2008, housing construction is expected to further accelerate in 2007 and slow down in 2008. Motorway construction will remain at a high level in the next two years but its contribution to the overall growth of investment will be smaller. On the other hand, investment financed from EU funds is expected to accelerate while enterprises will benefit from the phased abolition of payroll tax in both years. Tax relief on investment in equipment will be reduced further in 2008, which will result in higher growth of this investment in 2007 and lower growth in 2008. Gross fixed capital formation is thus forecast to grow by a real 5.0% in 2007 and 4.0% in 2008.

*The **level of inventories** rose **in 2005**, while the contribution of changes in inventories to economic growth was negative. **This year and in the two subsequent years** the contribution of changes in inventories to GDP growth should be more neutral.*

_____

[32] According to seasonally-adjusted data, production capacity utilisation reached its highest level in Q1 of 2006 since 1996, when these data started to be collected.

Inventories rose by close to SIT 35 bn last year and by more than SIT 140 bn in 2004. The contribution of their changes to GDP growth was therefore negative last year, totalling 1.7 p.p. of GDP. Inventories are expected to grow in 2006-2008; their share in GDP in current prices should increase from 0.7% to 0.9% between 2006 and 2008 while their contribution to growth is expected to total +0.1 p.p. of GDP in all three years.

4.4   General government consumption

General government consumption rose a real 3.0% *in 2005* and lagged behind GDP growth by 0.9 of a percentage point according to quarterly national accounts. It contributed 0.6 p.p. to GDP growth, the same as in 2004, while its proportion in GDP totalled 19.6%, which is 0.1 p.p. more than the year before[33]. Within total general government consumption, individual consumption grew at a slightly faster pace (3.1%) than collective consumption, whose growth equalled the growth of total government consumption (3.0%).

The increase in the general government consumption seen in 2005 was underpinned by the increase in the number of people employed in the general government sector, which rose by 1,8% and by the real growth of intermediate consumption (3,8%). The rise in the number of people employed was a little faster in health care and social work (3.1%) and education (2.3%), which slightly accelerated the growth of individual government consumption. In the public administration and defence, on the other hand, employment growth eased off somewhat, by 0.2%.

The real growth of general government consumption is estimated to total 2.7% in 2006 and to lag behind the projected economic growth by 1.5 percentage points. The proportion of general government consumption in GDP is estimated at 19.6%

Table 11: **General government consumption in 2000-2008**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
							forecast		
Real growth (%)									
General government consumption, total	2.6	3.9	3.2	1.6	2.9	3.0	2.7	2.8	2.4
Individual consumption	1.3	3.2	4.4	2.0	3.3	3.1	2.8	2.9	2.5
Collective consumption	4.4	4.9	1.5	1.1	2.4	3.0	2.5	2.6	2.2
As a % of GDP									
General government consumption, total	19.3	20.0	19.7	19.6	19.5	19.6	19.6	19.4	19.3
Individual consumption	11.4	11.9	11.8	11.8	11.8	11.8	11.9	11.8	11.9
Collective consumption	7.9	8.1	7.9	7.8	7.7	7.8	7.7	7.6	7.4

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

---

[33] Since government consumption recorded lower real growth than GDP, the increase in its share was due to the fact that the implicit GDP deflator (101.0) was lower than the government consumption deflator (102.5).

for this year, the same as in 2005. General government consumption will contribute 0.5 p.p. to GDP growth, which is 0.1 p.p. less than in 2005. The forecast of general government consumption for 2006 is based on general government expenditure planned in the adopted state budget for 2006, the planned local government budgets expenditure and the expenditure on compulsory health insurance as planned in the financial plan of the National Health Insurance Institute for 2006.

In 2006, the increase in employment in the government sector will be slightly higher than last year while the real growth of intermediate consumption will remain at the same level. Employment is projected to grow by 2%; specifically, growth will be slightly faster in health care and social work (3.4%) and in the public administration and defence (3.5%) and slightly slower in education (1.5%). Staff in government bodies will be reduced while additional recruitment is planned in the army and the police due to the establishment of a professional army and protection of the EU's external border. Intermediate consumption is estimated to grow by a real 3.8%. Expenditure on special materials and services (for the army) will grow more rapidly, while economising is planned for all other expenditure on goods and services, both in government offices and public institutions.

In 2007 general government consumption is expected to grow by 2.8%. It will thus still lag behind economic growth (1.2 p.p.) and its share in GDP will decline further to 19.4%. Its contribution to GDP growth will again total 0.5 p.p. The number of employees in the general government sector will rise by about 2%. The rise will be faster in health care and social work (around 4%) and more moderate in education (1.3%) and in public administration and defence (1.8%). Employment in the public administration should be slightly reduced further. Staff in the Slovenian army and police, on the other hand, will rise again. Intermediate consumption will grow by approximately 4.0% in real terms, with slightly faster growth being expected in expenditure on special materials and services for the Slovenian Armed Forces (obligations of NATO members) and expenditure on medicines and material costs in health care.

*Government consumption is expected to soften slightly **in 2008** and grow by 2.4% in real terms*, thus lagging behind GDP growth even more than the year before (by 1.5 p.p.). It will contribute 0.5 p.p. to economic growth and its share in GDP will contract to 19.3%.

5 External economic relations

5.1 Balance of payments
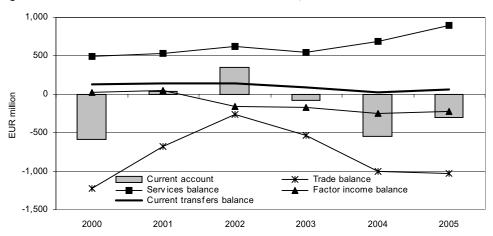
*The **current account deficit** almost halved **in 2005** over 2004.* According to the provisional balance of payments data for 2005 it totalled EUR 301.1 m (1.1% of GDP), after having narrowed from EUR 543.7 m (2.1% of GDP). The narrowing of the deficit in current transactions was mainly underpinned by the favourable goods and services flows in the first half of the year. In the second half of the year, export growth began to slow while imports gathered momentum.

*Despite the deteriorated terms of trade, **the trade balance deficit** rose by just EUR 25.4 m in 2005 over 2004, to EUR 1,034.2 m.* That this rise was so small can be largely attributed to the income effect (expressed by the growth of export markets), which cushioned the external price effect (expressed by the terms of trade). As prices of oil, other primary commodities and producer prices in the EU rose, the terms of trade in goods deteriorated by 2.5 p.p. compared to 2004. The price hike in oil and other commodities and the high import dependency on these goods have caused a surge in the imports of primary commodities (up 30.8% in EUR; imports of oil and its products by 37.8%) while imports of industrial goods rose by 8%. A regional comparison shows that while the deficit with the EU countries narrowed so did the surplus in trade with non-EU countries. As a result, the total trade balance deficit widened slightly.

*As exports of services grew faster than their imports, the **surplus in the services balance** rose to EUR 898.3 m in 2005 (from EUR 686.1 m in 2004).* Apart from the roughly unchanged terms of trade in services (index 100.1) the high surplus was also underpinned by the favourable real (quantity) flows. The increase in the services surplus was generated, on one hand, by the higher surplus in the trade in travel and transport and, on the other hand, by the lower deficit on trade in other services. In the last two years, exports of services recorded promising trends, whereas in 2000-2004 the growth of Slovenia's market shares in the imports of its main EU trading partners (Austria, Italy, France and the United Kingdom; as for Germany, comparable data are unavailable) was lower than the growth of the market shares of the new EU members from Central and Eastern Europe.

*Apart from the higher surplus in services trade, improved results in the **labour and investment income balance and current transfers balance** were another, if less significant, contributor to the narrowing of the current account deficit.* The deficit in factor incomes dropped in 2005 (EUR 225.8 m) compared to 2004 (EUR 249.6 m), mainly thanks to the smaller net capital expenditure. Commercial banks and other sectors recorded a rise in interest earned on capital exports via investment in debt securities and interest on loans given to the rest of the world. On the expenditure side, the payments of interest on external debt rose owing to the substantial borrowing of banks in 2004 and 2005 despite the lowering in the average weighted interest rates. The surplus in the current transfers balance rose (from EUR 28.6 m to EUR 60.6 m) chiefly as a result of the surplus generated in other sectors (other transfers, workers' remittances and insurances) and partly because of Slovenia's positive net position vis-à-vis the EU budget (also see Chapter 8.3).

Figure 8: **Trends in the current account sub-balances, 2000-2005**

Financial transactions (excluding international monetary reserves) recorded a net capital inflow of EUR 1,020.1 m in 2005, much more than in 2004 (EUR 486.9 m). The biggest rise was observed in capital imports via foreign loans, while the strongest capital outflow was seen in investment in securities. The private sector (enterprises, banks and households) enjoyed a net capital inflow while the government sector and the central bank registered a net outflow.

The main source of capital inflow was domestic commercial banks' borrowing abroad, which was followed by foreign banks' deposits, the inflow of foreign direct investment and short-term liabilities arising from trade credits. Stronger commercial banks' borrowing abroad (EUR 2,838 m) and the increase in foreign banks' deposits (EUR 1,026 m), which was probably linked to the ownership affiliations between national and foreign banks, enabled domestic banks to offer more foreign currency loans (see Chapter 9.2). The government sector reduced its debt for the second consecutive year. This was largely done through the repayment of Eurobond liabilities (EUR 494.2 m). The inflow of FDI dropped by EUR 235.5 m since 2004 (to EUR 426.6 m), mainly due to the withdrawal of Interbrew and lower liabilities to affiliated enterprises. The increase in the level of liabilities arising from short-term trade credits was just slightly bigger in 2005 (EUR 235.7 m) than in 2004 (EUR 210.8 m), which reflected the dynamics of merchandise imports growth.

Capital outflows were mainly generated by investment in securities, outflows of foreign currency and household deposits from the banking system, outward direct investment, loans and short-term trade credits. The substantial increase (by EUR 618.9) of the private sector's investment in foreign securities (banks and other sectors) was mainly caused by limited investment possibilities and partly by the lower returns of the Slovenian capital market. According to the Bank of Slovenia, mutual funds reshaped their portfolios swiftly after restrictions on the proportion of foreign securities were lifted. Capital outflows via foreign currency and household deposits continued for the fourth year in a row. The flow of outward direct investment rose

by EUR 11.8 m in 2005 over 2004, owing almost entirely to investment in equity capital (EUR 454.6 m). Lending to the rest of the world, where domestic banks' loans account for about 75% (EUR 274.7 m), partly compensated for the financing of the rest of the world via short-term trade credits.

Foreign exchange reserves rose by EUR 1,348.5 m due to the high net capital inflow. At the same time, **Slovenia's indebtedness** continued to rise as well. Slovenia's foreign exchange totalled EUR 8,832.8 m at the end of 2005 and sufficed to cover 5.9 months' worth of goods and services imports (5.6 months' worth in 2004). Slovenia's gross external debt position totalled 71.3% of GDP at the end of 2005. Nevertheless, foreign exchange reserves were still sufficient to cover the short-term debt by remaining maturity, a criterion of an economy's solvency and liquidity recommended by the IMF.

*The robust **growth of external trade** continued **at the beginning of the year**.* Against the faster growth of export than import flows, the balance of trade in goods and services recorded a surplus in the first two months of the year. As the deficit in merchandise trade with the EU exceeded the surplus in goods trade with non-members, the trade balance ran a deficit. The slight increase in the surplus in services reflected the favourable results achieved in transport and tourism. The deficit in the labour and investment income balance was largely generated by the higher net capital expenditure – non-residents' payments of interest on investment in domestic debt securities. The deficit in the current transfers balance, on the other hand, was lower than in the same period last year, mainly thanks to the higher surpluses in other sectors. Taking into account the dynamics of all balances, the deficit in the balance of payment's current account narrowed from EUR 53.3 m to EUR 13.5 m compared to the same period last year.

*The **capital and financial account** recorded roughly the same trends as in 2005 **in the first two months of this year**.* Financial transactions (excluding foreign exchange) registered a net capital inflow of EUR 269.5 m in the two months to February (EUR 164.9 m in the same period last year). The largest capital inflow came from foreign banks' deposits (EUR 549.6 m), while investment in foreign securities represented the biggest capital outflow (EUR 282.7m). The latter mainly consisted of equity securities of banks and other sectors.

*The **current account deficit for 2006** is estimated at EUR 480 m or 1.7% of GDP, which is more than in 2005.* The widening of the trade balance deficit to EUR 1,216 m will result from this year's real dynamics of exports and imports, and partly by the further deterioration in terms of trade in goods (by 1.2 p.p.). Compared to 2005, the surplus in the trade in services is projected to expand further, to EUR 978 m. The deficit in the labour and investment income will widen chiefly due to the reinvested earnings and payments of interest, the level of which will be determined by the past and future borrowing and the rising of interest rates in international capital markets. The surplus in the current transfers balance is expected to grow somewhat, mainly because of the bigger surpluses in other sectors.

*The deficit in the current transactions with the rest of the world is expected to narrow to EUR 390 m (1.3% of GDP) **in 2007**.* This narrowing will be largely underpinned

by the lower deficit in the trade balance, which will reflect the faster growth of export than import flows and the improved terms of trade (by 0.3 p.p.). The surplus in the services balance is projected to continue rising whereas the surplus in labour income will again not suffice to cover the deficit in investment income.

In 2008, the current account deficit should narrow to EUR 300 m or 0.9% of GDP. The trade in goods and services is projected to be more or less balanced that year. As the level of funds acquired from the EU budget is projected to rise in accordance with the new financial perspective for 2007-2013, we also expect the surplus in the current transfers balance to be bigger than in 2006-2007. The current account deficit will therefore arise from the negative labour and investment income balance.

5.2 International competitiveness

In 2005 the **price competitiveness of the Slovenian economy** *improved compared to foreign competitors under the influence of disinflation and price falls in Slovenia compared to other countries.* According to the changed calculation methodology[34], the nominal depreciation of the tolar's effective exchange rate decelerated (to 0.7%) because of the nominal stability of the tolar against the euro (observed, at the monthly level, from the beginning of Slovenia's participation in the ERM II, and at the year-on-year level from the middle of 2005). As the growth of relative consumer prices slowed down considerably (from 1.4% to 0.4%), the tolar's effective exchange rate

Table 12: **Indicators of price and cost competitiveness, annual growth rates (%)**

	2004	2005 estimate	2006 forecast
Tolar's effective exchange rate			
nominal terms	-1.4	-0.7	-0.4
real terms - deflated by consumer prices	0.0	-0.3	-0.2
real terms - deflated by producer prices	0.1	-3.3	-
real terms - deflated by unit labour costs[1]	2.0	0.6	-0.4
Components of unit labour costs[2]			
unit labour costs - nominal terms	1.4	0.1	-0.3
in the basket of currencies	0.1	-0.7	-0.7
compensation per employee - real terms[3]	3.8	2.7	3.0
net wages and other remuneration	4.0	3.4	3.7
tax burden on wages[4]	0.1	-1.4	-0.9
labour productivity[5]	6.0	5.2	5.8
prices / effective exchange rate	2.2	1.7	1.6

Sources of data: BS, SORS, AP, OECD, EC; calculations by IMAD.
Notes: [1]In manufacturing, for enterprises and organisations (according to the SRE), [2]Domestic factors only, [3]Deflated by consumer prices, [4]Ratio of the gross wage and employers' contributions to net wages, [5]Production volume per employee.

---

[34] The basic variant of the changed methodology for calculating effective exchange rates covers the currencies and prices (costs) of Slovenia's 17 main trading partners. For more details, see Box 6.

dropped by a real 0.3%. If we take into account the growth of relative producer prices which fell in 2005 (by 2.6%), the exchange rate's real drop totalled 3.3%.

*Despite the nominal stability of the tolar's exchange rate, the price competitiveness of the Slovenian economy remained stable or even improved **against the euro area countries** in 2005.* As the tolar dropped by a nominal 0.3% against the euro, its real appreciation against the euro totalled just 0.1% if measured by relative consumer prices while it dropped by a real 2.9% if measured by relative producer prices.

*The slightly stronger improvement in the price competitiveness of the Slovenian economy **compared to competitors outside the euro area** was caused by the tolar's bigger nominal drop against the currencies of some new EU member states* (by 11.4% against the Polish zloty, by 6.9% against the Czech koruna, by 3.9% against the Slovak koruna and by 1.8% against the Hungarian forint). Against the currency basket of countries outside the euro area, the tolar fell by a nominal 1.6% and by a real 1.3% (if deflated by relative consumer prices) or 4.1% (if deflated by relative producer prices).

*The deterioration of **Slovenian manufacturing's cost competitiveness**[35] continued to ease off in 2005.* Due to the strong slowdown of Slovenia's unit labour costs (ULC) growth (to 0.1% in nominal terms) and a minor drop in foreign ULC (-1.3% according to available estimates), the real growth of the tolar's effective exchange rate was weaker last year (0.6%). The strong softening of the growth of Slovenia's ULC resulted from the smaller growth of the compensation per employee which was, when deflated by inflation, 2.5 p.p. lower last year compared to labour productivity (2.2 p.p. lower in 2004 and 1.9 p.p. lower in 2003). As net wages enjoyed robust real growth (4.8%) other remuneration dropped in real terms (by 1.7%). Apart from that, the tax burden on net wages was lower due to amendments to the Personal Income Tax (enforced in January 2005). The easing of labour productivity growth, which was nevertheless still at a high level (5.2%), was the result of the slowdown in production growth (from 4.9% in 2004 to 3.5%) while the fall in employment was faster (-1.6% compared to -1.1% in 2004).

Box 6: Methodological changes in measuring price and cost competitiveness

The purpose of the changes introduced in the methodology for calculating the tolar's effective exchange rate was to ensure methodological comparability with the European Central Bank (ECB) and the Bank for International Settlements (BIS) on whose methodology the ECB method is modelled. The IMAD's calculation method used so far has differed from the ECB's concept mainly in the method of weighting the currencies or prices (costs) of the trading partners covered in the computation of the nominal and real effective exchange rates. *(1)* Rather than being based on the currency structure of exports and imports of goods, weights are now based on the geographical distribution of exports and imports of manufactured goods (SITC sections 5-8 in 2001-2003). *(2)* Export weights, which

---

[35] Manufacturing generated 97% of Slovenia's merchandise exports and made up 94% of Slovenia's merchandise imports in 2005.
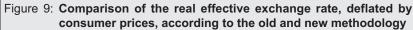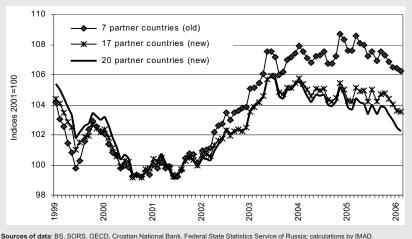
were previously simple export shares, are now double-weighted. The double-weighted export weights account for the 'third-market effect'. This means that we take into account the fact that, apart from the domestic competitors in a foreign market, Slovenian exporters to this market also compete with exporters from third-markets.

According to the new methodology, the calculation of the effective exchange rate includes 17 trading partners: 7 from the euro area (Austria, Belgium, Germany, Italy, France, the Netherlands and Spain), 7 from outside the euro area (United Kingdom, Denmark, Sweden, the Czech Republic, Hungary, Poland, Slovakia) and 3 from outside the EU (USA, Switzerland, Japan). In 2001-2003, Slovenia realised 78% of its total manufacturing trade (and 68% of Slovenia's total trade in goods) with selected trading partners.

Because of the poorer coverage of Slovenia's trade with countries outside the EU, Croatia, Russia and Turkey have been included in an extended group of 20 trading partners for which the real effective exchange rate can for the time being only be calculated on the basis of relative prices (data on relative costs are not available). Slovenia's trade with the extended group of 20 countries accounted for 87% of its total manufacturing trade in 2001-2003 (and 75% of its total merchandise trade).

Although the calculation of the effective exchange rate previously covered only four currencies of seven Slovenia's main developed trading partners (Germany, Austria, Italy, France, USA, United Kingdom and Switzerland; 96% of Slovenia's trade in goods was realised in the currencies of these countries in the base year 1995), the changed methodology had a relatively small impact on the dynamics of the effective exchange rate. In the last four years, the impact of these changes has been reflected in the smaller real appreciation of the tolar's effective exchange rate (Figure 9), mainly owing to the considerable nominal depreciation of the tolar against the currencies of the new EU members (the Czech Republic, Slovakia and Hungary).

Figure 9: **Comparison of the real effective exchange rate, deflated by consumer prices, according to the old and new methodology**

Sources of data: BS, SORS, OECD, Croatian National Bank, Federal State Statistics Service of Russia; calculations by IMAD.
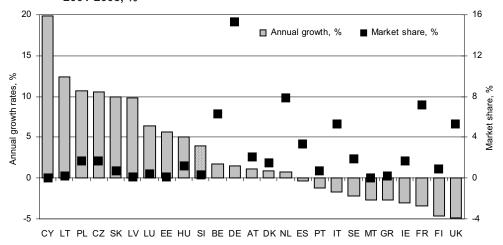
*The improvement in competitiveness measured by **Slovenia's aggregate market share in its main export markets**[36] **continued in 2005.*** Like in 2004, the growth of Slovenia's market share (3.9%) was generated by an increase in the market shares in EU partner countries. Slovenia's market share in the French market expanded at an accelerated pace (by 31%), as did its shares in Austria, the UK and Spain, whereas growth in the Italian marked slowed down. Among the new EU members, Slovenia expanded its market shares in the Czech Republic, Slovakia and Hungary following the drops seen there in 2004. The contraction of Slovenia's market share in the German market continued (for the third year). Outside the EU, the growth of Slovenia's market share stagnated in Croatia, shrank in the USA (for the second year), and also dropped in Russia (after two years of growth).

Figure 10: **Member states' market shares**[*] **in the EU-25 in 2005 and their annual growth in 2001-2005, %**

Source of data: Eurostat; calculations by IMAD.
Note: *Calculated as the share of a member state's exports in the total imports of the EU-25 (intra and extra).

In 2005, Slovenia *was ranked in the top half of EU countries* ***according to the growth in its market share in the EU-25*** *(4.8%).* Like in the whole period since 2000, Slovenia's market share grew less than the shares of most new EU members and more than the shares of old member states in 2005 (see Figure 10).

Within the trade classification (SITC), the machinery and equipment section was the main contributor to the growth of Slovenia's market share in the EU (its market share rose by 15 %). Within this section, the market share of road vehicles rose the most (42%). The improvements in the competitiveness of chemical products (1.8% growth of market share) and manufactures classified by material (4.2% growth; these include leather, rubber, paper, wood, textile and metals) were less pronounced. The market share of miscellaneous goods (prefabricated buildings, furniture, clothing, footwear and other consumer goods) fell slightly (by 5.1%), indicating a drop in

---

[36] Germany, Austria, Italy, France, Belgium, the Netherlands, Spain, United Kingdom, the Czech Republic, Hungary, Poland, Slovakia, the USA, Croatia and Russia.

their competitiveness. Non-industrial goods, which represent a minor share in Slovenia's exports to the EU (6.3% in 2005) and whose market shares are accordingly much smaller than the shares of industrial goods, recorded an improvement in the competitiveness of food and live animals (its market share rose by 77%) and crude materials except fuels (31%).

At the beginning of 2006 the improvement in the Slovenian economy's **price competitiveness** continued at both the monthly (up 0.5%[37] and 0.2%[38] in February over December) and the year-on-year levels (by 0.6% and 1.2% in the first two months of the year). Compared with the euro area countries, Slovenia's price competitiveness was marginally lower only at the year-on-year level when measured by relative consumer prices (by 0.3%), which was partly due to the real depreciation at the beginning of 2005.

*In 2006, price competitiveness will generally improve while the trend in **cost competitiveness** is expected to turn positive (slight improvement).* According to the technical assumption of the euro/dollar exchange rate hovering around 1.20[39], the tolar's effective exchange rate will drop by a nominal 0.4%. Given the expected continuing low growth of relative consumer prices (0.2%) the tolar's effective exchange rate will depreciate by 0.2% in real terms (while it will appreciate slightly against the euro – by 0.3% in real terms). Measured by the relative unit labour costs in manufacturing, the real effective exchange rate will fall by 0.4%. The growth of real compensation per employee will be slightly stronger (3%) while its lag behind labour productivity (5.8%) will be even bigger than in 2005 (it will widen to 2.8 p.p.). The falling of unit labour costs in the main trading partners will also slow down (to 0.3%, according to available estimates).

---

[37] Deflated by relative consumer prices.

[38] Deflated by relative producer prices.

[39] We also technically assume that other currencies included in the basket will also hover against the euro around the exchange rates achieved between September 2005 and February 2006.

6 Price trends and policy

2005 was characterised by further gradual **disinflation** in Slovenia. The 1.4 p.p. year-on-year decrease in consumer price rises in 2004 was followed by a further decline of 0.9 p.p. in 2005. The consumer price rise (CPI) thus totalled 2.3% in December 2005. Compared to December 2004, average inflation decreased as well, going down by 1.1 p.p. to 2.5%. The highest rises were recorded in March, when prices were up 1.1%, in July (0.7%) and in September (1%), while the biggest drops were observed in January (-0.6%), August (-0.6%) and November (-0.5%). In all cases, the high growth rates were largely due to seasonal impacts or external factors (oil prices), or a combination of both. Prices fell in December 2005 over December 2004 in the groups clothing and footwear (-2.2%), health (-1.3%) and communications (-0.5%). The smallest rise was observed in food prices (-0.9%) while the biggest price jump was seen in education (7.5%) and housing (7.1%).

*The sustainable lowering of inflation observed in the last three years has been the result of the co-ordinated **economic policies of the Bank of Slovenia and the government of RS***. Stabilisation of the tolar's exchange rate upon entering the ERM II at the end of June 2004 eliminated an important inflationary factor. The tolar's exchange rate was just 0.3% higher in June 2005 compared to June 2004 (when it was 2.3% higher than in June 2003). The government remained committed to the restrictive regulation plan of administered prices and the smoothing of the impacts of oil price fluctuations. Disinflation and price falls in individual product groups were also supported by the increased competition due to EU membership and the elimination of the remaining customs restrictions on imports from the EU, as well as the opening up of the EU market for third-country goods. Market-determined prices rose by 1.2% last year, 0.9 p.p. less than in 2004. The rise in administered prices (excluding petroleum products and corrected for the RTV contribution[40]) totalled 1.3% in 2005 and contributed 0.1 p.p. to inflation. However, as a result of the oil price hike (the price of a Brent crude barrel shot up by 48% from end-December 2004 to end-December 2005), the prices of liquid fuels for transport and heating contributed a further 0.9 p.p. to inflation. Without the counter-cyclical adjustment of excise duties on liquid fuels for transport and heating and their reduction to the lowest allowed level, the contribution of liquid fuels to inflation would have been a further 0.5 p.p. higher. At the same time, the government continued to harmonise excise duties on tobacco and tobacco products with the agreed rates in the EU (harmonisation is due to be completed in early 2008), which pushed inflation up by a further 0.3 p.p. The lagging of wage growth behind productivity growth provided for in the social agreement prevented potential pressures on price rises from increased household demand or production costs.

*Although the **prices of services** have been rising at a faster pace than the prices of goods in the last two years, this has largely been due to the relatively faster price growth seen in regulated services.* A relatively large increase in the ratio between the growth of market-determined prices of goods and services was only observed in

---

[40] As a result of a strike at the national radio and television broadcaster, the RTV contribution was lowered in December 2004, only to be raised back to the previous level in January 2005. However, the SORS regarded this as a price rise.

the summer months in this period which was, however, linked to seasonal factors. The prices of services are also not expected to generate any major inflationary pressures in the future.

*The **growth of producer prices** slowed down **last year***. The year-on-year rise in producer prices totalled 1.8% in December last year, i.e. 3.1 p.p. less than in December 2004 (4.9%). Among the separate index groups, the prices of intermediate goods recorded the highest rise in 2005 (2%) while less substantial price rises were observed in investment goods (1.5%) and consumer goods (1.6%).

*Inflation in Slovenia converged with the **Maastricht inflation criterion** in November 2005*. The average consumer price rise measured by the harmonised index of consumer products (HICP) totalled 2.5% in November and December last year, which equalled the Maastricht reference value for these two months based on the available explanations regarding its calculation. In the first three months of this year, average inflation (HICP) in Slovenia even slipped below the convergence criterion, which totalled 2.6% in all three months (by 0.1 p.p. in January, 0.2 p.p. in February and by 0.3 p.p. in March). The possibility that oil prices in 2006 will be higher than assumed in the IMAD's spring forecast still represents the biggest risk to inflation because higher oil prices could have a stronger negative impact on inflation in Slovenia due to the asymmetric effect of oil price rises on the inflation rates in Slovenia compared with other EU countries. Bearing in mind that the current pace of disinflation and particularly the lowering of prices that do not significantly depend on external factors have been achieved in a sustainable way, we estimate that average inflation measured by the HICP will continue to linger below the convergence criterion.

*The **spring forecast** projects slightly faster **disinflation in 2006** than was expected in autumn, mainly due to the favourable inflationary dynamics towards the end of*
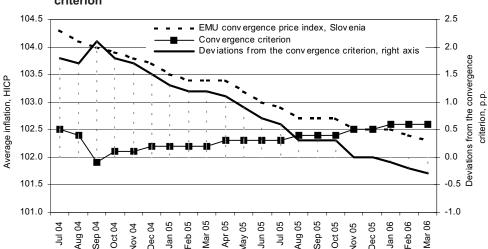
Figure 11: **Average inflation (HICP) in Slovenia and the value of the Maastricht inflation criterion**

2005 and at the beginning of 2006. Year-on-year inflation is thus expected to decline to 2.0% by the end of the year while average inflation should come in at 2.1%. In the final quarter of 2005, inflation eased off more than we expected during the preparation of the autumn forecast, mainly under the influence of lower oil prices in the world market in this period. Disinflation continued in Q1 this year compared with the same period of 2005. Given the projected monthly dynamics of price rises we expect inflation to rebound slightly in Q2, however it should slow down again in the second half of the year. Remaining committed to the key economic policies which have helped bring inflation down to a level comparable to the EU average in the last few months will enable the price rises that depend on these policies to also remain at the achieved level in the future. In line with the Administered Prices Plan for 2006, the forecast therefore assumes that administered prices will rise by 1.2% and contribute a maximum of 0.2 p.p. to inflation (prices under direct government control should rise by 0.5%, adding 0.1 p.p. to inflation). Apart from that, another increase in excise duties on tobacco and tobacco products is planned for 2006, which should push inflation up by a further 0.14 p.p. The estimated annual contributions of the main product groups will average out at 0.2 p.p., without any major expected deviations. Assuming that oil prices will remain roughly at the level achieved at the end of Q1 throughout the year, year-on-year inflation is projected to total 2.0% at the end of 2006 while the forecast for average inflation is 2.1%[41].

*In **2007 and 2008 inflation** is expected to stabilise at the level achieved in 2006.* Average inflation is projected to remain at the 2006 level in 2007 and 2008 (2.1%). Year-on-year inflation, on the other hand, will edge up by 0.1 p.p. each year (to 2.1% in 2007 and 2.2% in 2008)[42]. In order to reduce the risk of the currency changeover having a significant effect on price rises in 2007, mandatory dual pricing has been in effect since the beginning of March 2006. Further, the government will remain committed to the counter-inflationary macroeconomic policies after the planned entry to the Economic and Monetary Union (EMU) since relatively higher price growth in Slovenia compared to its key trading partners would weaken the competitiveness of the Slovenian tradable sector. In line with the plan adopted for 2007, the forecast assumes that administered prices will rise by 0.9% and contribute 0.1 p.p. to inflation (prices under direct government control are expected to rise by 0.4%, adding 0.06 p.p. to inflation). Like this year, another increase in excise duties on tobacco and tobacco products is also planned for 2007, which will push inflation up by a further 0.13 p.p. The average annual contributions of the main product

---

[41] To verify its inflation forecasts, the IMAD also applies a leading indicators model based on the diffusion index method that was developed by Stock and Watson (1998; for more information on the model see Box 2). Based on the model we estimate that the trend of a gradual decline in consumer prices will continue, however it is not expected to remain as strong as it was in the previous two years. The dispersion of the forecast is low, indicating that year-on-year inflation in 2006 will total between 2.2% and 2.4%. This forecast assumes that the growth of petroleum products prices will be the same as in 2005 and is hence slightly higher than the IMAD's forecast. The forecasts of core inflation are somewhat lower and more dispersed. The forecasting interval spans between 0.8% and 1.6%, with forecasts concentrated slightly above 1%.

[42] Government instruments that may be used to compensate for the revenue shortfall from payroll tax, as provided for in the budget memorandum, include the raising of VAT rates (from 8.5% to 9% and from 20% to 21%). Since the final decision on this issue has still not been made, the inflation forecast for 2007 does not account for any possible price rises arising from higher VAT. If this were to happen, the estimated effect on consumer price rises, taking account of the different pass-trough rates to final prices, would total between 0.2 and 0.6 p.p.

groups in 2007 and 2008 should similarly not diverge significantly from the 2006
level (0.2 p.p.).[43] Based on data about the dynamics of market-determined prices of
goods and services, the dynamics of wages in the private and public sectors, as well
as some recent empirical studies for Central and Eastern European Countries[44], we
further estimate that the Balassa-Samuelson effect in this period is lower than it
used to be in the past. Inflation is therefore expected to hover at a level around 2.2%
in the medium term.

The **risks of inflation diverging from the central forecast in 2006** *are still
symmetrically distributed. External factors are the biggest risk to the realisation of
inflation forecasts in 2006.* Like in the autumn inflation forecast for 2006, the risks
of inflation deviating from the central forecast remain symmetrically distributed.
Actual inflation is not expected to diverge from the central forecast for 2006 by
more than 1.0 p.p. (see Figure 12). There is 90% probability that inflation in 2006
will total between 1.0% and 3.0%. If the counter-inflationary macroeconomic
policies adopted in the past continue to be strictly applied, the main risks to realisation
of the projected inflation in 2006 comprise external factors, the most likely of them
being oil price changes in the global market.
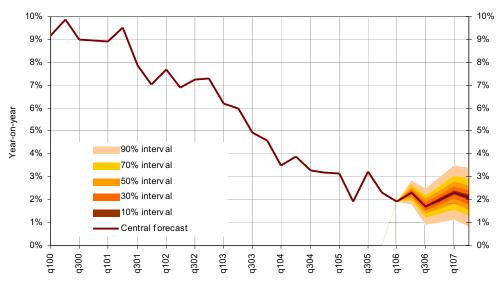
Figure 12: **Probability of a divergence from the central inflation forecast**

---

[43] The administered prices plan for 2008 has not been adopted yet; however, given the dynamics of administered
prices seen thus far we estimate that there are no economic reasons for any significant pressures on consumer
price growth. In order to prevent pressures on price rises in municipal water and waste utilities, this sector will
have to be regulated so as to enable competition and ensure price control. Bearing this in mind, we project that
trends in administered prices will essentially remain unchanged.
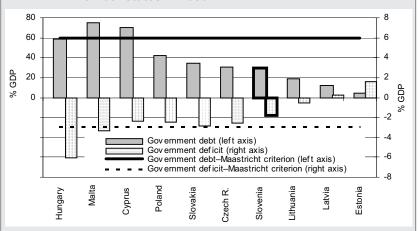
[44] Hlouskova, J. Wagner M. (2004); Miheljak D., Klau, M. (2004).

Box 7: **Fulfilment of the Maastricht criteria**

In 2006, Slovenia fulfilled the five nominal convergence criteria for the adoption of the euro, i.e. both fiscal criteria (general government deficit and general government debt relative to GDP) and all monetary policy criteria (interest rates, inflation, exchange rate).
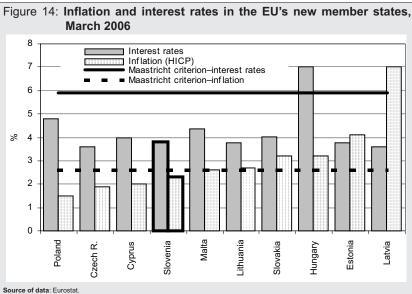
Slovenia has complied with the fiscal criterion regarding the level of general government deficit since 2002, while the level of public debt has been much lower than the Maastricht reference value throughout the period. Supported by favourable macroeconomic circumstances, the general government's budgetary position improved in 2005 over 2004: the general government deficit totalled 1.8% of GDP (2.1% in 2004) while general government debt amounted to 29.1% of GDP (29.5% in 2004).

Figure 13: **General government deficit and debt in the EU's new member states in 2005**

Government debt (left axis)
Government deficit (right axis)
Government debt–Maastricht criterion (left axis)
Government deficit–Maastricht criterion (right axis)

Source of data: Eurostat.

Slovenia has also fulfilled all monetary convergence criteria. It has complied with the criterion regarding long-term interest since February 2004. The Maastricht criterion on the interest rate stood at 5.9% in March this year, while the twelve-month average of the ten-year government bonds' yield-to-maturity in Slovenia was 2.1 p.p. lower. Slovenia first fulfilled the Maastricht criterion on price stability in November 2005, when its average (HICP) inflation declined to 2.5% and converged with the Maastricht reference value for that month. In the following months, the gap between Slovenia's consumer price index and the Maastricht criterion increased to total 0.3 p.p. in March 2006. Average inflation (HICP) in Slovenia declined to 2.3% that month, while the Maastricht reference value was 2.6%. Since the tolar's exchange rate has not fluctuated around the central parity by more than 0.15% during the two years of Slovenia's participation in the exchange rate mechanism (the allowed fluctuation rate is ±15%), Slovenia has also met the exchange rate stability criterion.

Figure 14: **Inflation and interest rates in the EU's new member states, March 2006**

Source of data: Eurostat.

Slovenia has officially requested the European Commission and the European Central Bank to make an early assessment of Slovenia's convergence with the conditions required to adopt the common European currency. Both institutions issued their reports on 16 May 2006. Slovenia was the first and only new EU member to receive a positive assessment and recommendation to be admitted to the EMU on 1 January 2007. The political decision on Slovenia's admission to the euro area was taken at the meeting of the European Council on 15 and 16 June, while the formal decision was adopted at the ECOFIN Council summit on 11 July 2006, when the tolar/euro conversion rate was also irrevocably set at 239.64.

7 Labour market

7.1 Wages

In 2005, growth in the gross wage per employee also lagged behind growth in labour productivity, which is in line with the guidelines in the 2003-2005 Social Agreement. The guideline setting out that the growth of the gross wage per employee should lag by at least 1 p.p. behind labour productivity growth has been met over a longer time period. It has also importantly contributed to the meeting of macroeconomic goals, i.e. a further contracting of inflation and the only modest growth of general government expenditures. A large part of government expenditure is accounted for by public sector wages, which have risen at a slower pace than wages in the private sector since 2001. In the 2006-2008 period, the lagging of wage growth behind labour productivity growth will have to continue, but the lag will be gradually narrowed. This guideline is only one of the means aimed at spurring investment in development and consequently the opening of new jobs.

In 2005, the gross wage per employee rose in real terms by 2.2% and lagged by 0.9 p.p. behind the 3.1% growth in labour productivity, according to the first estimates. In the Autumn Report, the real gross wage per employee was forecast to increase by 3.2% in 2005. This forecast was made on the basis of preliminary data on the movement of gross wages for 2004 and 2005, calculated and published by the SORS in September 2005, using the new methodology for recording gross wages. In December 2005, the SORS published revised data for 2004 and 2005. As the IMAD had warned throughout the year, the data on the gross wage per employee needed to be treated with caution because of the great oscillations in the number of employees, in particular in 2004. The revised data confirmed our predictions as the movement of the gross wage per employee was eventually much more even and the number of

Table 13: **Labour productivity and the gross wage per employee in private and public sectors in the 1999-2005 period, estimate for the 2006-2008 period**

	Labour productivity, growth in %	Labour productivity in private sector (A to K), growth in %	Gross wage per employee, real growth in %		
			Total	Private sector	Public sector
1999	3.9	4.2	3.3	3.2	3.7
2000	3.3	4.0	1.6	1.3	2.1
2001	2.2	3.0	3.2	2.3	5.1
2002	3.8	2.6	2.0	2.3	1.1
2003	2.9	3.5	1.8	2.1	0.7
2004	3.7	4.7	2.0	3.1	-0.8
2005	3.1	3.6	2.2	2.8	0.9
1999-2005	3.3	3.7	2.3	2.4	1.8
2006	3.4	4.1	2.4	3.0	1.0
2007	3.3	3.8	2.6	2.9	2.1
2008	3.1	3.6	2.8	3.0	2.0
2006-2008	3.3	3.8	2.6	3.0	1.7
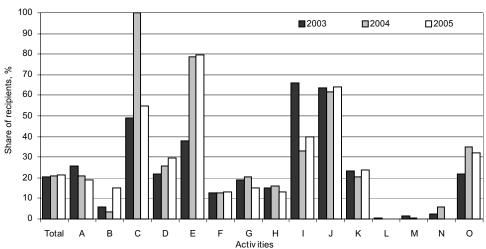
Source of data: SORS, calculations for labour productivity and gross wages per sectors by IMAD.

those employed by months saw the normal dynamics. Based on these data, the gross wage per employee rose in real terms by 2.3% in the January-September 2005 period compared to the same period the year before, whereas the preliminary data for this period had indicated 3.9% real growth.

The real gross wage per employee in **the private sector** *went up 2.8% on average in 2005, the most in the second quarter of the year.* It lagged 0.8 p.p. behind labour productivity in the private sector (value added per employee), which rose by 3.6%. Year-on-year, the real gross wage per employee grew the most in the second quarter (Q1 2.6 %, Q2 3.4 %, Q3 2.4 %, Q4 2.9 %), raising the level of the real gross wage and in turn also contributing to relatively high year-on-year growth in the third quarter. Further, economic activity was the most intensive in the second quarter of the year.
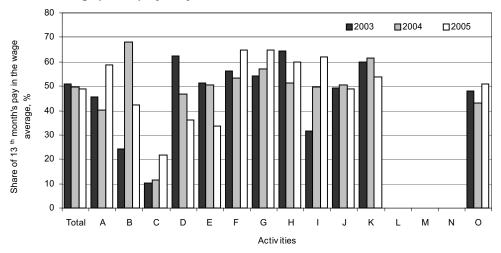
The movement in the number of **recipients of the 'thirteenth month's pay' or Christmas bonus** *and the level of these amounts have not changed as a result of the new methodology of recording wages, only the method of recording end-year payments has changed.* According to the new methodology, the November figures cover around 80% of all payments of the thirteenth month's pay and Christmas bonus, and the December figures include the remaining 20%, whereas in the past this ratio used to be around 50% for each month. The slightly rising number of the recipients of the thirteenth month's pay and Christmas Bonus relative to the total number of the employed has continued. In 2005, 21.6% of all the employed received the thirteenth month's pay or Christmas bonus in November and December together. In 2004, this figure was 21.1%, in 2003 20.6% and in 2002 18.7%. In the breakdown of the thirteenth month's pay recipients by activities, mining and quarrying (C), electricity, water and gas supply (E), transport (I) and financial intermediation (J) stand out the most.

Figure 15: **The share of recipients of the 'thirteenth month's pay' and Christmas bonus by activities, in %**

Quite the opposite tendency from the movement in the share of recipients has been observed in **the ratio of the average amount of the thirteenth month's pay and Christmas bonus to the average gross wage per employee,** *which has decreased.* In 2005, the average level of the thirteenth month's wage and Christmas bonus accounted for around 49% of the average gross wage. In 2004, this percentage was around 50%, in 2003 50.8% and in 2002 55.4%. In this period, the lowest relative level of this pay was recorded in mining and quarrying (C), an activity with the highest number of recipients of this bonus. The level of bonus has dropped the most in manufacturing (D), whilst it rose most notably in transport (I).

Figure 16: **Average level of the 'thirteenth month's pay' relative to the average gross wage per employee by activities, in %**

2005 was the second and also the last year when a special **adjustment mechanism** *was taken into account in the formation of wages in the private sector, as set out in the* **Wages Policy Agreement for the Private Sector for 2004 and 2005.** The social partners had agreed on the adjustment at activity level in the amount which should not be less than SIT 5,100. The adjustment percentage (instead of adjustment amount) may only be used in those activities for which collective agreements provided for a mechanism which applied to all wages (e.g. collective agreement in the cellulose, paper and paper-manufacturing activity). In the activities' collective agreements, the social partners could also agree on part of the rise in wages resulting from increased labour productivity, which should by no means be at the expense of the general guideline on the wage growth lagging behind labour productivity growth by at least 1 p.p.

There were several goals behind the introduction of the adjustment amount: (i) encouraging social dialogue at the level of activities; (ii) encouraging the reformulation of collective agreements in the part setting out the starting-level wage so as to form a new wage system with adjusted base gross wages (a similar solution

was adopted in the public sector new wage system); (iii) enabling the adjustment of the gross wages of all the employees, which has not been the case so far; and (iv) achieving a better distribution of wages in the private sector.

Such an adjustment method largely served its purpose. The first goal was met as the adjustment amount was agreed upon in all activities' collective agreements. The second goal is starting to be fulfilled as in many activities the social partners have reformulated collective agreements in the tariff part and transformed the starting-level wages into minimum base wages. So far, 10[45] out of 33 collective agreements have been adapted in this way. This is just the beginning of a new wage system aimed at solving the problems of the lowest starting level gross wages which are still mostly lower than the minimum gross wage. Solving this problem is one of the long-term goals set by the social partners in the 2003-2005 Social Agreement. The idea behind the uniform adjustment amount was the unions' intention to reduce the wage differences in the private sector. According to data for 2004 and preliminary data for 2005, the distribution of employees by the level of gross wages in the private sector has continued to deteriorate. The faster rising of high wages rather than low wages has led to a deteriorated ratio of the gross wage from the ninth decile to gross wage from the first decile (Table 14). In the last two years, the average gross wage per employee has risen slower than low wages and even slower than the highest wages, which has resulted in a lowering of the ratio of the gross wage from the median to gross wage from the first decile. This leads us to the conclusion that the adjustment mechanism is helping to narrow the span between the average and low wages, whereas it has no influence whatsoever on high wages.

Table 14: **Indicators of wage dispersion in the private sector, 2000-2005**

	2000	2001	2002	2003	2004	2005
9th decile/1st decile	3.22	3.30	3.23	3.32	3.28	3.31
median/1st decile	1.61	1.61	1.61	1.63	1.59	1.57
9th decile/median	2.00	2.05	2.01	2.04	2.07	2.10
Gini coefficient	0.293	0.294	0.286	0.289	0.286	0.287

Source of data: SORS, calculations IMAD.

The 2.7% adjustment percentage expressed in an amount for 2005 was agreed upon on the basis of the inflation forecast in the 2004 Spring Report. At that time, inflation for the period December 2004 – December 2005 was forecast at 2.9%. This forecast also served as a basis for defining the **safeguard clause,** stating that in case consumer prices rose by more than 2.9% the difference would be covered in the next adjustment of gross wages. But consumer prices, excluding alcohol and tobacco, rose by a mere 2.3% in the December 2004 – December 2005 period and were thus well below the safeguard threshold.

---

[45] Forestry A, Forestry B, Chemical-1, Chemical-2, Chemical-3, Metals industry, Electricity industry, Metal materials and foundries, Construction and Post.

In 2005, real **gross wage per employee in the public sector** *rose by 0.9%.* Year-on-year, real growth in the gross wage per employee was almost even in all quarters (Q1 0.5%, Q2 1.3%, Q3 0.8% and Q4 0.8%), except in the second quarter, when it was somewhat higher. Wages went up the most in the second quarter of the year, largely as a result of the 2% July wage adjustment agreed among the social partners in the Act Amending the Public Sector Wage System Act. Besides, July also saw a 3% increase in wages in education, as incorporated in the Annex to the Collective Agreement for Education. Promotions have a much more balanced effect on wage growth. The fulfilment of promotion terms is usually checked three times a year for those employees for whom three years have passed since the last promotion. Apart from promotions, growth in wages is affected by new employment, an increased volume of work, job performance etc. all of which are also evenly distributed throughout the year.

At the beginning of 2006, the **social partners started negotiations on a new social agreement** *which will also contain guidelines for wage policy in private and public sectors, since the agreement on wage policy for both sectors expired in 2005.* When negotiating on wage policy, the social partners will have to take account of the fact that Slovenia will enter the euro area in 2007. This means that the macroeconomic environment will have to be as stable as possible in 2006. For this purpose, wage policy should preserve the lagging of wage growth behind labour productivity growth although in the coming years this lag should gradually narrow. Bilateral negotiations on wage policy in the private sector only started in March 2006 and for the first time the government is not taking part in the negotiations, not even as an observer. Negotiations in the public sector have been underway, with the government part advocating a position that wage policy should be defined for the period up to 2009, when the elimination of wage disparities in the public sector is scheduled to be completed.

The **real gross wage per employee** *is foreseen to rise by 2.4%* **in 2006,** *of which wages in the private sector will rise by 3.0% and in public sector by around 1.0%.* Should labour productivity rise by the estimated 3.4%, gross wage growth per employee will lag behind it by 1 p.p. The real gross wage per employee **in the private sector** is seen to rise somewhat faster than in 2005, mostly thanks to the strengthening of economic activity this year. The foreseen rise in the gross wage per employee **in the public sector** is based on the assumption that the agreed adjustment percentage will be roughly the same as the anticipated inflation. This estimate predicts that only half of the adjustment percentage will be used for the general adjustment of wages, whereas the other half, which is earmarked for the elimination of disparities in the wages in public sector, will only be realised when wages start to be paid out pursuant to the new Public Sector Wage System Act. Further, it also takes account of the effect of promotions and a 3% rise of the gross wage per employee in education in July, as arising from the Annex to the Collective Agreement for Education.

In 2007, the **real gross wage per employee** *is foreseen to rise by 2.6%, of which wages in the private sector should be up by 2.9% and in the public sector by around 2.1%.* Should labour productivity rise by the estimated 3.3%, gross wage growth per employee will lag behind it by 0.7 p.p., which is in line with the medium term orientation according to which this lag should gradually narrow. Growth in the

gross wage per employee in the private sector will depend primarily on the economic situation, whereas in the public sector the social partners are scheduled to conclude negotiations and adopt the collective agreement for the public sector as well as all other collective agreements for individual activities and the supplementary documents by the end of 2006. Thus, conditions would be in place in early 2007 for the paying out of wages according to the Public Sector Wage System Act. That is why the forecast of growth in the gross wage per employee also takes into account – apart from the effects of general adjustment of wages and promotions – the use of funds earmarked for the elimination of wage disparities in the public sector.
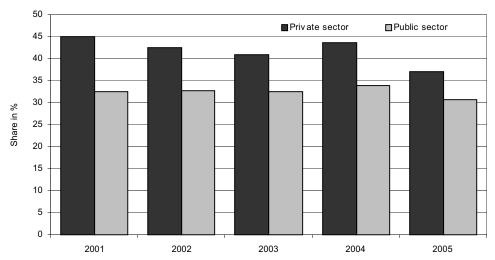
In 2008 the real gross wage per employee is anticipated to go up by 2.8%, of which wages in the private sector are expected to grow by 3.0% and in the public sector by 2.0%. Should labour productivity rise by the estimated 3.1%, gross wage growth per employee will lag behind it by 0.3 p.p. The assessment of the growth in the gross wage per employee in the public sector takes account of the fact that, apart from the half of the adjustment percentage, some additional funds will also be used for the elimination of wage disparities in the public sector. The social partners are still negotiating the level of these additional funds. The foreseen faster growth in the real gross wage per employee in the private sector than in the public sector is attributed to the effect of structural changes in the private sector. Employment requiring unskilled labour earning the lowest wages is gradually being reoriented to employment requiring a more qualified workforce, which consequently earns higher average wages. These structural changes will not be so expressed in the public sector as to affect the rise in gross wage per employee there.

The minimum wage for 2005 was set out in the Private Sector Wage Policy Agreement for 2004-2005 and has not yet been set for the coming period. In August 2005, the minimum wage rose by 5.1% to SIT 122,600. As the agreement expired, the mechanism for adjusting the minimum wage also no longer applies which means that the social partners will have to urgently agree on the system for establishing the level of the minimum wage. It could be set out by law, as proposed in the draft 2006-2009 Social Agreement, or by the social partners when agreeing on the wage policy in selected sectors.

Work-related allowances and other remunerations, payments based on contracts for work or services, and copyright contracts dropped in 2005 compared to 2004 as a consequence of the higher taxes imposed on these types of earnings. Work-related allowances and other remunerations dropped by 4.5%, while payments based on contracts for work or services, and copyright contracts plunged by 15.3%. The share of these earnings in the net wage bill dropped to 35.2%, after having soared to 40.6% in 2004 in anticipation of the changes to taxation. Thus, some of the payments foreseen for 2005 were in fact paid in 2004. Up to 2004, the proportion of this type of payments in the net wage bill was decreasing (in 2003, it was 38.3%, in 2002 39.6% and in 2001 41.2%). In 2005, the net wage bill increased by 1.5 p.p. more than the gross wage bill, which was a result of the new Personal Income Tax Act that eased the tax burden particularly on lower wages. Should the effects of this easing be excluded, the share of these payments in the net wage bill would be 0.5 p.p. higher in 2005 (35.7% instead of 35.2%), which would not affect the downward tendencies seen in the proportion of these earnings in the net wage bill.

The fluctuations of these earnings have been much more pronounced in the private than in the public sector. In 2005 their proportion in the net wage bill in the private sector was 37.1%, in 2004 it was 43.6%, in 2003 40.9%, in 2002 42.6% and in 2001 45.1%. The reaction to changes in taxation was not as strong in the public sector since here there is less flexibility of earnings and an increasing of this share is impossible because of public finance restrictions. In the last five years, their proportion has been quite stable at 30.7% in 2005, 33.8% in 2004, 32.6% in 2003, 32.8% in 2002 and 32.6% in 2001.

Figure 17: **The share of work-related allowances and other remunerations, payments based on contracts for work or services, and copyright contracts in the net wage bill in private and public sectors, 2001-2005**

7.2   Employment and unemployment

*Employment continued to rise for the second year in a row **in 2005**.* It rose by 0.7% according to all three measuring methods[46]. Employment (persons in paid employment) has continued to grow, as has the number of private individual entrepreneurs and own-account workers, whilst the number of farmers declined. In 2005, employment rose substantially more than the year before. It rose not only in the public but also in the private sector. After high growth in 2004, the average level of informal employment picked up further in 2005[47].

---

[46] I.e. the national accounts methodology, Labour Force Survey and monthly statistics based on the Statistical Register of Employment.

[47] People working as unpaid family members, people on work contracts and people working in the grey economy. Due to a lack of suitable data, the volume of informal employment is roughly estimated as the difference between the number of people in employment according to the survey and the number of formally employed people (employed and self-employed), as reported by the monthly SORS labour force statistics.

Table 15: **Annual growth rates by employment categories in the 2004-2008 period (in %)**

	2004	2005	2006	2007	2008
			forecast		
Employment according to national accounts methodology	0.4	0.7	0.8	0.6	0.8
Employment according to the labour force survey	5.1	0.7	0.3	0.2	0.5
Formal employment (SRE)	0.8	0.7	0.8	0.6	0.8
Persons in paid employment	0.3	1.0	0.9	0.8	1.0
- business sector (A:K)	-0.4	0.8	0.6	0.6	0.7
- public and personal services (L:P)	2.6	1.6	1.9	1.4	1.9
Formal self-employment	4.9	-1.9	-0.2	-1.1	-1.3
- individual private entrepreneurs	-0.6	1.1	-0.3	0.1	0.3
- own-account workers	2.1	1.3	2.4	2.6	2.4
- farmers	13.6	-6.4	-0.6	-3.6	-4.5
Informal employment (estimate)	41.7	0.5	-2.4	-2.2	-1.6

Source of data: SORS, forecast IMAD.

Employment continues to decline in agriculture and industry and to rise in services. In 2005, it increased the most in business and financial services and construction (see Table 13 in the Statistical Appendix), but it dropped by 1.9% in manufacturing, mostly in the textile and leather industries (by more than 10%) and also in other manufacturing activities. However, it picked up in the manufacture of other non-metals, manufacture of rubber and plastic products, manufacture of metals and metal products and above all in the manufacture of transport equipment (by as much as 7.3%).

The 2006-2008 period *is expected to see slightly higher growth in employment, mostly thanks to a continuation of favourable economic activity as well as the gradual easing of the tax burden on companies (abolition of payroll tax).* Some of the funds released from the gradual abolition of the payroll tax are expected to contribute to new employment, whilst another part may be earmarked for investment[48]. In 2006, a 0.8% rise in employment is anticipated, spurred on by accelerated economic growth and the partial reduction of the payroll tax. The positive effects of these measures are expected to strengthen in the coming years, in line with a further easing of the tax burden on the corporate sector which may in turn result in employing more highly educated people. Given the foreseen deceleration of economic growth in 2007, employment is seen to increase by 0.6% that year, only to rise again by 0.8% in 2008 thanks to the foreseen stronger effect of lifting the payroll tax on companies. Employment may also be affected by the proposed changes to the legislation pertaining to unemployment benefits and social assistance that is aimed at stimulating the activity of these beneficiaries.

---

[48] In the 2006-2009 period, during which payroll tax is scheduled to be gradually abolished, the private sector is estimated to »save« around SIT 109 bn, i.e. SIT 13 bn in 2006, SIT 20 bn in 2007, SIT 36 bn in 2008 and SIT 40 bn in 2009.

Productivity growth slowed down **in 2005**. *For this and next year, it is forecast to speed up somewhat, only to slow down again in 2008.* After high growth in 2004 (3.7%), productivity – expressed as gross domestic product per employed person by the national accounts methodology – rose by 3.1% in 2005. Cyclical fluctuations in productivity growth have been present since 2001 and have been caused by the delayed employment dynamics reaction to the dynamics of economic growth. Given the further reduction of employment, in industrial activities growth in productivity is anticipated to further fluctuate by around 6% yearly, whereas it is expected to be slower in services as this sector is likely to witness a further boost in employment. Thus, total productivity is expected to grow by 3.4% and 3.3% in **2006 and 2007,** respectively, whilst **in 2008** its growth is anticipated to slow down to 3.1%.

Survey unemployment picked up on average and the decline in average **registered unemployment** slowed down in **2005**. As a result of the slightly higher number of the working age population and further rising of participation rates, labour force measured by the Labour Force Survey (meaning supply in the labour market) rose by 0.9% in 2005. In addition to the number of people in employment, the number of unemployed job-seekers and the survey unemployment rate were also up. The number of the unemployed measured by the survey rose to 66,500 (up 3.9% from the year before), while the survey unemployment rate increased to 6.5%[49] (up 0.2 p.p. from the year before). The number of registered unemployed has continued to slowly decelerate. In 2005, it dropped on average by 1.0% (to 91,889). The registered unemployment rate fell by 0.1 p.p. to 10.2%.

In December 2005, the number of the registered unemployed was higher than in *December 2004, and the inflows and outflows were slightly less favourable than the year before.* Although the total inflow into registered unemployment was 1.2% smaller in 2005 compared to the year before, this was largely because of the much smaller inflow of first-time job-seekers. They counted 21,661 people (16.6% less than in 2004), whereas 67,183 people (7.0% more than 2004) lost their job or re-registered after an education programme, sick-leave or maternity leave. The inflow of people who lost their job because of the termination of fixed-term employment further increased since fixed-term employment remains the main type of employment and thereby the main cause of unemployment. It accounts for around one-third of the total inflow into unemployment and around half of the inflow into registered unemployment provoked by losing a job. The inflow into unemployment because of losing one's job is still higher than the outflow from unemployment due to finding one. In 2005, 53,857 registered unemployed people (0.7% less than the year before) found a job, of which 82.9% were for a fixed term. The outflow of the unemployed who found a job represented a mere 57.0% of the total inflow into registered unemployment in 2005. 35,243 people were deleted from the register for reasons other than finding employment (24.3% less than the year before), 3,457 people were entered in the register kept pursuant to other laws[50]. The number of the registered unemployed increased to 92,575 by December 2005, up by 2.0% from December 2004.

---

[49] IMAD calculations based on quarterly SORS data.

[50] The disabled – beneficiaries of the Pension Fund assistance who are registered at the Employment Service for at least two years and have in this period because of their disability and despite being sent to employers

According to the latest data, in March 2006 the number of the registered unemployed was again lower than in the same month last year, but largely due to more deletions from the register for reasons other than finding employment. In the first quarter of 2006, 9.4% more people were registered as unemployed than in the same period last year. There were more first-time job-seekers as well as more people who were made redundant. The outflow from unemployment due to finding a job in this period was 5.3% higher than in the same period last year, but still it was by almost two-fifths smaller than the total inflow into unemployment. Thus, by March 2006 the number of unemployed people dropped mostly as a result of deletions from the register, and they were not actually employed. Together with entries to the registers kept pursuant to other laws, the number of deletions soared by 65% from last year. In March, there were 91,363 unemployed people, 1.3% down from December 2005 and 1.0% down from March 2005.

For several years, unemployed women and people with a higher and university education have been increasing their shares in **the structure of the unemployed.** The share of women rose to 53.8% and the share of the highly educated to 7.6% in 2005 on average. Also the number of the unemployed with a higher and university education has increased as has the average duration of their unemployment. In 2005, they were 7,027 (4.6% more than the year before). After several years of decline, the number and proportion of the long-term unemployed and unemployed above 50 slightly increased in 2005. Nevertheless, the average duration of unemployment (1 year, 10 months and 7 days) was 17 days shorter than the year before. Further, the duration of the unemployment of under-skilled people shortened to 2 years, 5 months and 15 days, down by 33 days from 2004. On the other hand, the average duration of the unemployment of people with a higher or university education – which is usually shorter than for other groups of the unemployed – extended by 24 days from the year before to 13 months and 9 days. The number and proportion of the under-skilled unemployed have continued to decline.

As a result of the deletions from the unemployment registers, **the ratio of the registered unemployed to the survey unemployed** *has been narrowing for several years.* The number of the registered unemployed who, according to the survey criteria,

Table 16: **Typical groups of registered unemployed people (as a % of the average number of unemployed people)**

	2004	2005
Women	53.1	53.8
First-time job-seekers	25.2	24.3
Youth under 26	26.2	24.2
Higher and university education	7.2	7.6
Under-skilled	41.6	40.8
Unemployed for over a year	46.2	47.3
People over 50 years	21.0	22.7
Disabled	9.2	9.9
Recipients of unemployment benefits and assistance	24.0	25.4

Source of data: calculations by IMAD based on monthly data from the Employment Service of RS.

are not considered unemployed because they either work occasionally, do not seek employment or are not prepared to accept it, dropped. Thus, this ratio lowered from the relatively stable 1.6 registered unemployed per 1 survey unemployed in the past decade to 1.38 in 2005.

Regional disparities in unemployment *continued to slightly narrow.* Also in 2005, the highest registered unemployment rate was recorded in the Pomurska region (17.1%), even slightly up from the year before and exceeding Slovenia's average by almost 70%. The lowest rate was recorded in the Goriška region (6.5%, or 64% of the Slovenia's average). The difference between the two regions thus widened, but the variation coefficient – an even better indicator of regional disparities[51] than the ratio of the two regions with extreme values – dropped by 0.3 p.p. in 2005. This has been the lowest drop in this coefficient since 2000. In most regions, the number of redundant workers[52], the unemployed above 50, unemployed women and the unemployed with a higher or university education increased in 2005. On the other hand, the proportion of under-skilled and youth unemployment narrowed. Long-term unemployment increased in more than half of the regions, including those regions with the highest share so far, and a solid half of the unemployed fails to find a job in more than a year's time.

In the next few years, the unemployment rate *will remain high, taking into account the growth in the population as foreseen in the SORS' projection (so far, the IMAD's own projections were used).* Because of the high supplementary activity of students, the rate of activity of youth is projected to only slowly decrease. The effects of the pension reform aimed at increasing the retirement age will lead to higher activity of the elderly. As the size of the population will increase (as projected by the SORS), the number of the active population (i.e. supply in the labour market) is projected to rise faster than the number of jobs (demand in the labour market), which might lead to a rise in survey unemployment in the next years. According to the IMAD's forecasts, it will rise to 6.6% in 2006, and to 6.7% in 2007 and 2008[53]. At the same time, the employment rate is also foreseen to increase to 66.0 % in 2006, 66.2% and 66.6% in 2007 and 2008. The registered unemployment rate will further decline on account of those unemployed who do not seek employment or are not prepared to take a job (to 9.8%, 9.6% and 9.3%, respectively).

The number of job vacancies and realised employment *positions has surged.* In 2005, the number of vacancies was up by 19.9%, and the number of realised employment positions by 12.8 %, and this trend continued in the first quarter of 2006 with even higher rates than in the same period last year. As a result of the prevalence of fixed-term employment and repeated vacancy announcements during the year, the number of job vacancies for people with a low or secondary education

---

[51] The variation coefficient is the ratio between the standard deviation and the arithmetic mean, while taking due account of the various sizes of the regions.

[52] Unemployed people whose employment was terminated because the need for work in the company has ceased permanently.

[53] The unemployment rate will be lower (only slightly higher than projected last autumn on the basis of the IMAD's own population projection), if the actual size of Slovenia's population is lower than the number projected by the SORS, which foresees a relatively high annual net migration figure (6,000 people per year).

is increasing the fastest. As for realised employment, employing people with a higher or university education is rising faster.

The unemployed-to-job vacancies ratio *has improved.* In 2005, there were on average 5.4 unemployed people per one vacancy (in 2004 6.6). An improvement has been recorded in particular in the groups of the unemployed with a low or secondary education. There were still on average 7.5 under-skilled unemployed per vacancy (in 2004 9.4), and 5.2 unemployed with vocational or secondary education per vacancy (in 2004 6.4). The number of the unemployed with a higher or university education per vacancy (2.5) was just slightly lower than the year before (2.6).

8   Public finances

8.1   General government sector revenues, expenditures and deficit in the 2000-2005 period

In addition to the revised data on the current deficit and debt of the general government sector[54] based on the methodology of the European System of Accounts (ESA-95), the Statistical Office of the Republic of Slovenia also published a comparable data series for the key categories of general government sector revenue and expenditure for the 2000-2005 period[55], which are presented below.

The 2000-2005 period was marked by a gradual increase in **the share of the total general government sector's revenue in GDP**. It picked up by 1.2 p.p. from 44.3% in 2000 to 45.5% in 2005. The share of current taxes on income and wealth rose the most (by 1.1 p.p.), mostly because of a faster rise of corporate income tax caused by the new definition of the tax base and lowered tax relief in the new corporate income tax legislation. The share of taxes related to production and imports in GDP was stable at around 16.3% of GDP, while the decline in revenues from customs duties resulting from the implementation of free-trade agreements and the accession agreement was offset by higher revenues from value-added tax and excise duties (thanks to a rise in their rates). The share of social contributions in GDP averaged out at 15% of GDP in this period. The share of revenues from market sales of goods and services in GDP dropped (by 0.4 of a p.p.), and the share of current transfers rose, after 2004 mostly thanks to the inflow of EU funds.

On the other hand, **the share of the total general government sector's expenditures in GDP** *dropped by 0.8 structural points, although this has only been a recent achievement* (from 48.1% of GDP in 2003 to 47.3% of GDP in 2005). Throughout the whole period (2000-2005) the fall in the share of total expenditures largely resulted from a drop in the share of capital transfers (0.8 p.p.), which initially included, apart from other investment support, war damages and the Slovenian Railways' debt. The savings measures of the state led to a drop in the share of expenditures for intermediate consumption (down by 0.5 of a p.p.); the cutting of interest rates and lower inflation resulted in a smaller proportion of expenditure for property income (down by 0.9 p.p.). The share of expenditure for social benefits in cash and in kind remained unchanged (19.0% of GDP). On the other hand, the share of expenditure for the compensation of employees rose (by 0.5 p.p.), mostly due to increased employment, as did the share of expenditure for subsidies (by 0.1 p.p.) and for other current transfers (by 0.6 p.p.), the latter mostly due to payments to the EU budget following the accession. The share of expenditures for capital formation picked up only modestly in this period (by 0.2 p.p.), but given the drop in the share of capital transfers (by 0.8 p.p.) the percentage of publicly financed investment in GDP actually shrank.

---

[54] In addition to the national (state) and local government budgets, compulsory health insurance, pension and disability insurance, the general government sector institutionally includes public funds, including the KAD (Slovenian capital company), SOD (Slovenian compensation company), public institutions and public agencies.

[55] Data on the general government sector's revenue and expenditure are taken from latest SORS publication: Main Aggregates of General Government (First Release) dated 31 March 2006.

Table 17: **General government sector revenue and expenditure in 2000-2005, as %
of GDP**

	2000	2001	2002	2003	2004	2005
Total general government sector revenue	**44.3**	**44.7**	**45.4**	**45.2**	**45.3**	**45.5**
Market sales of goods and services	3.2	3.1	3.3	3.1	2.9	2.8
Taxes on production and imports	16.3	16.1	16.4	16.6	16.2	16.2
Property income, receivable	0.9	0.9	0.9	0.9	0.7	0.9
Current taxes on income, wealth	7.5	7.6	7.9	8.2	8.4	8.6
Social contributions	15.0	15.2	15.1	15.0	15.0	15.2
Other current transfers, receivable	1.3	1.5	1.6	1.4	1.8	1.5
Capital taxes	0.1	0.1	0.1	0.0	0.1	0.0
Capital transfers	0.1	0.1	0.1	0.1	0.1	0.2
Total general government sector expenditure	**48.1**	**49.0**	**48.0**	**48.1**	**47.6**	**47.3**
Intermediate consumption	6.8	6.8	7.0	6.5	6.3	6.3
Compensation of employees	11.6	12.2	12.0	12.1	12.0	12.1
Other taxes on production	0.5	0.5	0.5	0.5	0.5	0.6
Subsidies	1.5	1.5	1.3	1.7	1.6	1.6
Property income, payable	2.5	2.5	2.4	2.1	1.9	1.6
Social benefits in cash and in kind	19.0	19.1	19.1	19.1	18.9	19.0
Other current transfers, payable	1.3	1.7	1.5	1.2	1.8	1.9
Capital transfers, payable	1.8	2.1	1.2	1.5	1.2	1.0
Capital formation	3.1	3.2	3.0	3.3	3.4	3.3
Acquisition less disposals of non-produced non- financial assets	0.0	-0.6	0.0	0.0	-0.1	-0.1
Net lending (+), net borrowing (-) Revenue less expenditure	**-3.9**	**-4.3**	**-2.7**	**-2.8**	**-2.3**	**-1.8**

Source of data: SORS, First release, No. 82/2006, 31 March 2006, Main Aggregates of General Government, 2000-2005.

After Slovenia's accession to the EU, the **rules of the Stability and Growth Pact**
*have also applied to Slovenia, according to which an excessive deficit procedure is
initiated if the ratio of general government deficit to GDP exceeds 3%.* Twice a
year, Slovenia submits to the European Commission its Report on the Government
Deficit and Debt – a report on the public finance situation of a member state within
the framework of the excessive deficit and debt procedure. The report draws on the
ESA-95 methodology which has to be used by all member states. The 3% government
deficit – the reference value for excessive deficit procedure – is at the same time
one of the Maastricht convergence criteria, which Slovenia has to meet in order to
enter the EMU (foreseen for early 2007). In the 2002-2005 period, Slovenia met
this criterion and the same is also expected for 2006.

With the aim of further harmonising with the ESA-95 methodology, the **SORS makes
a revised estimate of the current government sector deficit each year.** This year's
revision thus systematically included guarantees while the conversion of claims
into the state's equity shares was recorded as a capital transfer. The calculations
were also corrected so as to take into account changed interest rates with the Slovenian

compensation company (SOD) resulting from higher assessments of the total number of bonds to be issued to beneficiaries of the denationalisation process by 2008.

According to the latest SORS estimate, the government sector deficit in the 2000-2004 period was on average annually 0.2 p.p. of GDP higher than the government sector deficit that was published last year. The difference was highest in 2001 when the ratio of the deficit to GDP was according to the latest estimate 0.4 p.p. higher (4.3% of GDP) and in 2004, when the ratio of the deficit to GDP was 0.3 p.p. higher (2.3% of GDP).

Table 18: **The general government sector deficit by sub-sectors according to the ESA-95 methodology, as a % of GDP**

	2000	2001	2002	2003	2004	2005
General government sector deficit	**-3.9**	**-4.3**	**-2.7**	**-2.8**	**-2.3**	**-1.8**
Of which:						
Central government	-3.4	-4.0	-2.4	-2.6	-2.2	-2.8
Local government	0.0	0.0	-0.2	-0.1	-0.1	0.2
Social insurance funds	-0.5	-0.2	-0.1	-0.1	-0.1	0.8

Source of data: SORS, First release, No. 82/2006, 31 March 2006, Main Aggregates of General Government.

In 2000 and 2001, **the ratio of the government sector deficit to GDP** *stood at 3.9% and 4.3%, respectively, but it gradually declined in the four years that followed.* The drop in the deficit by 2.1 p.p. in the 2000-2005 period was achieved thanks to increasing revenues (by 1.2 p.p.) as well as cutting expenditures (by 0.8 p.p.).

8.2   Current public finance trends

The analysis of the general government sector's revenues and expenditures by the national accounts methodology provides an overall insight into the economic role of the state. In order to be able to pursue the public finance policy through its principal instruments, Slovenia also monitors, analyses and plans its public finance flows by using the national methodology based on the International Monetary Fund's GFS methodology. This methodology is based on the cash flows principle and has so far been used for surveying, implementing and planning the revenues and expenditures of the central budget, local budgets and both social insurance funds. The more detailed analysis and forecasts of general government revenues and expenditures set out below is thus based on the IMF's GFS methodology.

8.2.1 General government revenues (mandatory levies)

The changes in the taxation system and its instruments introduced in 2005 together *with the macroeconomic environment affected the amount and structure of general government revenues.* The new Personal Income Tax Act and Corporate Income Tax Act entered into force, the alignment of excise duties on tobacco and tobacco products with the EU directives continued as did the adjustment of excise duties on

mineral oils to the world oil prices, which helped Slovenia meet its anti-inflationary goals. The higher threshold of payroll tax introduced in September 2004 was applied throughout the year, moreover, new legislation was adopted laying down the gradual abolition of this tax by 2009. The tax on the balance sheet total of banks and savings banks was abolished in 2005.

In 2005, total mandatory levies rose in real terms by 3.9% compared to 2004, *increasing their share in GDP by 0.6 of a structural point to 40.1% of GDP*[56]. Revenues from **value-added tax** rose faster than GDP, increasing their share by 0.7 p.p. to 9.3% of GDP. Growth in revenues from **excise duties** slowed down in 2005 (in real terms 3.2 %) and accounted for the same share of GDP as in the year before (3.5% of GDP). The taxation legislation amended in 2005 put a lid on the growth in revenues from taxes and contributions tied to wages. Revenues from **social security contributions** rose in real terms by 3.6%, raising their share in GDP to 14.4% (up by 0.2 p.p. from 2004). The changed personal income tax legislation resulted in revenues from **personal income tax** growing by a mere 0.7% in real terms compared to 2004, accounting for 6% of GDP, down 0.1 of a structural point from 2004. The raising of the threshold of **payroll tax** slowed the growth in revenues from this source (4.5% in real terms). The progressive character of this tax, however, contributed to a slightly higher average burden of this tax (from 5% in 2004 to 5.1% of total gross wage bill in 2005). As a consequence of the amended **corporate income tax** legislation (newly defined tax base and more modest tax relief), revenues from this tax soared in real terms in 2005 (by 11.7%), also boosting their proportion in GDP from 2% in 2004 to 2.2% in 2005. **Customs duties and import taxes** were a negligible source of budgetary revenues in 2005 (0.1% of GDP). With its accession to the EU, Slovenia has become entitled to draw **EU funds.** In 2005, these funds accounted for 1.1% of GDP (also see Chapter 8.3).

Given the foreseen macroeconomic environment and the taxation system and instruments in place, the **share of mandatory levies in GDP** *is expected to drop to below 40% in the* **2006-2008 period.** The percentage of mandatory levies in GDP is expected to go down from 40.1% in 2005 to around 39.8% in 2006, then to 39.5% in 2007 and 38.8% in 2008. The revenues from **value-added tax and excise duties** are forecast to rise in line with GDP growth. As a result of the novelty introduced for some taxpayers in 2005 (the possibility to calculate tax on the basis of payments), the share of revenues from this source in GDP might drop slightly in 2006 (by 0.1% of GDP). In 2007 and 2008 their level is expected to be preserved at around 12.8% of GDP. The revenues from **social security contributions** are expected – in case of contribution rates remaining the same – to rise in line with the rise in total gross wage bill, which is foreseen to lag behind GDP growth in the 2006-2008 period. The rise in the gross wage per employee is seen to further lag behind the rise in productivity, while the number of wage recipients is also expected to rise relatively modestly (0.9% in 2006, 0.8% in 2007 and 1.0% in 2008). The proportion of social security contributions in GDP is expected to shrink from 14.4 % in 2005 to 14.3% in 2006 and to 14.1% in 2007 and 2008. After the drop in the share of revenues

[56] Despite the same rates of real GDP and mandatory levies growth (3.9%), the share of these levies in GDP rose in 2005 as a result of a lower implicit deflator of GDP (101.0) than for the consumer price index (102.5), which is used as a deflator for calculating the real values of mandatory levies.

from **personal income tax** in GDP in 2005, caused by the amended personal income tax legislation, it is expected to stabilise at around 6% of GDP in the 2006-2008 period. The gradual abolition of **payroll tax** by 2009 is expected to lead to a gradual narrowing of the share of revenues from this source in GDP, from 1.8% in 2005 to 1.6% in 2006, 1.2% in 2007 and to 0.6% in 2008. **Revenues from corporate income tax** are expected to go up slightly faster than economic growth in the 2006-2008 period as the effective tax rate is expected to rise because of the amended legislation in the area of investment relief and an unchanged tax rate. The share of revenues from this source in GDP is anticipated to rise from 2.2% in 2005 to around 2.4% in 2006 and to 2.6% in 2007 and 2008. According to the 2006 and 2007 state budgets, the **EU funds** which Slovenia may draw in 2006 should account for 1.5% and 1.3% of GDP in 2006 and 2007, respectively.

8.2.2 General government expenditures

National budget

In 2005, national budget expenditures, *including contributions to the EU budget, accounted for 26.3% of GDP, up 0.8 of a structural point from 2004.* Without the contributions to the EU budget, national budget expenditures accounted for 25.3% of GDP, up by 0.5 of a structural point from 2004. National budget expenditures were SIT 53.3 bn lower than foreseen in the revised budget and totalled SIT 1,722 bn, i.e. in real terms they were up by 7.9% from 2004 including contributions to the

Table 19: **The structure and share of national budget expenditures in GDP by economic classification, in %**

	Structure in %				As % of GDP			
	2004	2005*	2006**	2007 **	2004	2005*	2006**	2007**
TOTAL NATIONAL BUDGET EXPENDITURES	100.0	100.0	100.0	100.0	25.5	26.3	26.7	26.3
Current expenditure	28.4	27.3	27.1	27.4	7.3	7.2	7.2	7.2
Of which:								
Wages and other personnel expenditure in government bodies	13.4	13.0	12.5	12.3	3.4	3.4	3.3	3.2
Expenditure on goods and services in government bodies	9.0	8.6	9.3	9.5	2.3	2.2	2.5	2.5
Domestic and external interest payments	5.5	5.1	4.5	4.3	1.4	1.3	1.2	1.2
Current transfers	60.3	60.7	58.4	57.6	15.4	15.9	15.6	15.2
Of which:								
Subsidies	4.6	4.9	5.1	5.1	1.2	1.3	1.4	1.3
Transfers to individuals and households	13.5	13.0	11.8	11.3	3.4	3.4	3.2	3.0
Transfer to public institutions	21.5	21.2	20.5	20.4	5.5	5.6	5.5	5.4
Transfers to the pension fund	15.0	15.0	14.6	14.8	3.8	3.9	3.9	3.9
Capital expenditure and transfers	8.7	8.1	10.4	10.5	2.2	2.1	2.7	2.8
Contributions to the EU budget	2.5	4.0	4.1	4.5	0.7	1.0	1.1	1.2

Sources of data: Ministry of Finance, SORS, GDP projections and calculations of shares by IMAD.
Notes: *Preliminary data. **According to the adopted national budget.

EU budget, or by 6.3% if these contributions are not included. In 2005, the share of contributions to the EU budget in GDP increased the most compared to the year before (0.3 p.p.), as they only started to be paid upon EU accession in 2004; they were followed by the share of transfers to municipalities (0.2 p.p.), expenditure on goods and services in government bodies and public institutions, subsidies, and transfers to the pension fund (each by 0.1 p.p.). On the other hand, the share of capital expenditures and transfers and the share of interest payments in GDP each dropped by 0.1 of a structural point in 2005. The share of transfers to individuals and households and the share of expenditure on wages and other personnel expenditure in government bodies and public institutions in GDP also preserved the 2004 levels in 2005.

The planned national budget expenditures for 2006 total 26.7% of GDP. The national budget expenditures in 2006 have been proposed at SIT 1,857.9 bn, which is in nominal terms 7.9% more than the realised national budget expenditures in 2005.

The national budget expenditures planned for 2007 total 26.3% of GDP. The national budget expenditures are expected to amount to SIT 1,954.2 bn in 2007, up 5.2% in nominal terms from 2006.

Local government budgets

In 2005, the share of local government budgets' expenditure in GDP remained the same as in 2004 (5%). Preliminary data indicate that local government budgets' expenditure totalled SIT 328 bn, up by 5.5% from the year before. Expenditures on transfers to individuals and households, and capital expenditure and transfers rose faster than total expenditure, whereas the other expenditures of local budgets saw a slower rise.

In 2006 and 2007, local budget expenditures are planned to account for 5.2% and 5.5% of GDP, respectively. In 2006, local budget expenditures are anticipated to grow faster than gross domestic product. This may be attributed to the establishing of new municipalities as well as to the Amended Act on Financing Municipalities (adopted in October 2005), which lifted the permitted level of their borrowing. Also in 2007, local government budgets are foreseen to grow faster than gross domestic product which will contribute to a further boost of the share of local budget expenditures in GDP. Growth in capital expenditures and transfers is seen to strengthen in both years.

Pension and disability insurance

In order to implement the rights laid down in the Pension and Disability Insurance Act (excluding contributions for the health insurance of pensioners), 2.6% more funds were used in real terms in 2005 compared to 2004. They accounted for 12.3% of GDP (0.1 of a structural point more than the year before). Taking account of the present legislation – which foresees the adjustment of the rise in pensions with the rise in wages per employee – and the macroeconomic forecasts, the expenditure on pension and disability insurance is expected to retain the 12.3% share in GDP in

2006, 2007 and 2008. This takes into account the further reduction of the accrual rate (laid down in the law) and the anticipated rise in the number of beneficiaries by 1.7% in 2006, 1.5% in 2007 and 1.7% in 2008.

Compulsory health insurance

In 2005, expenditure on compulsory health insurance was 0.7% higher in real terms than the year before and accounted for 6.4% of GDP (down by 0.1 p.p. from the year before). Although the statutory rights arising from compulsory health insurance did not change essentially in 2005, many activities were undertaken to curb expenditure on medicines and to rationalise the implementation of health-care programmes. Nevertheless, expenditure on health services rose in real terms by 1.6% in 2005 compared to 2004, and expenditure on medicines by 4.6% in real terms. After many years of strong growth (in real terms by 4.4% in 2004), expenditure on sickness benefits dropped in 2005 in real terms by 1%.

In the 2006-2008 period, the share of compulsory health insurance expenditure in GDP is expected to retain the 2005 level (6.4% of GDP). According to the financial plan adopted by the Health Insurance Institute for 2006, funds in compulsory health insurance are expected to amount to SIT 443 bn, up by 3.6% in real terms (5.7% in nominal terms) compared to 2005. Such a programme will require accelerated activities to further rationalise expenditure in compulsory health insurance in 2006. Estimates for 2007 and 2008 indicate that expenditure on compulsory health insurance will grow in line with GDP growth and preserve the anticipated 2006 share in GDP.

Box 8: **Breakdown of the general government deficit**

Thanks to favourable economic developments and lower expenditure than planned in the revised budget, 2005 recorded a drop in the actual and structural general government deficit.[57] This year as well as next year, the forecast growth in gross domestic product is expected to slightly exceed its potential growth, which is why the cyclical general government surplus is expected to be achieved in the 2006-2008 period. Nevertheless, the structural deficit is seen to deteriorate by almost 0.5 p.p. of GDP in 2006 compared to 2005. This would imply a more expansive fiscal policy, which is in contradiction with the government's goals in this area. It should also be noted that the calculation of the structural deficit is based on the adopted 2006 and 2007 budgets, which still do not take into account the actual realisation of revenues and expenditures in 2005. The foreseen narrowing of the structural deficit in the coming period may thus only be achieved if underpinned by structural reforms leading to the cutting of general government expenditures.

---

[57] The breakdown of the general government deficit presented in this box is based on the national methodology (GFS – International Monetary Fund methodology). Thus, the figures are not comparable with the data on the general government deficit by the ESA-95 methodology presented in Chapter 8.1.
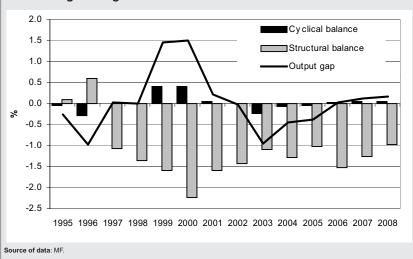
Table 20: **Cyclical and structural general government surpluses/deficits, as a % of GDP**

	Actual surplus/deficit	Cyclical surplus/deficit	Structural surplus/deficit
2000	-1.81	0.42	-2.23
2001	-1.55	0.04	-1.59
2002	-1.43	-0.01	-1.43
2003	-1.35	-0.25	-1.10
2004	-1.37	-0.08	-1.28
2005	-1.09	-0.06	-1.03
2006	-1.50	0.02	-1.52
2007	-1.22	0.05	-1.27
2008	-0.91	0.06	-0.97

Source of data and calculations: MF.
Note: The general government deficit is calculated using the national methodology based on the GFS - International Monetary Fund methodology. For the sake of the correctness of calculations, the fiscal year is levelled with the calendar year.

Figure 18: **Output gap and cyclical and structural components of the general government deficit**

Source of data: MF.

8.3 Public finance flows between Slovenia and the EU

In the first two years of its EU membership, Slovenia has been a net recipient of EU funds. All financial flows between Slovenia (national budget and funds allocated to other institutions) and the EU budget in 2004 are presented in this report, whereas for 2005 there are only data on the flows between the Slovenian budget and the EU budget.

8.3.1   Financial flows between Slovenia and the EU budget in 2004

According to the European Commission's data, Slovenia was allocated SIT 67.4 bn from the EU budget in 2004. In that year, Slovenia received most EU funds under the heading 'compensation for new member states', amounting to SIT 25.2 bn or 37.3% of total funds. Further, Slovenia was allocated SIT 13.9 bn or 20.6% of funds for internal policies, of which the largest amount (SIT 9.6 bn) went for co-operation in the Schengen facility programme aimed at financing the activities for a set up of the new external EU border, and the rest to the research, technological development and education (the Socrates, Leonardo da Vinci and Youth programmes). Slovenia received SIT 11.8 bn or 17.5% of funds for agriculture, most of which were used for rural development (99.8%). A further SIT 9.4 bn or 13.9% was used for the pre-accession strategy, and SIT 5.8 bn or 8.7% came from structural funds. 97.5% of structural funds were spent for realisation of 1st objective and were allocated by the European Regional Development Fund. In 2004, Slovenia received no funds from the Cohesion Fund (Allocation of 2004 Expenditure by Member State, 2004, pp. 72-73).

Figure 19: **Structure of EU budget funds to Slovenia in 2004**

Source of data: Allocation of 2004 Expenditure by Member State 2004, pp. 72-73.

*In 2004, **Slovenia contributed** SIT 40.8 bn (0.7% of GDP) **to the EU budget,** or SIT 4.2 bn less than planned in the 2004 budget.* As much as SIT 28.0 bn or 68.6% was paid from under the gross national income; a further SIT 6 bn or 14.7% from value-added tax; SIT 3.9 bn or 9.4% was paid out of the payments for the 'UK correction (rebate)'; and SIT 2.9 bn or 7.2% from traditional own sources[58] (Allocation of

---

[58] New member states started to fulfil their obligations to the EU budget immediately upon their accession (1 May 2004). The traditional own resources (customs duties, agricultural duties and sugar levies) are paid with a two-month delay and were thus first paid in July 2004. Payments of sugar levies, which are part of traditional own resources, were first paid in 2005.

2004 Expenditure by Member State, 2004, p. 118). Compared to the 2004 budget, all the payments except for the UK rebate were realised at a somewhat lower level than planned, mostly because of the transfer of the 2003 surplus of the EU budget to the 2004 budget, as well as because of the differences between the preliminary and final assessments of the nominal gross national income.

In 2004, Slovenia was a net beneficiary of funds from the EU budget according to both the accounting definition and the 'UK correction'[59] definition. According to the former calculation, Slovenia was a net recipient of funds in the amount of SIT 26.6 bn while, according to the latter, the net balance was SIT 26.3 bn. Slovenia was thus a net beneficiary of EU funds together with other new member states and Spain, Greece, Ireland and Portugal.

8.3.2 Financial flows between Slovenia's budget and the EU budget in 2005

*According to the Ministry of Finance, Slovenia received a mere 63% of the funds foreseen in the revised 2005 budget **from the EU budget in 2005**.* According to the revised budget, Slovenia first planned to draw SIT 115.9 bn (1.8% of GDP), but eventually this figure stood at SIT 73 bn (1.1% of GDP). Of these funds, SIT 26.8 bn or 36.7% were earmarked for implementing the common agriculture policy[60];
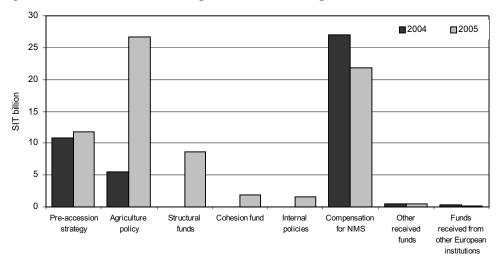
Figure 20: **Inflows from the EU budget to Slovenia's budget in 2004 and 2005, in SIT bn**

Source of data: MF, calculations by IMAD.

---

[59] There are several methods of calculating the net budgetary position of a member state: (i) the accounting method is based on a calculation of the difference between total revenues and expenditures of a member state in the EU budget; (ii) the second method is used by the European Commission and is based on the calculation of the 'correction of budgetary imbalances in favour of the UK'. The European Commission's net position thus uses data on the basis of cash flows, current allocated expenditures (i.e. expenditure excluding administrative expenditure, which totalled SIT 1.3 bn for Slovenia in 2004), whereas the national payments are calculated on the basis of the adjusted national contribution.

[60] SIT 11 bn for less favoured areas, SIT 6 bn for direct payments in agriculture and SIT 4.4 bn for Slovenia's agro-environmental programme.

SIT 21.8 bn[61] or 29.9% of total funds came under the heading of lump-sum payments; pre-accession funds amounted to SIT 11.8 bn[62] or 16.2% of total funds; SIT 11.9 bn or 16.4% of total funds were earmarked for structural, cohesion and internal policies (see Table 21).

In 2005, **Slovenia contributed** *SIT 68.4 bn or 1.0% of GDP* **to the EU budget,** *which was SIT 4.7 bn less than planned in the revised 2005 budget.* The realised payments under all headings were below those planned, except for the payments from customs duties which were realised at a higher level than planned. The major share of funds was paid from the gross national income, i.e. SIT 45.6 bn or 66.7% of total funds; SIT 10.5 bn or 15.4% of funds was paid from the value-added tax; SIT 6.7 bn or 9.9% from traditional own resources, and the UK rebate payment totalled SIT 5.5 bn or 8.1%.

In 2005, the net budgetary surplus of financial flows between the EU budget and Slovenia's budget *accounted for a mere 10.6% of the planned surplus.* According

Table 21: **Net position of Slovenia's budget vis-à-vis the EU budget in 2004 and 2005, in SIT million**

	Realisation of the 2004 budget	Revised 2005 budget	Realisation of the 2005 budget	Realisation of the revised 2005 budget, in %	Structure for 2005, in %
Inflows from the EU budget to Slovenia's budget					
EU pre-accession funds	10,871.9	13,856.4	11,827.1	85.4	16.2
Implementation of CAP	5,505.1	27,334.0	26,755.9	97.9	36.7
Structural policy	0.0	26,781.6	8,603.6	32.1	11.8
Cohesion policy	0.0	10,169.8	1,845.0	18.1	2.5
Internal policy	0.0	15,595.4	1,500.9	9.6	2.1
Lump-sum payments	27,023.7	22,164.4	21,811.2	98.4	29.9
Other funds from the EU budget	411.2	-	527.2	-	0.7
Funds from other European institutions	245.7	-	94.0	-	0.1
Total inflows from the EU budget	44,057.6	115,901.6	72,964.9	63.0	100.0
Payments to the EU budget from Slovenia's budget					
Traditional own resources	2,953.1	6,895.9	6,742.1	97.8	9.9
Value added tax	6,015.6	10,550.4	10,524.9	99.8	15.4
Gross national income	27,799.8	49,544.6	45,620.9	92.1	66.7
Funds related to UK correction (rebate)	3,868.3	6,150.5	5,549.4	90.2	8.1
Total payments to the EU budget	**40,636.8**	**73,141.4**	**68,437.3**	**93.6**	**100.0**
Net position of Slovenia's budget to the EU budget - accounting definition	*3,420.8*	*42,760.2*	*4,527.6*	*10.6*	*-*

Source of data: MF, calculations by IMAD.

---

[61] SIT 17 bn for budgetary balancing and SIT 4.8 bn for strengthening money flows.

[62] SIT 8 bn for the PHARE programme, SIT 2.2 bn for the ISPA programme and SIT 1.5 bn for the SAPARD programme. Slovenia was most efficient in drawing funds under the SAPARD programme since more funds were drawn than foreseen in the revised budget.

to the revised 2005 budget, Slovenia was foreseen to generate net budgetary surplus with the EU budget in the amount of SIT 42.8 bn, whilst the surplus eventually totalled SIT 4.5 bn. In all months of 2005, except August and December, Slovenia's net budgetary position was negative; the positive position recorded at the end of the year thus largely resulted from: less funds being paid to the EU budget than planned; the efficient drawing of funds for the common agricultural policy; the lump-sum payments; and the differences between preliminary and final assessments of the nominal gross national income. This shows that Slovenia's absorption capacity is still poor and needs to be further improved in the coming years.

8.4   Long-term sustainability of public finances

Assessing the public finance position of a country is a permanent task of its national authorities. Based on the sustainability assessment, they decide through the political process on its priority tasks and measures. Besides, the public finance position is also regularly checked by the international financial institutions, in particular the International Monetary Fund and the World Bank. The major international institutions also use this assessment in their estimation of country risks.

The projections of public finance sustainability within the Stability and Growth Pact extend over a longer period of time. In addition to its explicit and non-contingent liabilities, each country also has a number of implicit and contingent liabilities[63]. The assessment of the sustainability of public finances in the current and short-term period may thus differ from the assessments over the long run. Very important for the long-term assessment are the data on implicit non-contingent liabilities and contingent explicit liabilities. The expenditures related to the ageing of population most crucially affect public spending in this regard.

There is no uniform and theoretically indisputable definition of long-term sustainability. This is why the European Commission and the Council in their projections use a pragmatic definition, according to which the public finance position of a country is sustainable if a member state – based on its current policies and forecast budgetary trends – (i) meets long-term public finance budgetary limitation, i.e. the discounted value of the future general government revenues is balanced

---

[63] **Non-contingent** (the existence of government obligations does not depend upon particular events) **explicit** (government obligations have a legal basis) **liabilities** are: (1) government debt, (2) government expenditures as set out in the budget, (3) provisions (e.g. clearly defined accrued pension rights not backed by a fund).
Non-contingent implicit liabilities (government obligations have no legal basis and arise as a consequence of expectations created by past practice or pressures by interest groups) are: (1) future welfare payments (pension payments related to pension rights which have not matured yet, future health care payments, etc.), (2) future government expenditures related to recurrent operations (e.g. capital stock refurbishment etc.).
Contingent explicit liabilities (the existence of obligations depends upon the realisation of particular events) are: (1) government individual guaranties on the debt issued by public and private entities, (2) government umbrella guaranties (e.g. on household mortgages etc.), (3) government insurance schemes (on bank deposits, on returns from private pension funds etc.).
Contingent implicit liabilities (government obligations have no legal basis and arise as a consequence of expectations created by past practice or pressures by interest groups) are: (1) bailout of defaulting public sector (public corporations, banks or other private financial institutions, pension and social security funds etc.), (2) disaster relief, (3) environmental damage, and (4) military financing.

with the discounted value of future general government expenditures and debt; (ii) continues meeting the EMU budgetary criteria, in particular the criterion related to debt (which should be below 60% of GDP) as set out in the Treaty.

In the coming decades, the fiscal policy challenges related to population ageing will increase considerably. The key spending categories affected by ageing of population are expenditures on pensions, health care and long-term care[64]. The fiscal effects of demographic changes will, however, exist also on the revenue side (contracting of tax base due to labour force decline).

Had it not been for the effects of the 1999 pension reform, the current and the future fiscal position of Slovenia would be much worse[65]. Since 2006, the minimum pension base has been adjusted with the total quotient of wage growth in the past period,[66] which strongly affects the expenditure on pensions in the long run.

According to the calculations[67] of the effects of population ageing (table 23) and the projections on the employment and unemployment rates, the public finance situation is expected to be non-problematic over the next decade. But after 2020, and even more so after 2030, the demographic profile and the proportion of elderly population will turn extremely unfavourable. The gap of the long-term sustainability of public finances may thus soar to 10% of GDP by 2050!

The challenges of age-related expenditures vary considerably across the EU member states. The countries with less unfavourable demographic situation and perspective

---

[64] Life expectancy in Slovenia is expected to further rise in the future. At the same time, fertility has stabilised at 1.2 children per a woman, which is the lowest level in Europe. In the period up to 2050, population in Slovenia is anticipated to decline by 100,000; the projections forecast higher net migrations, higher life expectancy and faster rising of fertility. The number of elderly population of 65+ is projected to rise from around 300,000 (15%) in 2004 to 592,000 (31.3%) in 2050. The percentage of population in the age group 20-64 years is projected to drop from 64% in 2004 to 51.4% in 2050.

[65] The key changes in the 1999 pension reform which are crucial for fiscal sustainability are:
• Gradual rising of the full retirement age (to 61 years for women and 63 years for men). Retirement before this age results in a smaller pension and retirement after this age results in a higher pension. The age at which pensions will not be lower despite the unfulfilled full retirement age, will in the transitional period from 2000 to 2013 gradually rise from 53 years in 1999 to 58 years in 2014 for women with adequate insurance period (which is also rising from 35 to 38 years). Eventually, the same conditions will apply to men and women. There are no other conditions under which the insured persons might retire before reaching full retirement age. This has practically eliminated any possibility of early retirement.
• Gradual reduction of total amount of accrual rates as a consequence of their reduction from 2.0% to 1.5% per year since 2000.
• Gradual extension of the reference period relevant for calculation of one's pension base from 10 to 18 best consecutive years of contribution period.
• Reduction of annual adjustment of pensions for older pensioners for the sake of levelling their pension benefits with "new" pensioners who have less favourable retirement conditions.

[66] Up to 2005, the minimum pension base was adjusted with the rate lower than the growth rate of wages in the past period, but never lower than the growth rate of consumer prices in the same past period.

[67] The calculations of the expenditures for pensions were calculated by the Institute for Economic Research using the demographic accounting model, whereas the calculations of the European Commission were used for health care and long-term care. Slovenia also made its own calculations, but they were not based on the same assumptions on the population development. The methodology of projections and results of calculations for Slovenia are presented in detail in: IB Review, 3/XXXIX, Ljubljana 2005.

may achieve better sustainability by combining the increasing of activity and changing (reducing) of ratios between the benefits and gross domestic product. The latter in particular has its social sustainability challenges. In the countries which have radically reduced the expected benefits from public schemes, great social and political pressures are expected for more adequate levels of benefits. The risk assessment prepared by the European Commission rank the countries on the basis of last year's assessment and this year's assessment into the categories presented in the table 22.

Table 22: **Assessment of risks of long-term fiscal sustainability**

		Assessment in 2006		
		Low risk	**Medium risk**	**High risk**
Last year's assessment	**Favourable position**	DK, EE, FI	LU	
	Relatively favourable position	AT, LT, LV, SE, SK	IE, ES, UK, NL	
	Slightly risky	PL	BE, FR, IT, DE, MT	CY, SI, HU
	Risky			PT, EL, CZ

Source of data: The sustainability of public finances based on the 2005/06 updates of stability and convergence programmes, (Note for the attention of the Ageing Working Group attached to the EPC, the Economic Policy Committee), Brussels, 5 April 2006 C-2/ D(2006) ECFIN/REP/52080/06.

Slovenia is ranked in the high-risk group mostly owing to the projected extreme deterioration of the fiscal position after the ten year period which started in 2005. Long term fiscal sustainability of Slovenia is thus assessed as highly problematic and calls for an immediate action. The sooner Slovenia starts to act, the less drastic will be the measures required. The action should be focused predominantly on:

Table 23: **Effects of ageing on public spending**

	2005	2010	2020	2030	2040	2050
						As % of GDP
Age-related expenditures	**18.8**	**18.9**	**20.9**	**24.2**	**27.7**	**30.1**
Pensions	11.2	11.2	12.5	14.6	17.0	18.5
Health care	6.7	6.7	7.3	8.2	9.0	9.6
Long-term care	0.9	1.0	1.1	1.4	1.7	2.0
Contributions for pensions	**9.9**	**10.3**	**10.9**	**11.0**	**10.9**	**10.9**
						Assumptions
Labour productivity growth	3.5	3.1	3.0	2.7	1.9	1.7
Real GDP growth	3.4	3.7	2.4	2.0	1.0	1.1
Male participation rate (15-64)	73.5	76.4	77.9	77.0	75.4	76.4
Female participation rate (15-64)	63.9	66.3	69.0	69.8	69.0	70.5
Total participation rate (15-64)	68.8	71.5	73.6	73.5	72.3	73.5
Unemployment rate	6.0	5.5	5.4	5.4	5.4	5.4
The share of elderly population 65+ (%)	15.3	16.5	20.4	25.1	58.4	31.1

Source of data: Convergence programme 2005, Ministry of Finance.

ensuring conditions for longer activity; stimulating individuals for remaining active for a longer period of time and for early entering the activity; stimulating them for taking care of their health and changing their life styles so as to pose a smaller burden on public financing; developing various forms of long-term care to make old-age less of a burden for both, those who live it and those who take care of them.

9   Monetary developments and the capital market

9.1   Monetary developments

*In 2005 the Bank of Slovenia continued to apply its **monetary policy** focused on the adoption of the euro in 2007*, which was instrumental in the sustained lowering of inflation and the fulfillment of the Maastricht convergence criterion in November 2005 (see Chapter 6). The key element was the policy of keeping the tolar exchange rate stable, not only because exchange rate stability was one of the Maastricht criteria but also because it additionally contributed to the decrease in inflation. The established instruments were used in keeping the exchange rate stable – they have remained basically the same over the last few years. The foreign exchange swap thus represented the large majority of transactions aimed at regulating the exchange rate.

***The nominal tolar's exchange rate** fluctuated within a narrow band around the central parity in the entire period following Slovenia's entry to the exchange rate mechanism ERM II.* While the tolar rate hovered slightly below the parity upon entering the ERM II, it has hovered slightly above it since May 2005. Throughout the entire period, however, it deviated very little from the parity.

***The real exchange rate** came close to its equilibrium value.* We examined how much it deviated from its equilibrium value at any point in time of the period under study by decomposing it into the trend and cycle components.[68] As Figure 22 shows,
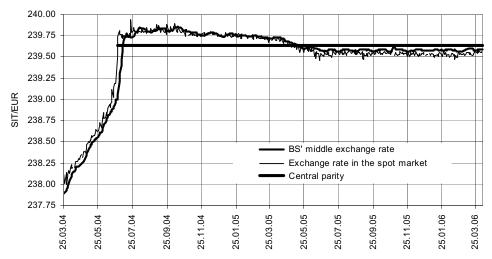
Figure 21: **Stabilisation of the tolar's exchange rate after entering the ERM II**

Source of data: BS.

---

[68] The trend-cycle decomposition of the real exchange rate was performed using the unobserved component method and estimated by the method developed by Morley, Nelson and Zivot (2003). The estimates showed that the rate of the real exchange rate's equilibrium appreciation at the annual level was between 0.75% and 1%, with slightly stronger fluctuations within individual periods.

the real exchange rate swung down significantly from the almost equilibrium values recorded in 1999 to become excessively undervalued. In our estimate, this was underpinned by the Bank of Slovenia's robust nominal depreciation in response to the shock of introducing value-added tax in mid-1999. Consequently, inflation also rose above the levels registered in mid-1999.[69] Along with the slowdown of nominal depreciation after the end of 2000, the real exchange rate gap began to close in 2001, passing into the area of non-equilibrium appreciation in 2003, as it took some time before the changes in the nominal exchange rate passed through to prices. At the same time, the slower nominal depreciation contributed to the vigorous lowering of inflation. What is important is that the fixing of the nominal exchange rate upon entry to the ERM II did not result in a disequilibrium appreciation of the real exchange rate, which might have been the case if the fixed nominal rate had not had a stabilising impact on inflation. Namely, the figure shows that throughout the period following entry to the ERM II the real exchange rate was approaching its equilibrium value, attaining it in early 2006. In our estimate, the process of cutting inflation thus also equilibrated, which we see as additional evidence that the reduction of inflation to the level required by the Maastricht inflation criterion is sustainable.

*The process of the Bank of Slovenia's harmonisation of its **interest rates** with the European Central Bank's key rates gained momentum in 2006.* In December 2005 the ECB began to raise its refinancing rate, which had persisted at its historically low level of 2% since mid-2003. Against the unchanged configuration of the BS' interest rates this also meant a rise in its own refinancing terms by 25 basis points. Later the ECB again increased its interest rate by 25 basis points to 2.5%, but the BS parallelly began to proceed more vigorously with the process of harmonising its
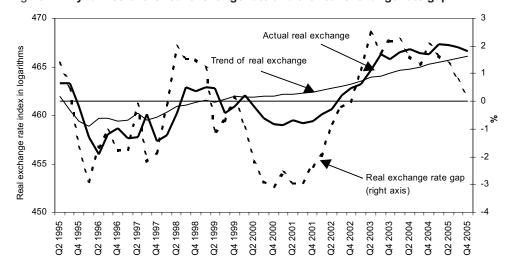
Figure 22: **Dynamics of the real exchange rate and the real exchange rate gap**
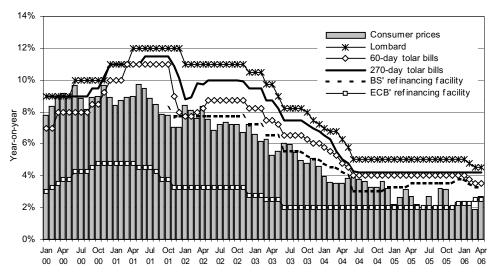
Source of data: BS; calculations by I. Masten.
Note: growth of the real exchange rate index means growth of the tolar's value, and vice versa.

---

[69] Had the shock experienced upon the introduction of VAT not been accommodated by the monetary policy, this would have resulted in the tolar's real overvaluation instead of a rise in inflation.

interest rates with the key ECB rates. For this purpose, it cut the cost of temporary foreign currency purchases by 75 b.p., followed by a half-percent reduction in the interest rate on the key element of liquidity absorption (60-day tolar bill). On the whole, this meant a 25 b.p. drop in the BS' refinancing rate which, considering that the ECB raised the cost of its own refinancing terms by 50 b.p. in the same period, we see as primarily reflecting the process of interest rate harmonisation. Taking into account the risk premium, the gap between the cost of acquiring liquidity by borrowing abroad and the return on the risk-free depositing of those funds in the BS – which amounted to over 50 b.p. at the beginning of 2005 – was practically eliminated at the beginning of 2006. Since this simultaneously makes it possible to keep the exchange rate stable, we expect that inflation will continue to stabilise as well.

Figure 23: **Dynamics of the BS' and the ECB's key interest rates**

Sources of data: BS, ECB, SORS.

The growth of monetary aggregates *slowed down at the beginning of 2006.* The year-on-year growth of the narrow monetary aggregate M1, having peaked in the first quarter of 2005 when its rate exceeded 25%, thereafter softened persistently to approach the value of 10%. Such a pronounced cyclical swing was not observed in the broad monetary aggregate M3 whose growth, after having topped 7% in Q1 2005, dropped to 6% at end-2005 and early 2006. Although this is slightly above the growth rates recorded upon Slovenia's entry to the ERM II, the difference is unsubstantial and, moreover, not in line with the process of Slovenia's financial deepening. We ascribe the somewhat stronger cyclical swing in the growth rates of the monetary aggregate M1 to the structural shift in deposits toward shorter-term ones, which was probably due to the robust fall in nominal interest rates seen in this period.

In the period prior to the adoption of the euro *no change in the key monetary policy guidelines is expected.* Besides keeping the exchange rate stable, we expect

the BS to primarily conclude its technical and administrative preparations for the euro. We also expect it to continue harmonising its interest rate levels, which it began more vigorously at the beginning of 2006. If the ECB stopped raising its own interest rates, this would mean a further gradual lowering of the BS' rates. Discrepancies between the BS' and ECB's instruments persist, notably in the area of ensuring the exchange rate's stability, since the BS mainly did not use the possibility of direct intervention through the purchase or sale of foreign currency in the interbank market.

9.2 Financial flows and the capital market

9.2.1 Household savings in banks and in mutual funds

In 2005 the real growth of household deposits in banks *was the lowest since 1991, i.e. 3.4%.* Compared with the year before, the growth rates of both tolar and foreign currency deposits dropped. The net flow of overall household deposits to banks totalled SIT 134.1 bn, almost one-third less in real terms than in 2004.

The main reason for the weaker **growth of tolar household deposits in 2005** *– 4.4% compared with 6.6% in 2004 – was the smaller rise in demand deposits.* They recorded less than one-quarter of their rise seen in 2004, while the growth of short-term deposits strengthened slightly. The decline in long-term deposits moderated, largely resulting from the substantially smaller release of assets from the National Housing Savings Scheme compared with the year before. The term structure of tolar household deposits continued to deteriorate in 2005. The share of demand deposits increased by 1.9 structural point (s.p.) over end-2004 to total 47.1% while the shares of short-term tied and long-term deposits shrank, in part due to the more rapid decline in long-term than short-term rates of interest. The weaker growth of tolar deposits was also reflected in the net flows, which totalled SIT 97.3 bn, i.e. 26.4% less in real terms than in 2004.

Table 24: **Household savings in banks and in mutual funds: their stock and real growth rates**

	SIT bn	Real increase in stock, %						
	Stock on 31 Dec 2005	1999	2000	2001	2002	2003	2004	2005
Total savings in banks	**2,475.4**	**7.5**	**14.8**	**28.1**	**7.0**	**5.3**	**7.5**	**3.4**
Tolar savings	**1,519.6**	**10.9**	**14.2**	**24.7**	**12.6**	**6.6**	**6.6**	**4.4**
Demand deposits	716.2	18.2	6.4	14.1	12.8	10.6	33.6	8.9
Short-term deposits	673.3	8.5	22.9	27.3	2.3	5.7	0.7	4.1
Long-term deposits	129.4	-1.2	5.8	49.4	53.2	1.4	-35.1	-13.5
Foreign currency savings	**955.8**	**3.7**	**15.5**	**32.1**	**0.9**	**3.6**	**8.7**	**2.1**
Short-term and demand deposits	858.8	3.2	11.0	34.5	1.2	6.6	8.2	1.6
Long-term deposits	97.0	8.4	55.6	16.9	-0.9	-18.2	13.3	6.5
Mutual funds*	**329.6**	**81.7**	**12.4**	**28.7**	**252.8**	**60.2**	**117.0**	**55.1**

Source of data: BS, calculations by IMAD.
Note: *Mutual funds managed by domestic administrators.

The growth of foreign currency savings *in banks contracted from 8.7% to 2.1%
last year primarily due to the smaller increase in demand and short-term deposits.*
After the growth of foreign currency deposits began to strengthen upon Slovenia's
entry to the exchange rate mechanism ERM II at the end of the first half of 2004, it
eased off to its lowest value after 2002 in 2005. In contrast to tolar savings, foreign
currency savings recorded a stronger rise in long-term deposits which, however,
only accounted for about one-tenth of all foreign currency household deposits at
the end of 2005.

The low **growth rates of household bank deposits** *persisted* **in the first two months
of this year.** The total volume of the deposits edged up 0.8% over end-2005. Foreign
currency deposits recorded 0.5 p.p. higher growth than tolar deposits, having
increased by 1.1% in real terms in the first two months of 2006. The total net flows
of deposits amounted to an inflow of SIT 15.2 bn; while this is 6-times more in real
terms than in the same period last year it is, however, still less than one-half of the
average net flows observed in the last 10 years.

The net inflows into the mutual funds managed by domestic administrators *dropped
significantly last year although the number of the funds increased.* Domestic mutual
funds rose in number by more than one-half in 2005 to total as many as 51 at year's
end while their net inflows (i.e. SIT 33.2 bn) only amounted to around 40% of their
2004 net flows. Apart from the stronger presence of foreign mutual funds[70] (over 100
operate officially in the Slovenian market) another reason for such dynamics was
domestic funds' investment structure a large part of which still consists of domestic
securities, having mainly dropped in value last year. A more detailed analysis of the
net inflows recorded by individual groups of funds confirms this, as the biggest net
inflows (totalling SIT 15.6 bn) were registered by those that primarily invest in foreign
securities. The net inflow in all stock funds together amounted to SIT 27.5 bn. They
were followed by the only fund of funds, which recorded the value of SIT 5.7 bn,
more than any other domestic mutual fund (a higher net inflow was registered only by
the fund converted from an investment company where, however, the net inflow
included the dividends paid). The net inflows in bond funds totalled SIT 2.7 bn in
2005, i.e. less than one-half of the value recorded in 2004. Mixed mutual funds, which
had registered over one-half of the total net inflows in all previous years, recorded a
net outflow in 2005, totalling SIT 3.7 bn. Domestic mutual funds administered SIT
329.6 bn worth of assets at the end of 2005, i.e. 58.7%[71] more than at the end of 2004.
These assets reached 13.3% of household bank deposits.

*The drop in the Ljubljana Stock Exchange indices had a substantial impact on the
average weighted* **return of mutual funds.** It averaged out at 5.6% in at the end of
the year, i.e. 12.1 p.p. less than in 2004. The most successful were stock funds,
yielding a 7.3% return, while bond funds had the lowest, 3.2%, return. Significantly
wider yield ranges were recorded within individual groups of funds, notably within
stock funds, where the most successful one recorded a 37.8% year-on-year return
while the worst-performing one registered a negative return of -10.1%.

---

[70] There are no exact data on the amount of inflows in the mutual funds managed by foreign administrators.

[71] If the investment company that was converted into the biggest mutual fund were excluded, this rise would have
totalled 26.8%.

*The **trends in the number of and inflows into mutual funds** seen in 2005 continued in early 2006.* There were already 66 domestic funds at the end of the first quarter of the year while their net inflows continued to decline, amounting to SIT 7.0 bn, i.e. less than one-half of the value recorded in Q1 2005. This year also the funds predominantly investing in foreign securities continued to register stronger net inflows.

9.2.2 Loans

*Bank lending strengthened considerably **in 2005**, as **the volume of bank loans to non-banking sectors** rose by one-fifth in real terms.* A sharp rise was recorded in the more favourable foreign currency loans (up 64.2%), which came to account for 43.2% of all loans to non-banking sectors at the end of the year. The volume of tolar loans edged up only minimally (up 1.1%). The growth of foreign currency borrowing has not slowed down yet after the ECB first raised its reference interest rate in December 2005. The total net flows of loans thus amounted to SIT 710.6 bn in 2005, i.e. 42% more in real terms than in 2004. The net flows of foreign currency loans represented 90.2% of the total net flows.

In 2005 enterprises and other financial organizations (OFO) predominantly borrowed in the form of foreign currency loans while they even net repaid tolar loans. The overall net flows of loans to enterprises and OFO totalled SIT 492.6 bn in the past year, i.e. 36.1% more than in 2004. The real increase in the volume of
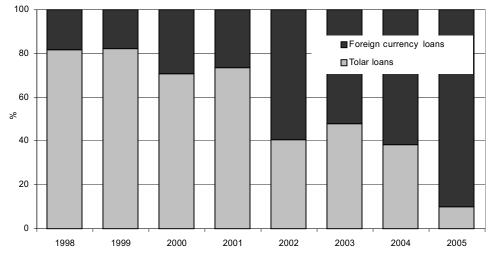
Table 25: **Domestic banks' loans to enterprises & OFO, households and the government: their stock and real growth rates**

	SIT billion	Real increase in loan stock, %						
	Stock 31 Dec 2005	1999	2000	2001	2002	2003	2004	2005
Total loans	**3,684.7**	**10.9**	**7.4**	**10.2**	**7.9**	**10.7**	**18.3**	**21.3**
Tolar loans, total	**2,091.8**	**14.4**	**5.8**	**7.7**	**-1.2**	**4.7**	**7.0**	**1.1**
Loans to enterprises and OFO	**1,089.4**	**9.7**	**6.6**	**11.2**	**-4.9**	**4.0**	**3.2**	**-5.9**
Short-term, overdrafts and advances	552.8	10.7	11.5	10.4	-7.6	-0.1	5.1	-10.0
Long-term	536.6	8.4	0.9	12.2	-1.5	8.8	1.2	-1.4
Household loans	**867.6**	**33.4**	**3.6**	**1.1**	**0.4**	**6.4**	**15.1**	**12.1**
Short-term, overdrafts and advances	147.8	42.7	5.8	7.1	-1.1	3.0	3.1	6.3
Long-term	719.9	31.3	3.1	-0.4	0.8	7.2	18.0	13.3
Government loans	**134.8**	**-26.3**	**13.7**	**14.0**	**28.5**	**2.9**	**-1.6**	**-0.7**
Short-term, overdrafts and advances	12.0	-6.8	59.9	-5.9	-2.5	-19.4	-81.7	166.4
Long-term	122.8	-31.4	-2.4	25.4	41.7	9.4	15.8	-6.4
Foreign currency loans	**1,592.8**	**26.2**	**27.7**	**22.6**	**37.9**	**36.7**	**47.6**	**64.2**
to enterprises and OFO	1,453.5	42.8	33.1	33.3	34.5	39.9	46.7	55.4
to households	114.9	2,067.1	-2.8	8.5	18.4	47.1	261.3	393.0
to the government	24.4	-33.5	-5.4	-77.4	240.7	-36.3	-12.4	113.3

Source of data: BS, calculations by IMAD.

foreign currency loans to enterprises and OFO strengthened for the fifth year in a row, totalling 55.4%, while the monthly real increase has persisted above the value of 2.2% throughout the year. Whereas the foreign currency loans exceeded one-half of all domestic banks' loans to enterprises and OFO by mid-year, they already represented 57.2% of all loans at the end of the year, i.e. 12.4 s.p. more than the year before. Their net flows totalled SIT 535.5 bn in 2005, which was 82.7% more in real terms than in 2004. Almost two-thirds of those net flows were long-term loans to enterprises, largely borrowed for the purpose of financing their development projects. Enterprises and OFO thus took out the more favourable foreign currency loans as substitutes for tolar loans, which for the first time they net repaid last year, in the amount of SIT 42.8 bn.

Figure 24: **Currency structure of the net flows of domestic banks' loans to non-banking sectors in 1998-2005**

Source of data: BS, calculations by IMAD.

Households also greatly increased their borrowing in the form of foreign currency loans in 2005 while their tolar borrowing dropped slightly. The total net flows amounted to SIT 202.7 bn, i.e. to almost one-half more in real terms than the year before, while also topping (by 16.8%) the highest net flows recorded thus far (in 1999). Despite the surge in foreign currency borrowing (attributable to the more favourable interest rates and the expected adoption of the euro), tolar loans continued to record a predominant share in household debt financing (88.3% at year's end); this share, however, dropped by 8.8 s.p. in the past year alone. Such a high share of tolar loans thus mainly results from the limited possibilities of borrowing foreign currency in the past, whereas foreign currency loans taken out in 2005 (totalling SIT 92.0 bn) already represented 45.4% of the total net flows of household loans. Last year's smaller rise in tolar loans to households relative to 2004 was mainly due to the slightly smaller (while still above-average) rise in long-term tolar loans. The growth of short-term loans and of overdrafts and advances meanwhile strengthened (particularly the latter, which totalled 9.6% while the figure for the year before is

1.7%). The net flows of all tolar loans to households amounted to SIT 110.7 bn, lagging behind those recorded in 2004 by almost one-tenth in real terms.

The total **volume of loans to the government** rose by over one-tenth in real terms **in 2005**. Nevertheless, these loans only represented 4.3% of all bank loans to the non-banking sector, which is mainly due the fact that the government can acquire funds on more favourable terms by issuing short-term and long-term debt securities. The volume of tolar loans even declined slightly last year in real terms while the volume of foreign currency loans, despite recording a relatively strong increase, remained low, having achieved just 1.5% of the value of foreign currency loans to non-banking sectors.

In the first two months of 2006 the relatively rapid growth of bank lending continued. The total net flows rose by over one-half in real terms compared with the same period last year, amounting to SIT 153.9 bn. Almost 90% of all net flows were the flows of foreign currency loans, out of which those of loans to households (totalling SIT 16.3 bn) increased 2.2-times while those of loans to enterprises and OFO (totalling SIT 118.0 bn) exceeded the value registered in the same period last year by close to one-half.
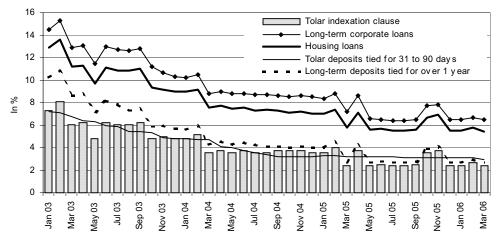
9.2.3 Interest rates

The lowering of **interest rates** slowed down considerably **in 2005**. The only rates that continued to drop slightly more rapidly were those lending and deposit long-term rates that are still tied to the tolar indexation clause. The latter's value fell by 1.2 p.p. last year (to 2.4%); however, the share of financial agreements stipulating the tolar indexation clause decreased substantially towards the end of the year. **On the deposit side,** the average interest rate for tolar deposits tied for over one year thus declined by 1.3 p.p. to 2.7% in December 2005. The drop in the average rate for short-term tolar deposits was minimal (down 0.1 p.p.). The average rate on deposits with a maturity of up to 30 days fell to 2.4% at year's end while the rates on 31-90 and 181-365 day deposits also shrank (to 3.1%) and became equal to the interest rate on 91-180 day deposits, which remained unchanged.

Lending interest rates decreased slightly more than the deposit rates. This was most probably a consequence of the considerably wider differences in lending rates than in the deposit rates between the euro area average and Slovenia. Due to convergence, the faster reduction of the lending interest rates is expected to continue. Similarly as with the deposit rates, within lending interest rates also those long-term rates still tied to the tolar indexation clause dropped the most. The drop was most pronounced (down 2 p.p.) in the rates on long-term corporate loans which came in at 6.5% at the end of the year. The rates for household housing loans contracted somewhat less (down 1.5 p.p.) to total 5.5% at the end of the year. A considerably smaller decline was recorded in short-term interest rates; the rate on short-term corporate loans fell by 0.4 p.p. (to 7.6%) while the household loan rate fell by 0.5 p.p. (to 7.4%).

Figure 25: **Dynamics of some nominal interest rates**

Legend:
- Tolar indexation clause
- Long-term corporate loans
- Housing loans
- Tolar deposits tied for 31 to 90 days
- Long-term deposits tied for over 1 year

Sources of data: BS, SORS.

9.2.4 Securities market

In 2005 the value of the major Ljubljana Stock Exchange indices was mainly falling. Whereas the growth of the Ljubljana Stock Exchange main index (SBI 20) had exceeded 17% in all the preceding four years, in 2005 it was negative (-5.6%) for the first time since 1996. The index of investment funds' shares dropped even more, recording a 12.2% year-on-year decrease. Only the BIO bond index recorded modest growth (up 0.9%).

The volume of market capitalisation only rose by 5.3% last year, which is the lowest rise since the market came into existence. Although the number of bonds listed on the Ljubljana Stock Exchange declined slightly compared with December 2004, the rise in overall market capitalisation has solely been due to the 31% rise in their market capitalisation. The latter largely resulted from the more extensive new issues of bonds. Thus bonds' share in the market capitalisation structure surged to 45.1% or 8.9 s.p. more than at the end of 2004. The market capitalisation of shares (excluding investment companies' shares) fell by 5.9%. Out of this, the official market shares' value decreased by 4.1% while the value of semi-official market shares fell by about one-tenth. The market capitalisation of investment companies dropped even more, by as much as 34.0%. About two-thirds of this drop can be attributed to the conversion of the biggest investment company (its market capitalisation totalled SIT 54.4 bn at end-May 2005) into a mutual fund. The rest of the fall was due to the decreased value of investment companies' shares, whose index went down by 12.2%.

Last year's high **increase in the Ljubljana Stock Exchange's turnover** *resulted from trading in government securities.* The value of the total turnover of the Ljubljana Stock Exchange turnover amounted to SIT 656.9 bn in 2005, i.e. nearly two-thirds more than in 2004. Without taking into account the Market Making Trading Segment (MMTS) established last year, where only listed government bonds in the official

market and short-term government securities traded on the Ljubljana Stock Exchange's semi-official market are traded, the turnover would only have increased by 11.1%. Block trades rose significantly more since their turnover surged 53.7% while the turnover excluding blocks dropped by 30.6%. The turnover in shares (excluding investment companies) practically stagnated (up 1%) while the turnover in bonds soared 58.1% and even went up by as much as 1.5-times if the MMTS is included. According to the Bank of Slovenia's data, net Stock Exchange purchases by non-residents achieved the value of SIT 123.2 bn in 2005, i.e. the highest value after 2002. A large part of it, however, is attributable to the purchases of government securities.

The Slovenian capital market thus remains comparatively underdeveloped and does not serve its fundamental purpose well enough, i.e. the transfer of funds from sufficient to deficient economic subjects. Due to the decline in the market capitalisation of shares recorded in 2005, the indicator of the market capitalisation relative to GDP dropped by 2.8 p.p. to total 24.5% (in the EU-25, it totalled 67.1% of GDP in 2004). The number of shares listed on the Ljubljana Stock Exchange also decreased. There were only 118 left in December 2005 while the figure for the year before was 142. There have been no public offerings of new shares since 2000. In order to develop the Slovenian capital market further, some additional major companies should first be listed on the Stock Exchange to reanimate the dynamics of the Slovenian capital market. In the long run, however, the financial market's development would also be greatly stimulated if trading were extended to some other financial instruments.

In the first quarter of 2006 the trends observed on the Ljubljana Stock Exchange in *2005 continued.* The value of the SBI20 index thus dropped by 4.1%. The total turnover (including MMTS) amounted to SIT 228.6 bn, 1.2-times more than in the same period last year. A large part of the turnover (as much as SIT 135.8 bn) came from trade in the MMTS, without which it would have been 11.4% lower than last year due to the smaller volume of block trades (close to one-fifth smaller than in Q1 2005). The total volume of market capitalisation on the Ljubljana Stock Exchange rose by 0.9%. The market capitalisation of bonds increased the most (up 1.9%) while the market capitalisation of shares (excluding investment companies' shares) only recorded 1.1% growth and the market capitalisation of investment companies' shares dropped by one-tenth. In early April the dynamics of the Ljubljana Stock Exchange were significantly animated by a foreign investor's offer to buy an almost 25% share of a listed company. The value of the SBI20 index[72] thus rose by 8.1% in the first week of April alone, whereby the drop seen in Q1 of this year was more than neutralised.

9.2.5 Performance of banks

Disregarding one bank in liquidation, **there were 22 banks operating in Slovenia at the end of 2005.** Last year also saw a continuation of the gradual decline in the five biggest banks' market share, measured by the share of their assets in total bank assets, which dropped by 2.3 p.p. (to 62.8%) compared with end-2004. The shrinking of the biggest banks' market share also continued in 2006, totalling an additional 0.6 p.p. in the first two months.

---

[72] Its composition changed slightly again on 1 April 2006.

Last year's growth of total bank assets *was the second highest in the last ten years.*
While total asset growth already approached the value of around 10% in 2003 and
2004, it picked up again in 2005 to achieve the value of 23.7%. It was even slightly
higher (24.0%) in 2001 when the euro changeover brought about a sharp rise in
deposits while last year the total assets rose mainly due to the much increased bank
lending. The modest domestic savings in banks did not suffice for the increased
lending so that banks acquired a large part of the needed funds by borrowing abroad
and by foreign banks' deposits. According to the Bank of Slovenia's data, the banks
thus net took out loans abroad in the amount of SIT 565.7 bn in 2005, i.e. as much
as 2.5-times more in real terms than in 2004. Foreign banks' deposits also rose and
were, having totalled SIT 242.5 bn, 4.3-times bigger in real terms than in 2004.

After two years' of stagnation ***banks' net interest income*** *rose* ***in 2005*** *while the*
growth of their net non-interest income *also continued.* According to the BS' data,
due to the increased bank lending the banks recorded 5% growth in their net interest
income. Admittedly, this is quite modest relative to the strong growth of loans, but
it is most probably a result of the more rapid decrease in lending rates than in deposit
rates. Compared with 2004, net non-interest income rose by 16.2% and thus came
to represent 43.2% of the banks' gross income – 2.5 p.p. more than in 2004 and as
much as 17.4 p.p. more than in 2000. This rise cannot be entirely attributed to the
introduction of new services but most likely also to the fast growth of their prices
which, along with the robust bank lending, also contributed to the banks' business
result in 2005, as their profits before tax, amounting to SIT 65 bn, were 16.1%
higher than the year before.

10 Main risks to the realisation of the spring forecast[73]

World oil prices represent the biggest risk to the realisation of the spring forecast. The spring forecast for 2006 is based on an assumption that the average price for Brent oil would be 63.5 USD per barrel, taking into account that it could be around 64 USD in the second and third quarters and drop to 63 USD per barrel towards the end of the year. The average Brent oil price reached 70.2 USD per barrel in April, increasing by 11.5% over March. The price rise was fuelled by several geopolitical factors which could not have been anticipated while preparing the forecast in the middle of March 2006. Nevertheless, the April price rise, which also resulted in price rises of oil derivatives in Slovenia in April and May, currently still does not deviate from the spring projections. Economic activity could be affected only if price rises had persisted. It is estimated that real export growth would slow down by 0.2 p.p. if the average oil price per barrel was by USD 10 higher in 2006 than anticipated in the baseline scenario. Reduced export demand and more expensive intermediate goods would have a negative impact on the growth of value added in manufacturing. Higher oil prices would furthermore make average inflation rise by approximately 0.3 p.p. which, together with worsened external terms of trade, would have a negative impact on the growth of aggregates of domestic consumption in real terms (mostly affecting investment and slightly less private consumption). Such trends would push the economic growth rate down by around 0.2 p.p. Yet long-term inflation and particularly economic growth would hardly be affected if oil prices fall to the March level soon in the following months.

Other risks to the spring forecast could come from the prices of consumer goods in 2007, although this is rather unlikely. One risk would be a potential rise in prices due to the introduction of the euro, but it is relatively unlikely to happen since the Act on Double Pricing in Tolars and Euros entered into force as early as March 2006. The law is designed to minimise the potential negative effects of the currency switch on prices. The March inflation figure, which was lower than in the same month in 2005 and can be explained entirely by seasonal impacts, shows that businesses did not use the introduction of dual pricing to round prices up. The experience of countries in the euro area which had imposed obligatory dual pricing prior to the changeover confirms the positive effects of such measures. They witnessed either a low or no rise in consumer prices. This risk will be further reduced by an unofficial price control system ('pricewatch') and the existing competition in a number of sectors. The second risk may come from a potential rise in inflation stemming from the liberalisation of household electricity prices on 1 July 2007. The full opening-up of the market is expected to boost competition as households will be able to choose from among several electricity providers. In the long term, this will have a positive impact on price trends. Moreover, the liberalisation should not trigger higher prices soon after the market opens up as a comparison of electricity prices in Slovenia and the EU shows that such a development would be economically unjustified.

---

[73] The IMAD is bound to assess risks to the spring forecast pursuant to Article 9 of the Decree on Bases and Procedures for the Drafting of the National Budget Bill (Official Gazette of the Republic of Slovenia, No. 45/02).

Should any of these risks nevertheless materialise, year-on-year inflation in 2007 could increase by a maximum of 0.5 p.p. above the forecast, whereas average inflation could rise by up to 0.3 p.p. If, despite the measures taken, the currency changeover were to cause price rises and the full liberalisation of the electricity market were to result in higher prices of household electricity, these effects are expected to be short-lived, contributing a maximum of 0.5 p.p. to inflation at the annual level. Considering that the potential risks to inflation would occur in 2007 and their negative impacts would wear out completely in the same year, year-on-year inflation in 2008 would remain the same as in the baseline scenario, while owing to the 'statistical' carry-over effect average inflation would slightly rise in 2008 (by a maximum of 0.2 p.p.).

The materialisation of these risks in 2007 would hardly affect other macroeconomic aggregates. Inflation in 2007, which would be 0.5 p.p. higher than projected in the baseline scenario, would only marginally affect the dynamics of macroeconomic aggregates. A potential price rise upon the euro changeover and upon the liberalisation of the household electricity market would primarily affect end users, but would have practically no effect on the costs of enterprises. Therefore the most likely implication of higher inflation would be a drop in the real growth of wages and of private consumption, which could slightly slow down 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 minor. Owing to the low response of exports to changes in the real effective exchange rate (the rate would appreciate slightly due to changes in relative prices in Slovenia and the EU), export growth would remain unchanged compared with the baseline scenario, as would the growth of gross fixed capital formation.

11 Scenario of economic trends after 2008

The spring forecast of economic trends is based on the adopted economic policy measures and the effective budgets. The effects of the planned reform measures that have not yet been legally enforced are not taken into account in the baseline forecast since it was impossible to quantify them with sufficient accuracy when preparing the forecast[74]. However, a tentative estimate can be made of the outcomes of carrying out the measures set out in the Slovenia's Development Strategy (SDS) by comparing the projected economic development in 2009-2013 in case economic policy measures remain unchanged and in case the measures envisaged in the SDS are optimally implemented (see Table 26).

In the event that economic policy measures remained unchanged, the economic growth recorded after 2008 would, instead of accelerating, hover around the current potential GDP growth (i.e. 3.8%) until 2011 and then fall slightly below that level. On one hand, the competitiveness of Slovenian exports would gradually deteriorate due to the relatively less intense development orientation and the rigid domestic business environment, hence export growth would not strengthen and market shares in the main export markets would not increase. Consequently, productivity growth would also not be able to rise above the current level and the number of new jobs would be substantially smaller. All of this would greatly compromise the achievement of the SDS objective of exceeding the average EU level of economic development and increasing employment in line with the Lisbon strategy objectives. Ultimately, this would mean substantially slower increase in welfare.

In the event that the SDS measures were optimally implemented, however, economic development after 2008 would follow the target economic development scenario for the period covered by the SDS (until 2013) presented in the *Grounds for the Target Development Scenario of Slovenia's Development Strategy* (IMAD, 2005). According to this scenario, the implementation of the SDS measures after 2008 would enable a breakthrough to a higher development level when the reforms had already begun to yield results, stimulating the faster growth of productivity and the economy's competitiveness. A period of accelerated economic growth, ending around 2010, would be followed by its relative slowdown and a period of its stabilisation at the approximate level of 5% which would represent the new level of potential GDP growth.

On the supply side, a leap in development would require the restructuring of the economy towards stronger service industries (their share in the value-added structure should expand to 67% by 2013), with the volume of knowledge-based services rising appreciably faster than the volume of other services. At the same time, optimal implementation of the SDS measures could also stimulate a development breakthrough in Slovenian manufacturing, i.e. the advance of high-technology and medium-high-technology industries; the overall share of manufacturing in the GDP production structure, however, would not increase. The restructuring of manufacturing and strengthening of knowledge-based service industries would be

---

[74] A comprehensive estimate of the reform results is to be prepared by means of an economic model being developed by the Institute for Economic Research and it will be possible to take it into account in the autumn forecast.

enabled by the fast growth of expenditure on R&D and investment in human capital. Economic growth and investment in knowledge would, in turn, facilitate higher employment. In the period of accelerated economic growth the annual total employment growth might exceed 1% while the target 70% employment could be realised by 2013. This would also entail a gradual drop in unemployment which could come close to 3% by the end of the period. On the demand side, more competitive exports of the goods and services with higher value-added and internationalisation of production would stimulate foreign demand and thus the growth of market shares in the main export markets. At the same time, growth in income levels, higher employment and an improved business environment would also boost private and investment demand. Within the latter, it would primarily be the share of private investment in machinery and equipment that would rise while the overall share of investment in GDP would not increase substantially owing to the intense capital deepening seen in the past few years. Due to the accelerated economy and productivity growth wages would gradually approach the level of comparable economies, with the real gross wage per employee rising at a faster pace in the private sector than the public sector in the entire period.

Table 26: **Key macroeconomic indicators until 2013**

Real growth (%) except where indicated otherwise

	Scenario for the 2009-2013 period	
	Spring Forecast	**Grounds for the Target Development Scenario of SDS**
Gross domestic product	3.8	5.3
Exports of goods and services	7.3	9.1
Imports of goods and services	7.1	8.3
Private consumption	3.2	4.9
Government consumption	2.4	3.4
Fixed capital formation	4.8	5.1
Employment (% growth)	0.6	1.1
Unemployment rate by ILO (%)	6.4	3.7
Productivity (% growth)	3.1	4.1
Inflation (%)	2.2	2.5

Source of data: IMAD's projections.

12 Comparison with forecasts made by other domestic and foreign institutions

Spring forecasts of economic growth for this and the next year are favourable, showing no substantial differences. All institutions foresee accelerated economic growth and a faster increase in international trade. Like the IMAD, the Economic Outlook and Policy Services (SKEP) of the Chamber of Commerce and Industry of Slovenia (CCIS) and the European Commission (EC) project a slight drop in next year's economic growth while the Bank of Slovenia (BS) and the International Monetary Fund (IMF) expect it to remain at this year's level. Regarding the structure of economic growth, institutions other than the IMAD forecast slightly weaker export growth in both years while their projections of the import growth rate are also mainly lower. In addition, the BS expects slower investment growth and a slightly smaller increase in private consumption in 2006 and faster investment growth as well as again a slightly smaller increase in private consumption in 2007. The SKEP projects weaker growth of gross fixed capital formation and private consumption and slightly stronger growth of government consumption in both years. The EC also anticipates gross fixed capital formation to grow at a slower pace in 2006 but to pick up in 2007. In addition, it estimates that private consumption in both years would increase slightly more than projected by the IMAD. These differences in the forecasts concerning the growth of investment and private consumption can probably be explained primarily by the different significance attributed to investment in infrastructure and housing and the different estimates of the lower interest rates'

Table 27: **Comparison of published spring forecasts of economic trends for Slovenia**

	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	IMAD		**BS**		**CCIS**		**EC**		**IMF**	
Gross domestic product	4.2	4.0	4.2	4.2	4.1	4.0	4.3	4.1	4.0	4.0
Inflation (annual average, %)	2.1	2.1	2.2	2.2	2.3	2.5	2.4	2.5	2.4	2.4
Exports of goods and services	8.2	7.9	7.4	7.1	7.8	7.8	7.7	7.3	-	-
Imports of goods and services	7.6	7.4	6.7	6.6	6.5	6.8	6.6	7.5	-	-
Current account balance (% of GDP)	-1.7	-1.3	-2.0	-2.3	-	-	-1.6	-1.8	-0.3	0.1
Gross capital formation	6.1	5.1	5.4	6.0	-	-	-	-	-	-
Gross fixed capital formation	6.0	5.0	-	-	4.0	4.0	4.4	5.8	-	-
Private consumption	3.3	3.3	3.2	3.1	3.1	3.1	3.5	3.4	-	-
Government consumption	2.7	2.8	2.7	2.8	3.0	3.0	2.8	2.9	-	-
Employment according to the SNA (% growth)	0.8	0.6	0.4	0.3	-	-	0.6	0.4	-	-
Unemployment rate by ILO (%)	6.6	6.7	-	-	6.6	6.7	6.3	6.3	-	-

Sources of data: IMAD, Spring Forecast; BS, Monetary Policy Report, May 2006; CCIS, April 2006; IMF, World Economic Outlook, April 2005; EC, Economic Forecasts, May 2006.

impact on private consumption. Estimates of the 2006 current account deficit are quite similar, with the exception of the IMF predicting a substantially smaller deficit than other institutions. In 2007, however, the BS and the EC expect a rise in the current account deficit which the IMAD does not, hence the differences among the forecasts for that year are wider. On the other hand, the IMF expects an improvement in the external balance and even a minor current account surplus. The BS' and EC's predictions of employment growth are somewhat less optimistic than our estimate while, on the other hand, the Commission also expects slightly lower unemployment rates in both years. The SKEP's forecast of unemployment matches our figure.

The differences between inflation forecasts *are small, with all institutions expecting stable price growth.* In both years the IMAD and the BS expect slightly lower inflation than other institutions which estimate that it might be somewhat higher due to more rapid consumption growth and the stronger impact of faster economic growth. None of the inflation forecasts for this and the next year, however, exceeds 2.5%. All institutions that have assessed risks to the realisation of their forecasts stress high oil prices as the main risk factor that could result primarily in higher inflation. The EC, like the IMAD, believes that realisation of its inflation forecast for 2007 could also be put at risk by the impact of potential electricity price rises when the market opens up in July 2007. In addition, the BS meanwhile points to the risk of the potentially accelerated domestic consumption which, however, we do not deem it very likely considering the structure of household borrowing and the projected sustainment of moderate wage growth.

13 Assessing the validity of the IMAD's forecasts

A comparison with forecasts made by other forecasting institutions repeatedly shows that the IMAD is successful in forecasting economic categories. Of all Slovenian institutions that produce forecasts of Slovenian economic developments, the IMAD has the lowest calculated values of accuracy measures of economic growth forecasts for both mean absolute errors (MAE) and root mean square errors (RMSE). The Bank of Slovenia is the only institution that has achieved slightly better results in its inflation forecasts. This conclusion also holds for the standardised values (MAE/sd and RMSE/sd). Compared with the European Commission's forecasts for old EU member states, the absolute accuracy measures are slightly higher whereas in relative accuracy measures the differences are marginal (for methodological explanations see Spring Report 2004, Box on p. 142).

For 2005 most institutions underestimated **economic growth in real terms** *in their 2004 autumn forecasts, while errors in the spring forecasts for the current year had negative and positive values. Both the IMAD and the IMF anticipated the exact real economic growth rate for 2005 in their autumn 2005 forecasts.* The absolute values of the errors of the 2004 autumn forecasts for 2005 ranged from 0.0 p.p. to 0.3 p.p. while the 2005 spring forecast errors for the current year ranged between 0.0 p.p. and 0.2 p.p. In spring 2005, the IMAD left the autumn 2004 forecast of the 3.8% GDP growth in real terms unchanged, underestimating the actual growth rate by 0.1 p.p. or 3%, while the real growth was accurately forecast in the 2005 autumn forecast. In autumn 2005, the other institutions also corrected their forecasts somewhat upward, with errors ranging between 0.0 and 0.3 of a percentage point. Table 28 shows negligible differences between the forecasts of Slovenia's economic growth made in autumn for the year ahead and in spring for the current year.

Table 28: **Errors made by forecasting institutions in their forecasts of real economic growth for 2005**

	Autumn forecast for the year ahead			Spring forecast for the current year			Autumn forecast for the current year
	Forecast, as a %	Error p.p.	Error as a %	Forecast, as a %	Error p.p.	Error as a %	Forecast
Realised	**3.9**	-	-	**3.9**	-	-	**3.9**
IMAD[1]	3.8	0.1	3	3.8	0.1	3	3.9
CCIS[2]	3.9	0.0	0	4.0	-0.1	-3	4.2
BS[3]	3.8	0.1	3	3.9	0.0	0	4.1
IMF[4]	4.1	-0.2	-5	4.0	-0.1	-3	3.9
EC[5]	3.6	0.3	8	3.7	0.2	5	3.8
WIIW[6]	3.8	0.1	3	3.9	0.0	0	3.6

Note: Negative error values indicate an overestimation, positive values indicate an underestimation.
Sources:
[1] Spring Report, 2005; Autumn Report, 2004-2005. Ljubljana: IMAD.
[2] Economic Trends, 2004-2005. Ljubljana: CCIS, SKEP (Economic Outlook and Policy Services).
[3] Monetary Policy Report, 2004-2005. Ljubljana: BS.
[4] World Economic Outlook, 2004-2005. Washington: IMF.
[5] Economic Forecasts, 2004-2005. Brussels: EC.
[6] Research Reports, 2004-2005. Vienna: WIIW.

*Unlike in the past, the IMAD's **error in forecasting the nominal economic growth rate for 2005** was greater than that for the real economic growth rate.* The nominal growth rate for 2005 was overestimated by 1.7 p.p. or 35% in autumn 2004 and by 1.2 p.p. or 24% in spring 2005.

*All institutions except for the Austrian institute WIIW overestimated the **average inflation for 2005** by 0.4 to 0.9 p.p. in autumn 2004. The WIIW's forecast was accurate.* Table 29 shows that in spring 2005 all institutions except the SKEP and the WIIW lowered their forecasts of 2005 inflation. The downward revisions totalled between 0.5 and 0.9 p.p. Thus, absolute errors ranged from 0.0 (IMAD and BS) to 0.5 p.p. (WIIW) or between 0% and 20%. The IMAD's 2004 autumn forecast of average inflation for 2005 was 3.0%. In the next forecast the figure was reduced by 0.5 p.p. to 2.5% and left unchanged in the autumn forecast for the current year, which means that the IMAD made accurate forecasts of 2005 average inflation in two consecutive forecasts. Similarly, the IMAD overestimated the year-on-year inflation for 2005 (2.9%) in the autumn 2004 forecast by 0.6 p.p. The figure was revised in both forecasts that followed: it was first lowered to 2.5% in spring 2005 and then increased to 2.7% in the autumn forecast for the current year. This last forecast overestimated year-on-year inflation by 0.4 p.p.

Table 29: **Errors made by forecasting institutions in their forecasts of average inflation for 2005**

	Autumn forecast for the year ahead			Spring forecast for the current year			Autumn forecast for the current year
	Forecast, as a %	Error p.p.	Error as a %	Forecast, as a %	Error p.p.	Error as a %	Forecast
Realised	**2.5**	-	-	**2.5**	-	-	**2.5**
IMAD	3.0	-0.5	-20	2.5	0.0	0	2.5
CCIS	2.9	-0.4	-16	2.9	-0.4	-16	2.6
BS	3.0	-0.5	-20	2.5	0.0	0	2.6
IMF	3.2	-0.7	-28	2.3	0.2	8	2.6
EC[1]	3.4	-0.9	-36	2.6	-0.1	-4	2.6
WIIW	2.5	0.0	0	3.0	-0.5	20	2.7

Note: [1]The European Commission forecasts inflation on the basis of the harmonised index of consumer prices. 2.5% is used as the realisation benchmark for all comparisons.
Source: see Table 28.

Forecasts of real economic growth in the period between 1997 and 2005 were marked by low-scale errors. The average error in the autumn forecasts for the year ahead and in the spring forecasts for the current year was around zero (-0.03), meaning that the IMAD's forecasts are free of any systematic bias. The IMAD overestimated real economic growth for the current year in its spring forecasts six times and underestimated it three times, whereas higher growth was anticipated in the autumn forecast approximately as often as lower growth (4 against 5). Over the past couple of years, the real economic growth rate was underestimated in both the spring forecasts for the current year and the autumn forecasts for the year ahead.

*In **nominal economic growth rates for the period between 1997 and 2005**, the IMAD's over-and underestimations were roughly the same in both the autumn forecasts for the year ahead and spring forecasts for the current year.* The average error in the autumn forecasts of nominal GDP growth for the year ahead was close to zero (-0.09) and in the spring forecasts for the current year it was -0.2 p.p., which shows a weak tendency of overestimation. Nominal GDP growth was underestimated five times and overestimated four times in this period in the autumn forecasts for the year ahead, and overestimated five times and underestimated four times in the spring forecasts for the current year. The same pattern as for the autumn forecasts for the year ahead can also be observed in the spring forecasts for the year ahead. In planning the budget, it is important to see if errors in the spring forecasts for the year ahead are usually negative or positive. Given the average error which is close to zero, the IMAD's forecasts are estimated to be free of systematic bias.

Average inflation in the observed period in the spring forecasts for the current year and in the autumn forecasts for the year ahead was more often underestimated than overestimated. Average inflation in the autumn forecasts for the year ahead was underestimated five times and overestimated four times by the IMAD. It was also underestimated five times, but overestimated three times in the spring forecasts for the current year and finally forecast accurately in the last forecast. Overestimates and underestimates of year-on-year inflation in the autumn forecasts for the year ahead were almost on a par with 4 against 5, whereas overestimates topped underestimates in the spring forecasts for the current year with 6 against 3. The average IMAD error in the autumn forecasts of average inflation for the year ahead and in the spring forecasts for the current year is 0.24 p.p. and 0.11 p.p., respectively. The average error in spring forecasting year-on-year inflation for the current year was the same as for average inflation (0.11 p.p.) and somewhat higher than for average inflation, at 0.53 p.p., in the autumn forecasts for the year ahead.

The accuracy measures of the IMAD's economic growth forecasts are relatively low and their standardised values are even about 50% lower, which reflects a relatively high degree of forecast accuracy. The IMAD's mean absolute errors in forecasts of real and nominal GDP growth total between 0.58 p.p. and 0.95 p.p. in the period between 1998 and 2005, while root mean square errors are just slightly higher, ranging between 0.79 p.p. and 1.14 p.p., which show the IMAD's high level of accuracy in forecasting these variables. Although the IMAD's relative accuracy measures for real GDP growth are slightly higher, this also holds for all other institutions that made forecasts of economic growth in the analysed period. Conversely, the relative values of accuracy measures in nominal economic growth forecasts are more than 50% lower.

*The absolute **accuracy measures of the IMAD's average inflation forecasts** for the period between 1998 and 2005 are comparable with the accuracy measures of economic growth forecasts. As with the accuracy measures for economic growth projections, the relative accuracy measures of the IMAD's inflation forecasts are 50% lower.* The mean absolute errors for average inflation are 0.42 p.p. in the forecasts for the current year and 0.89 p.p. in the forecasts for the year ahead. The IMAD's root mean square errors for average inflation total 0.58 p.p. for the current year and 1.19 p.p. for the year ahead. The mean absolute errors in the year-on-year

inflation forecasts are slightly higher than in average inflation forecasts, amounting to 0.96 p.p. in the spring forecasts for the current year and 1.50 p.p. in autumn forecasts for the year ahead. Similarly, the root mean square errors are higher in year-on-year inflation forecasts, totalling 1.30 p.p. in the spring forecasts for the current year and 2.09 p.p. in autumn forecasts for the year ahead.

The accuracy measures of both economic growth and inflation forecasts calculated for a shorter span, from 2001/2002 onwards, are considerably lower, resulting from the greater stability of the Slovenian economy and reflecting the improved methodology used in forecasting these variables. For the sake of comparison, let us give accuracy measures for inflation forecasts for a shorter period, from 2001/2002 on. There are two reasons for this: the changed forecasting methodology and comparability with the forecasts made by the Bank of Slovenia, which had not released its own forecasts prior to that period. Both absolute and relative accuracy measures of the inflation forecasts for the period between 2001/2002 and 2005 are considerably lower than for the entire period and are comparable with the accuracy measures of economic growth forecasts. Compared with the Bank of Slovenia, the IMAD's accuracy measures of inflation forecasts are slightly higher, which is not surprising in view of the BS' specific position as the bearer of monetary policy.

Table 30: Comparison of errors in economic growth and inflation forecasts for the current year made by forecasting institutions

	Spring forecasts for the current year				
	ME	**MAE**	**MAE/sd**	**RMSE**	**RMSE/sd**
Real economic growth					
IMAD, 1997-2005[1]	-0.03	0.58	0.69	0.79	0.93
IMAD, 2002-2005[1]	0.05	0.50	0.51	0.64	0.66
CCIS, 1997-2005[2]	0.10	0.66	0.77	0.82	0.97
BS, 2002-2005[3]	0.23	0.58	0.58	0.83	0.84
IMF, 1998-2005[4]	0.08	0.78	0.86	0.89	0.98
EC, 2001-2005 for Slovenia	0.12	0.56	0.64	0.80	0.91
ECFIN, 1969(70)-2001[5]	-0.09	0.51	0.29	0.75	0.42
ECFIN, forecast for member states[5]	-0.69 - 0.4	0.55 - 1.66	0.28 - 0.57	0.75 - 1.99	0.37 - 0.78
ECFIN, 1997–2001[5]	-0.10	0.34	0.53	0.52	0.81
Nominal economic growth					
IMAD, 1997-2005[1]	-0.21	0.93	0.31	1.07	0.36
Average inflation					
IMAD, 1997-2005[1]	0.11	0.42	0.18	0.58	0.25
IMAD, 2001-2005[1]	0.18	0.22	0.09	0.31	0.12
CCIS, 1997-2005[2]	0.22	0.62	0.26	0.75	0.32
IMF, 1998-2005[4]	0.71	1.01	0.44	1.58	0.68
EC, 2001-2005 for Slovenia	0.08	0.28	0.11	0.44	0.18
ECFIN, 1969(70)-2001[5]	-0.02	0.35	0.11	0.51	0.16
ECFIN, forecast for member states[5]	-0.26 - 0.15	0.32 - 1.04	0.11 - 0.24	0.43 - 1.40	0.16 - 0.31
ECFIN, 1997-2001[5]	-0.04	0.16	0.57	0.23	0.82
Year-on-year inflation					
IMAD, 1997-2005[1]	0.11	0.96	0.39	1.30	0.53
IMAD, 2001-2005[1]	-0.10	0.50	0.23	0.60	0.27
BS, 2002-2005[3]	0.05	0.15	0.07	0.16	0.08

Sources:

[1]Spring Report, 1997-2005. Ljubljana: IMAD.

[2]Economic Trends, 1997-2005. Ljubljana: CCIS, SKEP (Economic Outlook and Policy Services).

[3]The medium-term monetary policy framework, 2001; Monetary Policy Implementation Report, 2004-2004; Monetary Policy Report, 2004-2005. Ljubljana: BS.

[4]World Economic Outlook, 1998-2005. Washington: IMF.

[5]Keereman, F. (2003). Forecasts for the current year cover the period between 1969 and 2001; forecasts for the year ahead cover the period between 1970 and 2001 (Austria, Finland and Sweden are not included; data for Denmark, Ireland and Great Britain cover the period from 1973(74) onwards; data for Greece cover the period from 1981(82) on, for Spain and Portugal from 1986(87) on; calculations by IMAD.

Note: Negative values indicate an overestimation, positive values indicate an underestimation.

Abbreviations:

· ME ... Mean Error

· MAE ... Mean Absolute Error

· SDR ... Standard Deviation of Realizations

· MAE/sd ... Standardised Mean Absolute Error

· RMSE ... Root Mean Square Error

· RMSE/sd ... *angl*. Standardised Root Mean Square Error

Table 31: **Comparison of errors made by forecasting institutions in their forecasts of economic growth and inflation for the year ahead**

	Autumn forecasts for the year ahead				
	ME	**MAE**	**MAE/sd**	**RMSE**	**RMSE/sd**
Real economic growth					
IMAD, 1998-2005[1]	0.02	0.73	0.80	0.85	0.94
IMAD, 2002-2005[1]	-0.18	0.73	0.74	0.88	0.90
CCIS, 1998-2005[2]	-0.04	0.86	0.94	1.10	1.22
BS, 2002-2005[3]	0.15	0.75	0.76	0.94	0.95
IMF, 2000-2005[4]	-0.18	0.98	1.06	1.10	1.19
EC, 2002-2005 for Slovenia	0.10	0.80	0.81	1.00	1.02
ECFIN, 1969(70)-2001[5]	-0.32	0.89	0.54	1.28	0.78
ECFIN, forecast for member states[5]	-0.76 - 0.63	0.32 - 1.04	0.50 - 0.68	1.05 - 2.82	0.63 - 0.88
ECFIN, 1997-2001[5]	-0.20	0.52	0.80	0.76	1.16
Nominal economic growth					
IMAD, 1997-2005[1]	-0.09	0.95	0.33	1.14	0.40
Average inflation					
IMAD, 1998-2005[1]	0.24	0.89	0.38	1.19	0.51
IMAD, 2001-2005[1]	0.00	0.72	0.34	0.84	0.39
CCIS, 1998-2005[2]	0.51	1.06	0.46	1.43	0.62
IMF, 2000-2005[4]	1.30	2.00	0.76	2.43	0.93
EC, 2002-2005 for Slovenia	-0.60	1.10	0.50	1.14	0.51
ECFIN, 1969(70)-2001[5]	0.25	0.91	0.27	1.41	0.42
ECFIN, forecast for member states[5]	-1.21 - 0.18	0.72 - 1.89	0.21 - 0.46	0.78 - 2.84	0.31 - 0.58
ECFIN, 1997-2001[5]	-0.18	0.26	0.89	0.32	1.10
Year-on-year inflation					
IMAD, 1998-2005[1]	0.53	1.50	0.64	2.09	0.89
IMAD, 2001-2005[1]	-0.18	0.78	0.40	0.95	0.49
BS, 2002-2005[3]	0.18	0.47	0.24	0.70	0.35
IMF, 2000-2005[4]	0.53	1.50	0.64	2.09	0.89

Note: for abbreviations see Table 30.
Souces:
[1]Autumn Report, 1997-2005. Ljubljana: IMAD.
[2]Economic Trends, 1997-2005. Ljubljana: CCIS, SKEP (Economic Outlook and Policy Services).
[3]The medium-term monetary policy framework, 2001; Monetary Policy Implementation Report, 2002-2004; Monetary Policy Report, 2004. Ljubljana: BS.
[4]World Economic Outlook, 1998–2005. Washington: IMF.
[5]Keereman, F. (2003). Forecasts for the current year cover the period between 1969 and 2001; forecasts for the year ahead cover the period between 1970 and 2001 (Austria, Finland and Sweden are not included; data for Denmark, Ireland and Great Britain cover the period from 1973(74) onwards; data for Greece cover the period from 1981(82) on, for Spain and Portugal from 1986(87) on; calculations by IMAD..

Part II

Changes in the Slovenian labour market in the 1995-2005 period

1 Introduction and main findings

Changes in the economy and economic development are also reflected in changes that took place in the labour market. The second part of the Spring Report provides a comprehensive overview of the changes introduced to the Slovenian labour market between 1995 and 2005. We first describe the main reforms in the labour market and the changes they brought about, and continue by presenting the employment and unemployment trends, the structural features of registered unemployment and the characteristics of registered unemployment flows. We analyse the changes in the structure of employment by activity and measure the intensity of structural changes in manufacturing. We further measure the changes in education structure and present the individual returns to education in terms of differences in earnings by level of education. Finally, we present the changes in labour market flexibility with simple partial indicators. Using econometric estimates of labour market responsiveness to macroeconomic shocks we find that the flexibility of the Slovenian labour market is low. We conclude by analysing the expenditure on active employment policy and by attempting an assessment of its efficiency.

The overview has shown that the situation in the Slovenian labour market has improved over the last ten years. Partial labour market reform has been carried out. However, in order to increase the responsiveness of employment to economic growth and to raise employment levels, Slovenia needs a more comprehensive approach to labour market reform.

Developments recorded between 1995 and 2005 show that the situation in the Slovenian labour market has improved. The employment rate of the population aged 15-64 rose from 61.7% recorded in Q2 of 1995 to 65.9% in Q2 of 2005. At the same time, the employment rate of the young population (aged 15-24) dropped due to the higher participation of young people in education (from 53.6% in 1998 to 66.9% in 2003). The employment rates in other age groups increased (notably for older people, as a result of the pension reform).

Both methods used to measure unemployment show that unemployment in Slovenia has declined. The number of registered unemployed people dropped from around 123,000 recorded at the beginning in 1995 to around 90,000 registered at the beginning of 2005. However, this was in large measure the result of reviewing and weeding out the unemployment registers and the fact that the unemployment status precludes entitlement to participation in certain active labour market programmes. The ILO unemployment rate fell from 7.4% in Q2 of 1995 to 5.9% in Q2 of 2005, the lowest rate recorded to date. Despite the decline in unemployment, however, some problems are still critical: the percentage of long-term and unskilled unemployed people remains high, as does the unemployment rate of the young (aged 15-24).

The structure of employment has changed in favour of the service sector in the last ten years. However, Slovenia still lags strongly behind the EU average in terms of the share of people employed in the service sector, particularly in health care and social work, wholesale and retail trade, and business services, which have the potential to employ older and less educated people – two groups exhibiting low employment rates.

The increase in the employment rate for highly skilled people seen in 1995-2005 and its high level compared to the EU average indicate that *education is a significant determinant of the situation in the labour market.* Education is also an important underlying factor in the differences in earnings observed. Calculations of relative wages depending on the level of attained education show that the relative earnings of high-skilled workers rose in 1998-2002 regardless of the sector of employment (the only exception was the public sector, where the relative earnings of professionals dropped in 2002).

The institutional regulation of the labour market in Slovenia saw only minor changes in the 1995-2005 period. The reform of the labour market however requires a more comprehensive approach. The main changes implemented so far were the following: i) reduction of employment protection and the legalisation of temporary work agencies; ii) shortening of periods of entitlement to unemployment benefits; and iii) reform of the pension system. Analyses show that the first change, which made the employment legislation less restrictive, reduced the difference existing between permanent and temporary workers in terms of how their employment relationship tends to end. The second change has increased the probability that an unemployed person will find work in a given period. Finally, the pension reform which has among other things contributed to the gradual rising of the average retirement age, underpinned the significant increase in the (extremely low) employment rate of the population aged 55-64. The increase in temporary employment and the weak response of employment to stronger economic activity indicate that regular employment is still fairly protected in Slovenia and employers are still careful when hiring new employees. In addition to the costs of hiring and firing, this is partly due to the high fiscal burden on wages. To make employment more responsive to economic growth, the labour market should undergo further reform, however not just in the area in employment protection. The increased flexibility, measured as the incidence of part-time and temporary employment, has strongly affected young people. The figures do not confirm the general opinion that temporary employment is very widespread in Slovenia since the country is ranked only slightly above the EU average according to this indicator. In contrast, the incidence of part-time employment is notably low in Slovenia.

Slovenia's expenditure on active labour market policy has been relatively low in the last few years (between 0.33% and 0.4% of GDP) compared with other countries. The structure of this expenditure shifted in favour of training programmes on account of employment incentives in the private sector in 1995-2005. Analyses of the effectiveness of active labour market policy programmes in other countries show, however, that programmes that combine 'services and sanctions' are the most successful in increasing participant employment probability. These programmes include all activities that improve the efficiency and intensity of job seeking and counselling the unemployed, including sanctions and discipline for those who fail to fulfil their obligations or do not actively seek work. In addition, the government must provide programmes of subsidising jobs in the private and the public sectors for the 'disadvantaged unemployed'. In order to make active labour market policy in Slovenia more efficient, the programmes should be evaluated by means of independent research methods and the national employment service should strengthen the 'services and sanctions' approach, which requires the improvement of the ratio

of unemployed persons to employment advisors and their higher proficiency. Active employment policy schemes should be joined into topic-specific programmes with clearly defined aims. The currently fragmented programmes would thereby receive more stable funding and achieve better targeting aimed at the needs of both employers and the unemployed.

2 Changes in labour market regulation in Slovenia, 1995-2005

Changes in the regulation of labour markets are often referred to as labour market reforms. The European Commission's catalogue of labour market reforms includes changes in the regulations and policies in the following areas: labour taxation, unemployment benefits, employment protection, active labour market policy, pensions, wage bargaining, organisation of working time, and migration. The discussion below focuses on those areas where major changes were introduced in Slovenia. These include changes in labour code with regard to employment protection, changes in the duration of unemployment benefits and the main elements of the pension reform.

2.1 Changes in the regulation of employment contracts according to the Employment Protection Legislation Index (EPLI)

In the economic literature, one of the significant institutional and structural changes in the labour market is often expressed by the Employment Protection Legislation Index (EPLI). The index was designed by the OECD and allows an international comparison of employment protection. It is a summary of 22 first-level employment legislation indicators which can be grouped into three main areas: i) the protection of employees against individual dismissals; ii) the regulation of temporary employment (fixed-term employment and temporary work agencies); and iii) specific requirements concerning collective dismissals. These 22 indicators are constructed as indices taking values of 0 to 6, while the composite EPL index is a weighted average of the indicators with higher values of the EPLI indicating stricter legislation (OECD Employment Outlook, 1999). Changes in the employment protection regulation in Slovenia are presented by means of this index to allow international comparability.

Vodopivec (2005) estimated the Slovenian EPLI for the 1991-2004 period. In the early 1990s, the overall value of the index exceeded 4 and did not change significantly until 1998. The amended Employment and Insurance against Unemployment Act that entered into force in 1998 licensed the operation of temporary work agencies and hence contributed substantially to the reduction of the overall EPLI to 3.1. Changes brought about by the new Employment Relationship Act that entered into force in 2003 caused the total index value to drop further to 2.7. This law underpinned the changes leading towards greater flexibility in the field of permanent employment protection, where the estimated index fell from 4.0 to 2.7 thanks to shorter notice periods and lower levels of severance pay. Collective dismissals also became more flexible. On the other hand, changes in the area of fixed-term contracts resulted in their higher rigidity due to additional restrictions introduced in this field.

While some experts find the EPL index to be faulty, it is nevertheless frequently used as a variable of institutional changes in the labour market.[75] Bertola, Boeri and

---

[75] The fact that the EPLI assesses employment legislation which may be applied and implemented to varying degrees across countries is one of the main weaknesses of the EPLI as a measure of labour market flexibility.

Table 32: **Employment Protection Legislation Index in selected years**

	1995	1998	2001	2002	2003	2004
Employment Protection Legislation Index (overall)	4.1	3.1	3.1	3.1	2.7	2.7
(a) Regular contracts	4.0	4.0	4.0	4.0	2.7	2.7
Procedure	5.0	5.0	5.0	5.0	3.0	3.0
Notice and severance pay	3.1	3.1	3.1	3.1	1.8	1.8
Difficulty of dismissal	4.0	4.0	4.0	4.0	3.3	3.3
(b) Temporary contracts	3.8	1.3	1.3	1.3	2.0	2.0
Fixed-term contracts	2.0	2.0	2.0	2.0	2.3	2.3
Temporary work agency employment	5.5	0.5	0.5	0.5	1.8	1.8
(c) Collective dismissals	5.3	5.3	5.3	5.3	4.8	4.8

Source of data: Vodopivec (2005), p. 38.

Cazes (2000) point out that not all components of the index can be measured exactly, giving as an example court decisions in disputes over the interpretation of allegedly justified reasons for dismissal. We could say the same about the assessment of the 'difficulty of dismissals'. Therefore, comparisons of the estimated indices are particularly problematic if they are made by different authors.

Using econometric analysis, Vodopivec (2005) finds that the new Slovenian law, which made the employment legislation less restrictive, significantly contributed to the reduction of differences in exits from the labour market among workers on regular and temporary contracts in the first year of its application. The index itself also shows lower rigidity, although the regulation of some areas still does not enable sufficient flexibility.

2.2   Changes in the duration and level of unemployment benefits

In economic theory, and particularly in job-search theory, the length of receiving unemployment benefits significantly affects the behaviour of an unemployed person and their search for work. As a rule, a potentially long duration of unemployment benefits does not stimulate the unemployed to seek a job and to start working as soon as possible. An activating employment policy therefore plays a crucial role here.

The amended Slovenian Employment and Insurance against Unemployment Act, adopted at the end of 1998, cut the potential period of entitlement to unemployment benefits for some groups of the unemployed. The changes in periods by group are shown in Table 33.

Van Ours and Vodopivec (2004) estimated the probability that an unemployed person would find work before and after the amended duration of the unemployment benefit spellsenforced in 1998. The results show that a shorter duration of receiving unemployment benefits significantly increased the probability that a person would

Table 33: **Overview of changes in the duration of entitlement to receiving unemployment benefits**

	Duration of benefits in months	
Obdobje zavarovanja	**Before the amendment**	**After the amendment**
2.5-5 years	6	3
5-10 years	9	6
10-15 years	12	6
15-20 years	18	9

Sources of data: Employment and Insurance against Unemployment Act, Official Gazette No. 5-2223/91, 8. 2. 1991. Employment and Insurance against Unemployment Act, Official Gazette No. 69-3370/98, 9. 10. 1998.

find work in a given period of time. For example, for unemployed men the overall probability to leave unemployment within 6 months was 45.8% before the law was amended and 51% afterwards, while the corresponding probability for unemployed women rose from 35.8% to 42%.

Since the level of unemployment benefits relative to previously earned income did not change in the period from 1995 to 2005[76], the replacement rates also did not change significantly. A comparison of replacement rates[77] shows that these average out at 88% for the minimum wage and 72% for the average wage in the OECD countries. The replacement rate for the average wage is roughly the same in Slovenia while for the minimum wage it is 5 percentage points lower than the OECD average (Vodopivec, 2005, p. 27).

2.3   Key elements of the pension reform

The pension reform significantly affected the exit rate from the labour market and consequently the employment rate of the elderly and therefore its main features deserve to be presented here. The reform of the Slovenian pension system was enacted at the end of 1999 and became applicable in 2000.

In compulsory insurance, the conditions for retirement were tightened. The full retirement age for women was raised and the required insurance period prolonged. With a minimum of 20 years of paid insurance, men can now retire at the age of 63 and women at the age of 61 in Slovenia. The minimum retirement age was raised from 53 to 58 years by the reform. The new retirement criteria are being applied gradually.

Once the criteria for retirement are fulfilled, staying active is rewarded while early retirement results in lower pensions. Staying active beyond the full retirement age is rewarded as follows: once a person reaches the age of 63 (men) / 61 (women), the

---

[76] The cash benefit for the first three months totals 70% of the recipient's average wage earned in the previous 12 months. After three months, the recipient is entitled to 60% of their average income.

[77] The replacement rate represents the proportion of income kept by an individual once they become unemployed relative to their income during employment.

pension is raised by 3.6% for the first year of their staying active beyond this age, by 2.4% for the second year and by 1.2% for the third year. The accrual base is raised by a further 1.5% each year. The criteria for the accrual of pensions began to apply immediately while the already granted rights remained at the achieved level.

As can be seen from Table 34, the average age of new recipients of old-age pensions rose by 2 years and 11 months for men and by 3 years and 1 month for women. The rising of the retirement age was sped up strongly by the enforcement of the pension reform in 2000, since this age rose by 2 years and 3 months for both men and women in the period between 1999 and 2005.

Table 34: **Average age of new recipients of old-age pensions**

Year	Men		Women		Total	
	Years	Months	Years	Months	Years	Months
1992	56	2	52	6	54	3
1993	56	2	53	3	55	1
1994	57	7	53	2	55	0
1995	57	6	53	1	55	7
1996	57	6	54	0	55	8
1997	58	3	54	11	56	6
1998	58	5	55	3	56	10
1999	58	2	54	10	56	7
2000	59	2	55	5	57	2
2001	59	3	55	5	57	2
2002	59	11	55	6	57	8
2003	59	11	55	8	57	8
2004	60	7	56	7	58	7
2005	60	5	57	1	58	10

Source of data: monthly statistical overview of the Pension and Disability Insurance Institute, March 2006.

3 Trends in the population's employment rates

The employment rate[78] of the population aged 15-64 increased by 4.3 percentage points in 1996-2005. A breakdown by age group shows that the employment rate of young people (aged 15-24) dropped in this period. This is related to the increased participation rate of this age group in education, which rose from 53.6% to 66.9% between 1998 and 2003 and is among the highest in the EU. The employment rates of other age groups rose in the analysed period. The most notable rise was observed in the previously extremely low employment rate of the elderly (aged 55-64) after the mass early retirement seen in the early 1990s stopped and the pension reform was implemented (see Chapter 2.3). Compared with other countries, Slovenia still has low employment rates of young people (aged 15-24) and older people (aged 55-64). Further, we should not forget that Slovenia has a relatively high share of unpaid family workers in total people in employment.

Table 35: **Employment rates by age group, in %**

	1996q02	1999q02	2001q02	2002q02	2003q02	2004q02	2005q02
15-24 years	35.5	32.9	30.3	31.1	28.6	33.8	31.7
men	37.1	34.7	34.1	34.8	33.3	38.3	36.4
women	34	31.2	26.4	27.2	23.6	29.1	26.8
25-54 years	82	82.2	83.8	84.1	82.6	84	84.1
men	85.4	85.6	87.5	87	85.7	86.2	86.4
women	78.5	78.6	80	81	79.4	81.7	81.7
55-64 years	19.9	23.4	23.4	25.9	22.7	30.1	31.2
men	28.1	32.2	33	37.4	31.8	41.2	42.5
women	12.9	14.9	14.4	15.1	14.6	19.6	20.1
15-64 years	61.7	62.5	63.6	64.3	62.5	65.6	66
men	66	66.8	68.5	68.7	67.2	69.9	70.2
women	57.5	58.1	58.6	59.8	57.7	61.3	61.7

Source of data: Eurostat.

That the level of education significantly determines people's job prospects is also shown by the dynamics and rates of employment by education level. The employment rate of people with a completed tertiary education rose the most in the analysed period; the rate of low-skilled people also rose moderately, while the rate of those with a completed secondary education dropped. Since the share of people with tertiary education in the total adult population in Slovenia is lower than the EU average, Slovenia's employment rate of high-skilled people is higher than the EU average. The large difference between the employment rates of people with an

---

[78] The employment rate is the ratio of people in employment to people of a given age. The Lisbon Strategy's aim is to raise the overall employment rate of the population aged 15-64 to 70%.

elementary or secondary education compared to the employment rate of people with tertiary education is partly due to the fact that part of the population in this age group (15-64) is still involved in initial education. The employment rate of low-skilled people in Slovenia is significantly lower than the EU average, which is largely attributable to the low employment rate of the elderly and the insufficiently developed service sector.

Table 36: **Employment rates by attained level of education for the population aged 15-64, in %**

	1996q02	2000q02	2001q02	2002q02	2003q02	2004q02	2005q02
Low education	39.6	39.7	42	41.8	38.2	41.2	40.7
men	44.8	43.3	46.4	45.2	42.5	45.2	45.2
women	35.6	36.9	38.3	39	34.5	37.8	36.6
Secondary education	71.3	69.5	69.3	69.5	67.5	70.7	70.7
men	73.8	73.4	74.1	74.3	72.7	75.3	75.3
women	68.3	64.8	63.4	63.7	61.2	65.2	65.1
Tertiary education	83.5	85.8	85.7	86.4	85.2	86.8	86.5
men	83.4	85.9	85.8	86.6	85.4	87.7	87.9
women	83.5	85.7	85.6	86.2	85	86.1	85.4

Source of data: Eurostat.

4 Analysis of unemployment trends

We analyse unemployment trends using both data sources available for Slovenia: the labour force survey which provides internationally comparable data on the activity of the population, and registered unemployment which is based on the unemployment register kept by the Employment Service of Slovenia (ESS).

There is a significant difference between the so-called registered unemployment (data collected by the ESS) and ILO unemployment (the SORS' labour force survey). According to the ILO's definition, a person is unemployed if he or she[79]: (i) has not worked for more than one hour in the previous week and is not (self-)employed; (ii) has actively sought work in the last four weeks; (iii) is available to start work within the next two weeks after they have been surveyed.

Table 37: **Comparison of unemployment levels according to the ILO's definition and the ESS' unemployment register**

	ILO unemployment	Registered unemployment	Registered unemployed but not ILO unemployed	
	thousands		thousands	%
1998	77	126	63	50.0
1999	71	119	60	50.4
2000	69	107	54	50.4
2001	57	102	50	49.0
2002	58	103	53	51.4
2003	63	97	44	45.3
2004	64	93	41	44.0
2005	67	92	38	41.3

Source of data: SORS.

In 2005, a total of 92,000 people were registered as unemployed on average, among whom 38,000 did not fulfil one of the criteria for ILO unemployment while 12,000 were unemployed according to the survey but were not registered as unemployed. The difference between the two data sources has been narrowing gradually as a result of weeding out the ESS registers.

In addition to the different definitions of unemployment, the main reasons for the relatively large disparity between registered and ILO unemployment levels in Slovenia are the following: (i) the strong passivity of a part of the registered unemployed who do not actively seek work, which is mostly linked to the high share of the long-term unemployed who become passive and think that they cannot find work ('discouraged workers'); (ii) the activity of registered unemployed people either in the grey market[80] or as unpaid family workers[81] in a family business (small business, enterprise, farm).

---

[79] Common criteria of the International Labour Organisation (ILO).

[80] The estimated levels of grey market activity in various sources are relatively high.

[81] Slovenia has a relatively high share of unpaid family workers in the total employed labour force compared with other EU countries.

The substantial divergence between the two unemployment rates is also attributable to the following: (i) the entitlement to some social insurance benefits in Slovenia is conditional on the unemployment status that is granted upon registering in the unemployment register, which raises the interest of an unemployed person to do so; (ii) the low ratio between employment advisors and unemployed people reduces the possibility of closer monitoring and vocational counselling on one hand and control over the activity of the unemployed on the other.

Despite the considerable gap between the two unemployment rates in Slovenia, both data sources show roughly the same trend in 1995-2005 (unemployment rates fell in 2005 over 1995) and point to similar problems (high shares of the long-term unemployed and low-skilled people and a high youth unemployment rate).

4.1   Dynamics of the ILO unemployment rate

The ILO unemployment rate totalled 7.4% in Q2 of 1995 and exceeded 7% up until 2000, having dropped to below 7% in 2001 and hovered at the level between 6.3% and 6.7% in the period from 2001 to 2005. If we look at the unemployment rates recorded in 1998-2005[82] by age group we can see that the unemployment rate of young people (aged 15-24) dropped most remarkably yet nevertheless remains relatively high.

Table 38: **Unemployment rates by age group (average annual values), in %**

	15-24	25-49	50-64	Total
1998	18.6	6.5	5	7.9
1999	18.1	6.3	5.6	7.6
2000	16.8	5.7	6.2	7
2001	18.1	5.1	4.8	6.4
2002	16.7	5.4	4.3	6.4
2003	17.4	5.9	4.3	6.7
2004	16.3	6.8	4.3	6.3
2005	16	5.9	4.4	6.5
Difference 2005-1998 in p.p.	-2.6	-0.6	-0.6	-1.4

Source of data: SORS.

Slovenia's long-term unemployment rate[83], an indicator of the problems existing in the labour market and the area of social cohesion, rose in the 1996-2000 period, peaked in 2000 (4.1%), and began to decline gradually thereafter. However, it still totalled 3.2% in 2004, only marginally less than in 1996.

---

[82] This is the period for which average annual data are available; before that, the labour force survey was conducted only once a year (for the second quarter).

[83] The rate of long-term unemployment is the ratio of the long-term unemployed (people unemployed for more than one year) to the total labour force.

Data show that long-term unemployment in Slovenia has not decreased in the analysed period. The active labour market policy programmes will therefore have to concentrate more on the reduction and prevention of long-term unemployment. That long-term unemployment is still critical is also evident from the relatively high share of the long-term unemployed in total unemployment (the population aged 15-64), which totalled 51.0% in Q2 of 2005, even more than in 1996. Long-term unemployment generally grows with age, reflecting, among other things, the lower employability of the elderly. A breakdown by age group shows that long-term unemployment has decreased somewhat among young people (aged 15-24) and the middle-aged generation (25-49) while the problem became even more acute among the elderly. Data from the unemployment register show that long-term unemployment tends to correlate closely with old age, low education levels and serious impediments to employment (e.g. disability). In the last few years, the proportion of long-term unemployed seekers of their first job has also risen.

Table 39: **Long-term unemployment rate (annual rates) and shares of long-term unemployed (data for Q2) in Slovenia, in %**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Share of long-term unemployment, 15-64 years	49.8	51.9	45.3	41.8	62.7	63.2	54.7	56.7	53.1	51.0
Long-term unemployment rate	3.4	3.4	3.3	3.3	4.1	3.7	3.5	3.5	3.2	N/A

Source of data: Eurostat.

4.2 Changes in registered unemployment

4.2.1 Changes in the structure of registered unemployment

The previous decade was characterised by fairly dynamic changes in the structure of registered unemployment. The main structural problems of registered unemployment in the 1990s were the following: the rising long-term unemployment, the growing unemployment of the population aged over 40, the increasing number of unemployed disabled people and the high unemployment of low-skilled people. The proportion of young people among the unemployed was also high but it declined steadily throughout the decade; on the other hand, female unemployment, which was low in the early 1990s, rose until the end of the decade. This was related to the fact that the beginning of the 1990s mostly saw the restructuring of male-employment-dominated activities such as heavy industries and construction, while the traditionally 'female' industries, such as the textile and other light labour-intensive industries, were only similarly adversely affected later on, notably in the present decade. In 1995, the share of women among the unemployed equalled their share among the employed population, after which it rose to 53.8% by 2005. The shares of the long-term unemployed, the unemployed aged over 40 and the low-skilled unemployed were the highest in 1999 and 2000 (around 63%, 52% and 47.5%, respectively). After that they began to decline. The proportion of low-skilled unemployed people started to fall in 2003, shrinking from the level of many years of around 47% to 40% by 2005. On the other hand, the proportion of young people among the unemployed has started to rise again in the last few years, particularly

among those who have completed secondary or tertiary education. The share of disabled people dropped in 2003 as a result of their transfer to a separate register[84].

Table 40: **Proportions of groups of unemployed people in 1995-2005 (as a % of the average annual number of the registered unemployed)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	46.7	48.1	48.8	49.9	50.6	50.7	50.8	51.2	52.8	53.1	53.8
First-time job-seekers	19.7	19.4	18.3	18.1	18.7	17.9	18.8	19.6	23.2	25.2	24.3
Young people (aged 26 or younger)	32.2	31.4	29.1	26.3	25.8	23.4	24.1	24.0	26.1	26.2	24.2
With an upper-secondary and a tertiary education	4.7	4.5	4.4	4.5	4.3	4.5	4.6	4.8	6.1	7.2	7.6
With a secondary education	48.6	48.5	48.5	48.6	48.2	48.3	48.3	48.2	49.7	51.2	51.6
Without an education	46.7	47.0	47.1	46.9	47.5	47.2	47.0	47.0	44.2	41.6	40.8
Unemployed for over 1 year	62.1	56.2	57.1	61.7	63.7	62.9	58.9	54.4	48.6	46.2	47.3
Aged 40 or older	34.1	36.6	40.8	46.0	48.5	51.7	50.5	49.4	44.1	42.8	43.6
Aged 50 or older	12.6	14.6	18.9	21.8	24.1	27.5	27.0	25.4	21.4	21.0	22.7
Disabled people	5.2	6.6	7.8	9.3	11.6	15.2	17.9	18.3	10.7	9.2	9.9
Recipients of benefits or assistance	30.3	30.3	32.6	32.6	31.0	29.1	25.3	23.7	24.8	24.0	25.4

Source of data: ESS.

4.2.2 Analysis of registered unemployment flows

The analysis of registered unemployment flows in the last ten years shows that the number of people registered as unemployed is declining. However, the main reason for this was that more people were struck off the unemployment register for reasons other than finding work. This type of deletion increased notably after enforcement of the amended Employment and Insurance Against Unemployment Act from 1998 (Official Gazette No. 69/98).[85] The bulk (over 40%) of people were struck off from the register for reasons other than employment resulted from a neglect of their obligations; within that, the main reason was that the person registered as unemployed was unavailable for work. Other, less frequent types of neglecting such obligations included: refusing a job, passivity in seeking work, and refusing to participate or neglecting duties in active labour market policy schemes. Transition to various types of inactivity (education, retirement, maternity leave etc.) was the reason for striking off around one-third of the unemployed for reasons other than work. A further 20% were struck off for other reasons; among these, over a half signed off voluntarily.

---

[84] This transfer was made for disabled workers who are recipients of a disability allowance from the PDII and have been registered at the ESS as unemployed for a minimum of two years, during which time they were unable to find work despite being referred to employers and involved in active labour market policy schemes, or because there were no suitable jobs for them. The registers based on other laws are kept in compliance with the Rules on the Contents and the Method of Keeping Official Records in the Field of Employment, which were published on 4 October 2002 pursuant to the amended Employment and Insurance Against Unemployment Act.

[85] The new Article 70 of this law stipulated in which cases the ESS is no longer obliged to keep an unemployed person in the unemployment register. The main reasons other than people becoming employed or self-employed can be classified in three groups: inactivity, neglecting the obligations of an officially unemployed person and other reasons which are more or less of a status-related nature.

The total inflow shows a rising trend, mainly owing to the growing inflow of people who lost a fixed-term job. The total inflow into unemployment was rising in the second half of the previous decade, going up from around 80,000 recorded in 1995 to approximately 95,000 registered in 2004-2005. The proportion of people whose fixed-term job ended in the total inflow increased from roughly 25% in 1995 to approximately 36% in 2005. Fixed-term contracts have been a very common new type of employment from the very beginning of the transition period. This inflow turned out to be a very common reason for the inflow into unemployment and accounts for approximately one-third of the total inflow and roughly half of the inflow into registered unemployment due to the loss of work. Around a quarter of the total inflow into registered unemployment is generated by the inflow of first-time job-seekers. In 2005, this inflow decreased after the strong surges seen in 2003 and 2004, yet it nevertheless remains at the level of the average over many years, i.e. around 22,000 people annually. The rest of the inflow into registered unemployment was caused by other reasons for losing work, the two most common ones being voluntary resignation and a dismissal for business reasons. Each contributed around 10% to the total inflow, noting that the proportion of the former is shrinking while that of the latter is growing. Company bankruptcies are another significant reason for the inflow into unemployment, however their contribution

Table 41: **Registered unemployment flows in 1995-2005**

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Number at the beginning of the year, thousands	**123.5**	**126.8**	**124.5**	**128.6**	**126.6**	**114.3**	**104.6**	**104.3**	**99.6**	**96.0**	**90.7**
2. Total inflows during the year, thousands	**79.6**	**86.5**	**78.5**	**77.0**	**80.8**	**82.3**	**87.7**	**87.4**	**94.2**	**95.6**	**94.4**
- first-time job-seekers	22.1	21.1	17.9	18.6	19.6	20.5	21.9	21.4	25.4	26.0	21.7
- termination of fixed-term job	20.3	23.4	23.7	29.5	30.8	28.2	32.1	32.9	32.2	33.1	34.5
- voluntary resignation	9.2	8.9	9.8	9.9	8.4	9.8	10.0	8.8	8.3	8.3	7.0
- bankruptcy	8.6	11.6	8.0	6.7	6.6	6.9	5.8	7.5	7.0	4.7	4.6
- permanent redundancies and business reasons	9.8	12.5	14.4	10.6	6.9	5.2	5.4	6.1	10.0	11.0	10.6
- other reasons	9.5	9.0	4.7	1.7	8.4	11.9	12.5	10.7	11.3	12.6	16.0
3. Total registered unemployed people during the year (3=1+2), thousands	**203.2**	**213.2**	**202.9**	**205.6**	**207.4**	**196.7**	**192.3**	**191.7**	**193.9**	**191.6**	**185.1**
4. Total outflows during the year (4=5+6), thousands	**76.4**	**88.7**	**74.4**	**79.0**	**93.1**	**92.1**	**87.9**	**92.1**	**97.9**	**100.8**	**92.6**
5. - found work	60.0	54.6	56.1	55.4	62.4	60.2	52.7	52.2	50.5	54.3	53.9
as a % of (3)	29.5	25.6	27.6	27.0	30.1	30.6	27.4	27.2	26.1	28.3	29.1
- community employment programme	4.3	4.7	5.4	10.6	10.3	10.5	9.4	7.6	6.7	6.1	5.7
- self-employment promotion programme	3.2	2.3	1.6	1.6	1.6	1.7	1.7	1.0	1.2	1.7	1.7
- other subsidised employment schemes	11.7	7.6	10.7	15.8	10.9	11.7	10.3	4.0	4.5	8.3	5.8
- unsubsidised jobs	40.8	40.0	38.4	27.4	39.5	36.4	31.2	39.6	38.1	38.1	40.7
6. - struck off for other reasons	16.4	34.1	18.3	23.5	30.7	31.9	35.3	39.9	47.3	46.6	38.7
as a % of (3)	8.1	16.0	9.0	11.4	14.8	16.2	18.3	20.8	24.4	24.3	20.9

Source of data: ESS.

has declined. In 2004 and 2005, they accounted for just 5% of the inflow into registered unemployment (compared with the 11% recorded on average in the 1990s).

The outflow from unemployment as a result of finding work has been lower than the inflow into unemployment due to the loss of work ever since the beginning of the transition period (except in 1994, 1995 and 1999). In the last decade, this ratio has deteriorated even further (from around 95% in the second half of the 1990s to 75% in 2005). The number of people registered as unemployed who found work is generally lower than in the 1990s (see Table 41), primarily owing to the lower number of people employed through the active labour market policy schemes (community employment programmes and other subsidised employment schemes), whereas the number of unsubsidised jobs for the unemployed slightly increased on average compared to the second half of the 1990s.

5   Changes in the structure of employment

5.1   Changes in the structure of employment at the level of activity

In 1995-2005, the structure of employment by sector in Slovenia changed in favour of the service economy, albeit at a relatively slow pace. The development of the structure by sector generally followed the development seen in other European countries, although Slovenia still records comparatively high shares of people employed in agriculture and manufacturing and a low proportion of those working in the service sector.

The proportion of people employed in the agricultural sector (agriculture, forestry, fishing), which is one of the highest in the EU, has fluctuated considerably over the years, exhibiting a very slow decreasing trend. According to data from the labour force survey, it averaged out at around 10% in the 1995-2005 period (the EU average was about half this level). This share was the highest in 1998 (11.5%) and the lowest in 2003 (8.4%). In 2005, it totalled 9.1%. Employment in agriculture also swings seasonally within a year due to the high share of unpaid family workers (which in Slovenia is similarly among the highest in Europe). The oscillations and the slow decrease in the proportion of people working in the agricultural sector can be explained as a consequence of the poor job prospects of particularly older and low-skilled people of working age who, even as land owners or tenant farmers, make a living from farming one way or the other. Employment in agriculture contributes to the relatively low ILO unemployment rate in Slovenia since the labour force survey tends to underestimate unemployment in rural areas.

The fraction of people employed in industry (activities C–E according to NACE classification) has been shrinking at a faster rate than employment in agriculture and shows a constant falling trend. According to the labour force survey, this share fell from 38.1% to 31.0% in the 1995-2005 period, of which the proportion of people employed in manufacturing dropped from 35.7% to 29.4%. In 2005, Slovenia had the highest proportion of people employed in manufacturing in the EU (the average corresponding share in the EU-25 was 18.3%, in the EU-15 17.6%). The share of workers employed in construction was on the rise in the last decade (following the sharp drop in the number of construction workers in the early 1990s). According to the labour force survey, it increased from 5.1% in 1995 to 6.1% in 2002. Since then it has hovered at the level of around 6% (which is almost 2 p.p. less than the EU average).

The proportion of people employed in the service sector is relatively low in Slovenia. It is still much lower than in most European countries and has been rising only sluggishly. In 2005 it totalled 53.8% in 2005 according to the labour force survey, having risen from the 46.4% seen in 1995. The corresponding average rates in the EU in 2005 were 67.7% in the EU-25 and 69.7% in the EU-15.

Among service activities, the biggest rise in employment was observed in business activities (the share of people employed in this sector almost doubled between 1995 and 2005, going up from 3.7% to 6.4%), civil service and education. The only service activities where Slovenia's proportions of employment exceeded the EU-25

average were hotels and restaurants, and education, while Slovenia strongly lagged behind the EU-25 averages in health care and social work, wholesale and retail trade, and business activities.

Table 42: **Structure of people in employment by sector according to labour force surveys, Slovenia and the EU; 1995, 2000 and 2005**

	Slovenia			EU-15			EU-25	
	1995	2000	2005	1995	2000	2005	2000	2005
Total persons in employment according to survey								
Production activities:	**53.6**	**48.1**	**46.2**	**35.6**	**33.3**	**30.3**	**35.3**	**32.3**
Agriculture, forestry, fishing (A-B)	10.5	10.0	9.1	5.2	4.3	3.7	5.7	4.9
Industry (C-E)	38.1	32.7	31.0	22.6	21.1	18.6	21.8	19.6
of which manufacturing	35.7	30.8	29.4	21.3	20.0	17.6	20.3	18.3
Construction (F)	5.1	5.4	6.1	7.9	7.9	8.0	7.8	7.9
Services:	**46.4**	**51.9**	**53.8**	**64.4**	**66.7**	**69.7**	**64.7**	**67.7**
Production services (G-I)	21.3	23.0	22.0	24.9	25.1	25.2	24.8	25.0
Financial and business services (J-K)	6.1	7.7	8.9	10.5	12.1	13.3	11.2	12.5
Community and personal services (L-P)	19.0	21.2	22.9	29.0	29.6	31.2	28.6	30.2
of which: - civil service	4.4	5.6	6.1	7.8	7.6	7.4	7.3	7.3
- education	5.8	6.6	7.6	6.6	6.7	7.1	6.8	7.2
- health care and social work	5.0	5.0	5.4	9.1	9.5	10.4	9.0	9.8
- other community and personal services	3.8	4.0	3.7	5.5	5.8	6.3	5.5	6.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Unpaid family workers	4.2	4.8	4.6	2.1	1.7	1.2	2.0	2.0

Source of data: SORS, Labour Market Statistics: Labour Force Surveys, Eurostat; IMAD's calculations; unknown answers are disregarded.

5.2 Changes in the structure of employment and intensity of the structural shift in employment in Slovenian manufacturing

The technological transformation of the total economy required to raise national competitiveness levels also brings about changes in the structure of employment within the manufacturing sector. The dynamics of this process are determined by the intensity of structural changes in employment that reflects the mobility of labour across sectors and the employment absorption capacity of manufacturing sub-industries within the sector over a given period of time. We measure it using the indicator of intensity of structural change, defined by Landesmann (2000) as follows:

$$ S = \sqrt{\sum_{i=1}^{m} \left[\left(sh_{i,t+k} - sh_{i,t} \right)^2 \cdot \left(\frac{sh_{i,t}}{100} \right) \right]} $$

sh_i: share of the i-th among m sub-industries in manufacturing's total employment (in the calculations, the manufacturing sector is divided into 14 sub-industries according to the SCA)

t: base year or period; $k = 1 .... n$

After the relatively slow structural adjustment in the 1997-2004 period, the dynamics of structural changes in Slovenia accelerated somewhat in 2005. Calculations based on this indicator of structural shifts show that the intensity of manufacturing's restructuring, measured by changes in employment[86], was at a higher level in 2005 than in previous years (indicator value of 0.48) and closer to the value from 1996. Compared with the dynamics of structural changes in countries such as Finland, Hungary and Ireland, which have made a major breakthrough in the last decade by increasing their employment shares in high-tech industries[87], the restructuring process in Slovenia has been much less dynamic and vigorous. A comparison of the intensity of structural changes in employment seen in Slovenia during the entire period analysed shows a similar picture: the indicator value for Slovenia is much lower (2.49) than those of the three compared countries (Finland: 4.22; Hungary: 7.60; Ireland: 3.67).[88]

In Slovenia, the manufacturing sector as a whole has undergone a process of 'defensive' restructuring. With the exception of some industries (chemical industry and the manufacture of rubber and plastic products), employment generally dropped from 1995 to 2005 in most subsectors of manufacturing. On the whole, the number of jobs in manufacturing declined from the initial 284,000 by around 45,000 or

Table 43: **The structure of employment in the Slovenian manufacturing sector**

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
D	**Manufacturing**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
DA	Food, beverages, tobacco	7.5	8.1	8.5	8.4	9.1	9.0	8.8	8.8	8.8	8.8	8.3
DB	Textiles and textile products	15.2	14.6	14.9	14.6	14.2	13.6	13.0	12.2	11.3	10.6	9.8
DC	Leather and leather products	4.0	4.0	3.6	3.8	3.5	3.4	3.3	3.2	3.1	2.9	2.5
DD	Wood and wood products	5.1	5.8	5.5	5.3	5.5	5.3	5.2	5.1	5.1	5.1	4.9
DE	Pulp, paper; publishing. printing	6.7	6.9	6.8	6.8	6.8	6.5	6.4	6.5	6.5	6.5	6.4
DF	Petroleum products	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.0	0.0
DG	Chemicals, chemical products, man-made fibres	4.9	5.4	5.5	5.4	5.4	5.4	5.4	5.5	5.7	5.7	5.4
DH	Rubber and plastic products	4.6	4.5	4.7	4.9	4.9	4.9	5.0	5.2	5.4	5.6	5.9
DI	Other non-metal mineral products	4.5	4.5	4.3	4.2	4.2	4.1	4.1	4.1	4.0	4.1	4.5
DJ	Metals and metal products	14.5	14.7	14.5	14.6	15.2	16.0	16.5	16.6	16.8	16.8	17.3
DK	Machinery and equipment, nec	10.8	9.2	9.3	9.6	9.4	9.4	9.5	9.8	10.0	10.5	11.1
DL	Electrical and optical equipment	10.6	10.9	11.0	11.2	11.1	11.5	11.8	11.9	12.0	12.1	12.2
DM	Transport equipment	4.7	4.3	4.1	4.0	3.9	4.1	3.9	4.0	4.1	4.3	4.9
DN	Furniture and other manufactures; recycling	6.7	6.8	7.0	6.7	6.5	6.5	6.7	6.8	6.9	6.8	6.7

Source of data: SORS - National Accounts.
Note: *SORS - Employment Statistics; IMAD's calculations.

---

[86] If the value of indicator S is low (close to 0), the intensity of structural change in manufacturing over time is also low. Conversely, higher values of the indicator signal a proportionally higher intensity of structural change.

[87] Finland achieved this leap through the engagement of human capital combined with extensive and efficient investment in R&D, while Hungary and Ireland utilised foreign direct investment and investment in human capital.

[88] We compare the years 1995 and 2005 for Slovenia and Hungary and 1995 and 2003 for Finland and Ireland due to incomplete data being available.

16%. At the same time, Finland and Ireland successfully pulled off the process of 'offensive' restructuring, which is characterised by the growth of value added combined with the expansion of production capacities. The number of jobs rose by a respective 7% and 6% in these two countries during the observed period, while it stagnated at the 1995 level in Hungary.

The share of people employed in high-tech manufacturing industries[89] is growing gradually but Slovenia still visibly lags behind the most propulsive EU countries. In the ten-year period (1995-2005), the shares of people working in high- and medium-high-tech sub-industries increased (from 31.0% in 1995 to 33.6% in 2005). The share of people employed in medium-low-tech industries totalled 27.8% in 2005, having risen by 3.9 percentage points. The share of workers employed in low-tech subsectors shrank by 6.6 p.p. to 38.6% in 2005 over 1995. These changes in the Slovenian manufacturing were largely underpinned by the 1.6 p.p. higher structural share of people employed in the manufacture of electrical and optical equipment, which belongs to the first group of industries, while the biggest increase (2.9 p.p.) was observed in the structural share of the metal industry, which is classified in the second group according to technology intensity. The biggest, namely 5.4%, decrease in the structural share in employment was recorded in the manufacture of textiles and textile products, a low-tech manufacturing subsector. Other changes at the level of subsectors were less pronounced. Given the higher intensity of structural changes seen in 2005, they can be regarded as positive. The share of employment in high- and medium-high tech industries rose (from 32.7% in 2004 to 33.6% in 2005),[90] as did the share of people working in medium-low-tech industries (from 26.5% to 27.8%, whereas the share of employment in low-tech subsectors shrank by 2.2 p.p. to 38.6% in 2005 over the year before[91].

We can see in Table 44 that Slovenia still lags behind Finland, Hungary and Ireland considerably regarding the share of people employed in high- and medium-high-tech industries (which rose from 31.0% in 1995 to 33.6% in 2005) and the share of people working in medium-low-tech industries.

The effect of structural changes in employment on the growth of productivity in Slovenian manufacturing was modest. We calculated it using Fagerberg's (2000) shift-share analysis for the 1995-2004 period[92]. This method measures the

---

[89] According to the OECD's classification of industries according to technological intensity; for further information, see Hatzichronoglou (1997: 6-23).

[90] This improvement mainly rests on the 0.6 p.p. higher share of employment in the manufacture of transport equipment and machinery and equipment, while the manufacture of chemicals and chemical products witnessed a minor drop (-0.3%).

[91] Within low-tech industries, the structural share of employment shrank the most in the textile industry (-0.8 p.p.) and the manufacture of food, beverages and tobacco (-0.6 p.p.) in 2005 over 2004.

[92] This method analyses the shifts in employment shares, dividing total manufacturing's labour productivity, measured by value added per employee, into three components: (i) the inter-sectoral component, capturing the sector's capacity to shift labour from low- to high-productivity-level industries; (ii) the interaction component, measuring the relocation of labour to subsectors with above-average productivity growth; and (iii) the intra-sectoral component, representing the contribution of productivity growth within individual industries, weighted by the share of employment in these industries relative to total employment in the manufacturing sector. For more details, see Fagerberg (2000: 400-405).

Table 44: **Structure of employment in the manufacturing sector according to technology intensity**

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Slovenia	**Manufacturing sector, total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	High + medium-high technology	31.0	29.8	29.9	30.2	29.8	30.4	30.7	31.2	31.9	32.7	33.6
	Medium-low technology	23.9	24.1	23.8	24.1	24.6	25.3	25.9	26.1	26.4	26.5	27.8
	Low technology	45.2	46.1	46.2	45.7	45.7	44.3	43.5	42.6	41.8	40.8	38.6
Finland	**Manufacturing sector, total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-
	High + medium-high technology	36.1	37.2	36.5	37.2	37.5	37.9	38.4	38.2	37.9	-	-
	Medium-low technology	18.5	19.0	20.4	20.6	20.7	21.4	21.7	21.9	22.0	-	-
	Low technology	45.4	43.8	43.1	42.3	41.7	40.7	39.9	39.9	40.1	-	-
Ireland	**Manufacturing sector, total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-
	High + medium-high technology	39.7	40.4	42.5	43.1	44.7	45.1	44.8	42.8	42.8	-	-
	Medium-low technology	14.6	15.1	14.5	14.8	14.9	15.3	14.5	15.3	15.3	-	-
	Low technology	45.7	44.6	43.0	42.1	40.4	39.6	40.6	41.9	41.9	-	-
Hungary	**Manufacturing sector, total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	High + medium-high technology	31.2	32.0	32.0	33.8	33.9	33.9	35.0	34.5	35.8	36.9	37.7
	Medium-low technology	18.5	17.5	17.9	17.2	18.2	18.8	19.1	19.9	20.1	20.2	20.6
	Low technology	50.3	50.5	50.1	49.0	47.9	47.2	45.9	45.6	44.1	42.9	41.7

Sources of data: SORS, Eurostat, Groningen Economic Database; calculations by IMAD.

contributions of labour productivity growth in individual manufacturing subsectors', weighted by the share of employment in these industries relative to the total employment in the manufacturing sector.

In 2004, the real growth of manufacturing's labour productivity measured by the value added per employee was, like in previous years, mostly underpinned by productivity growth within individual subsectors (intra-sectoral, non-structural effect). The contributions of the effects of static and dynamic structural shifts thus remained negligible in both 2004 and over the entire period analysed. We can therefore say that the structural shifts seen in employment in the Slovenian manufacturing sector did not have a stimulative effect on the growth of manufacturing's overall productivity.

6   Changes in the education structure

The education structure of the working population and the population as a whole significantly determines the pace of economic development and carries the potential for future economic development. We therefore briefly present the dynamics of selected indicators of the education structure in the period between 1995 and 2005 in Slovenia.

6.1   Share of the population with a tertiary education

The share of the population with a tertiary education is an important factor of economic growth. The employment of a highly qualified workforce in particular leads to greater innovation, labour productivity and GDP growth. Analyses for OECD countries confirm the positive impact of the share of employees with a tertiary education on future GDP growth.

Slovenia increased its share of tertiary education graduates[93] in the 1995-2005 period and thus followed the trends seen in other developed countries. According to the results of the labour force survey for Q2, this increase in the analysed period totalled 5.8 p.p. In 2005, precisely 20% of the population aged 25-64 had attained a tertiary-level education (15.7% in 2000 and 14.2% in 1995). This period was also characterised by a rising number of young and adult people enrolled in tertiary education, and an increase in the number of graduates. In 1995-2000 the increase was small – the share of tertiary education graduates among the population rose by a mere 1.5 p.p. Between 2000 and 2005 the corresponding share grew at a faster pace, going up by 4.3 p.p. This growth was underpinned by the strong rises in the number of people enrolled in tertiary education in the second half of the 1990s (from 47,900 in 1995 to 91,500 in 2000) and the number of graduates (from 7,200 in 1995 to 11,500 in 2000).

Although Slovenia increased its share of tertiary education graduates among the population substantially from Q2 of 2000 to Q2 of 2005, it still lags behind the EU-25 average. In 2005, the lag totalled 2.7 p.p., which is 0.9 p.p. less than in 2000. The share of the Slovenian population with a tertiary education totalled 20.0% in 2005 (22.7% in the EU-25). Slovenia' gap relative to the EU-15 average widened in 1995-2005. It was smallest in 1995 (2.4 p.p.) and had widened to 3.8 p.p. by 2005.

Table 45: **Percentage of the population aged 25-64 that has attained tertiary education, total and by gender, Slovenia, 1995-2005 (Q2), %**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total	14.2	13.4	13.1	14.4	15.4	15.7	13.8	14.5	17.8	18.8	20.0
Men	N/A	12.8	12.5	13.0	14.0	14.1	11.7	13.0	15.2	16.1	17.1
Women	N/A	13.9	13.5	15.9	16.9	17.3	15.8	16.1	20.4	21.7	23.0

Source of data: Eurostat; SORS calculations by the IMAD.

---

[93] Which is measured among the population aged 25-46.

In 2005, the average share in the EU-15 was 23.8% (16.6% in 1995). The highest shares of the population who had completed tertiary education in 2005 were recorded in Finland (34.5%), Estonia (33.6%) and Denmark (32.9%).

The percentage of women with a tertiary education is higher than the corresponding percentage of men. The female share also grew at a faster rate than the male share. In 2005, the share of female tertiary education graduates was 5.9 p.p. higher than the corresponding male share (23.0% vs. 17.1%).

6.2   Population aged 15-24 participating in education

The share of the population aged 15-24 participating at all levels of formal education increased from 1998 to 2003[94] in Slovenia. Slovenia's position relative to other European countries improved distinctly. In Slovenia this share increased by 13.3 p.p. (from 53.6% in 1998 to 66.9% in 2003). In the participation rate of young people (aged 15-24), Slovenia lagged by just 2.5 p.p. behind the leading country, Finland, in 2003. The female participation rate was around 10 percentage points higher than the male one.

The proportion of young people enrolled in secondary schools rose while their number dropped due to the shrinking size of this population. The share of enrolled young people (15-19 years) was 77.9% in 2004, 10.6 p.p. more than in 1995. In 1995-2004, the structure of young people by type of secondary school changed substantially. The shares and numbers of youth enrolled in lower vocational program-mes and vocational schools dropped while the shares of young people enrolled in technical and general secondary schools and vocational technical programmes rose. The share of young people aged 15-19 enrolled in lower vocational programmes shrank from 2.3% to 1.8% between 1995 and 2004, while the share of youth in vocational schools fell from to 19.0% to 14.4% in 2004, when it was the lowest in the entire period. In 2004 there were 18,300 young people enrolled in vocational secondary schools, substantially fewer than in 1995 (28,900), while the number of youth enrolled in lower vocational programmes dropped from 3,400 to 2,300 between the two years. Technical and general secondary schools show the reverse trend. The share of youth enrolled in these schools was rising annually throughout the 1995-2004 period, except from 1995 to 1996. In 2002 over 50% of the entire population aged 15-19 were enrolled in these schools for the first time. The number of youth enrolled in general and technical grammar schools rose from 24,904 recorded in the 1995/1996 school year to 39,040 in 2003/2004, corresponding to an increase from 23.8% to 39.5% of the youth aged 15-19 and enrolled in secondary schools. The share of youth enrolled in vocational technical programmes rose strongly (from 1.8% in 1995 to 6.2% in 2004), as did their number (up approximately 2.8-fold).

Like in other developed countries, the number of full-time undergraduate students in Slovenia has been rising rapidly in the last ten years. It almost doubled from 1995 to 2005, having risen to 71,000 full-time students whose proportion in the

---

[94] Data on the participation of the population aged 15-24 in education at all levels of formal education are only available from 1998 onwards.

Table 46: **Share of the population aged 15-24 enrolled in all levels of formal education, secondary schools and universities (full-time undergraduate students), %**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Share of the population aged 15-24 in all levels of education											
total	N/A	N/A	N/A	53.6	56.3	59.3	62.7	65.2	66.9	N/A	N/A
- men	N/A	N/A	N/A	49.7	51.8	54.8	58.1	59.9	62.5	N/A	N/A
- women	N/A	N/A	N/A	57.8	61.1	64.1	67.5	70.7	71.5	N/A	N/A
Enrolment of young people (generation aged 15-19) in secondary schools											
number (thousands)	102.1	104.7	104.8	103.5	103.0	100.9	100.6	98.8	100.1	98.8	N/A
- % of the population aged 15-19	67.3	69.2	70.2	70.8	72.2	72.5	74.9	75.4	77.2	77.9	N/A
Enrolment in full-time undergraduate studies											
number (thousands)	36.0	45.6	49.0	53.0	55.2	59.0	62.7	63.8	66.5	69.7	71.0
- % of the population aged 19-23	24.6	30.8	32.9	35.3	36.5	39.1	41.9	43.2	46.1	49.6	52.1

Source of data: Eurostat.

generation aged 19-23 exceeded 50% for the first time in 2005. A decade earlier only a quarter of this generation were students.

6.3 Average number of years in formal education by persons in employment

The average number of years in formal education by persons in employment[95] in Slovenia rose in 1995-2005. The increase for women was bigger than for men. According to data obtained by the Labour Force Survey (LFS), the value of this indicator rose by 0.8 of a year from 1995 to 2005 (from 11.0 to 11.8 years). According to data from the SORS' employment register, the increase was slightly smaller, namely 0.6 of a year (from 11.0 to 11.6 years). The average number of schooling years is rising thanks to the participation of youth and adults in formal education (secondary, upper-secondary and tertiary). The education structure of the employed workforce in Slovenia is thus improving. In 2005, there were 21.9% employed people with an upper-secondary and a tertiary education, their share having risen by 6.6 p.p. since 1995. However, the increase differed by gender. The average years of schooling of employed women rose from 11.04 to 11.95 in the analysed period while the corresponding figures for men were 10.94 and 11.31. The difference between men and women that totalled 0.1 years in 1995 had risen to 0.64 years by 2005. It appears that the faster increase in women's average years of schooling was partly underpinned by the more rapid rise in the number of female compared to male graduates.

---

[95] The indicator 'average number of years in formal education attained by persons in employment' measures the educational attainment of the population. The advantage of this indicator is that it is a synthetic indicator of the stock of knowledge capital. On the other hand, the indicator is lacking in that it does not say anything about the quality of education and that it only measures formal education while it neglects non-formal education and informal learning.

Average years of schooling rose more in the predominantly public sector than in the private sector and were also higher in the public sector throughout the analysed period. The average duration of attained education rose from 12.4 in 1995 to 13.2 years in 2005 in the public sector and from 10.6 to 11.1 years in the private sector. The difference between the two sectors widened from 1.8 to 2.1 years in the observed period. The primarily public sector also registered a higher increase in the share of employees with an upper-secondary and a tertiary education (by 9.0 p.p.) than the private sector (by 4.8 p.p.). The gap between the shares of highly educated employees of the two sectors thus widened further; in 2005, the predominantly public sector had approximately three times more employees with an upper-secondary and a tertiary education (45.8%) than the private sector (14.3%). This was partly due to the tightening regulations on qualification requirements for employment in the public sector.

Above-average years of schooling were found mainly in activities within the public sector. The highest average years of schooling was recorded in the education sector, followed by the civil service, defence and social insurance, while employees in financial intermediation had the third longest duration of schooling in the observed period. The last three places were occupied interchangeably by activities with low shares of tertiary-level graduates among employees (manufacturing, fishing, hotels and restaurants) and private households with employed staff. Average years of schooling rose the most in those activities that also had the longest average duration of schooling at the beginning of the analysed period, in 1995 (education and health care). The average number of schooling years attained by the working population rose in all activities except construction, where it decreased by 0.15 of a year during the period. The smallest increase was recorded in agriculture, hunting and forestry (by 0.27 of a year). The gap between the lowest and the highest average years of schooling expanded from 2.8 to 3.9 years in the ten-year period.

Table 47: **Average number of years in formal education attained by persons in employment in Slovenia in 1995-2005**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Persons in employment according to the SORS' register	11.0	11.0	11.1	11.1	11.2	11.2	11.3	11.4	11.5	11.5	11.6
- men	10.94	10.97	10.99	11.00	11.02	11.06	11.09	11.15	11.22	11.27	11.31
- women	11.04	11.13	11.22	11.29	11.37	11.45	11.53	11.64	11.75	11.85	11.95
- private sector	10.6	10.6	10.7	10.7	10.8	10.8	10.9	10.9	11.0	11.0	11.1
- mainly public sector	12.4	12.5	12.5	12.6	12.6	12.6	12.7	13.0	13.1	13.1	13.2
People in employment according to the LFS	11.0	11.1	11.0	11.2	11.3	11.4	11.4	11.5	11.6	11.7	11.8
- men	11.1	11.1	11.0	11.2	11.3	11.4	11.4	11.5	11.5	11.6	11.7
- women	11.1	11.2	11.2	11.3	11.4	11.5	11.6	11.7	11.9	12.0	12.1
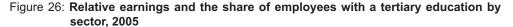
Source of data: SORS: Labour Market, Persons in Employment according to the Labour Force Survey; IMAD's calculations.
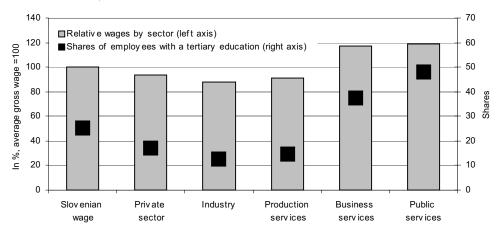
7 Relative earnings by education level and by sector of employment in Slovenia

Relative earnings compared with average earnings reflect both the differences seen in productivity across activities and the differences among individual returns to education. Below we present the relative gross earnings in individual activities and relative earnings by level of education achieved (the ratio of average gross earnings in activity or by education level to average gross earnings in Slovenia).

7.1 Relative earnings across activities

The level of the real gross wage per employee depends on the achieved labour productivity and education structure of employees. The relative earnings of the public and the private sector differ due to their different economic conditions and the education structure of employees in these two sectors. In the private sector (activities A to K), the level of gross earnings was below the Slovenian average, largely owing to the worse education structure of the employees. Within the private sector, around half of all workers are employed in industry (activities C to F), which has the lowest relative gross wage per employee and the worst education structure of employees (Figure 26 shows that industry has the smallest share of workers with a tertiary education). The gross level of earnings in production services (activities G to I) is somewhat higher compared with the Slovenian average as the education structure of workers in this group is also better. Business activities (J and K) have the highest relative earnings in the private sector, and the structure of employees in this group closely resembles that of the public sector. The level of the average gross earnings per employee in business activities is similarly roughly equal to that of the public sector.

Figure 26: **Relative earnings and the share of employees with a tertiary education by sector, 2005**

7.2. Relative earnings by level of education/qualifications

Education determines the probability of people's labour market participation (the activity rate) and the level of their income/returns to education. Education is also one of the main factors underlying pay differences. Individual returns to education are usually measured by the impact of attained education on earnings, i.e. by the so-called 'Mincer's earnings function'. Vodopivec (2004) finds that the returns to education at the individual level strongly increased during the depression in the period of transition (ending around 1993), after which they were relatively stable until 2001. The returns to tertiary education rose most visibly during the transition period.[96]

In this chapter we discuss relative earnings by the level of attained education/ qualifications, which is a relatively good, if simple, indicator of economic returns to education at the individual level. The gross wage per employee in Slovenia was calculated for three levels of the education or qualifications of workers (high, medium, low) on the basis of raw data obtained from the DURS, which are only available for the 1998-2002 period.

Table 48 shows the relative gross wage as a share of the Slovenian average gross wage for 3 levels of education/qualifications. We can see that the relative level of gross earnings rose mildly for high-qualified employees and fell slightly for workers with secondary or elementary education in the 1998-2002 period. The latter may be interpreted as an increase in individual economic returns to tertiary education.

Table 48: **Relative gross earnings per employee by level of attained education/qualifications (average gross wage in Slovenia = 100)**

Qualifications	1998	1999	2000	2001	2002
High	170.4	172.9	172.6	173.3	171.8
Medium	86.2	86.9	85.4	84.4	84.7
Low	62.4	61.7	60.9	60.4	60.8

Source of data: SORS; IMAD's calculations.

That the individual returns to tertiary education are increasing is also confirmed by the ratio between the gross earnings of highly qualified employees and the gross wages of workers with a secondary (or elementary) education, which rose in the analysed period. The wages of low-qualified people, on the other hand, recorded a marginal relative drop from 1998 to 2002.

Data on ratios of gross earnings by educational attainment in other countries (Education at a Glance, 2005) show that the economic value of tertiary education is higher in Slovenia than in the old EU countries. Evidence for Hungary, on the other

---

[96] The annual returns to education in 2001 totalled 2% for workers who had completed elementary school, 3% for employees with vocational qualifications, 8% for those who had completed secondary education, 15% for employees with an upper-secondary education and 20% for employees with a university degree.

Table 49: **Ratios of average earnings by level of attained education/qualifications in Slovenia**

Ratio in %	1998	1999	2000	2001	2002
High/medium	197.7	198.9	202.1	205.4	202.9
Low/medium	72.4	71.0	71.3	71.6	71.8
High/low	273.1	280.2	283.4	286.9	282.6

Source of data: SORS; IMAD's calculations.

hand, shows similar ratios and individual returns to those seen in Slovenia. In making such comparisons it is important to note that the differences across countries in relative earnings (before tax) in terms of the achieved education level are influenced by a number of factors such as the supply of staff with specific qualifications, employers' demand for these employees, the power of trade unions, differences in work experience relative to education levels, the statutory regulation of minimum wages, the incidence of part-time and temporary work among people with varying levels of qualifications. Disparities in earnings may also reflect differences in the available education programmes for individual education levels or enrolment restrictions on these programmes (Education at a Glance, 2005).

Table 50: **Ratios of gross earnings by level of qualifications for EU member states, 2002**

Qualifications	Belgium	Denmark	Finland	France	Germany	Italy	Netherlands	Hungary
High/medium	132.0	124.0	150.0	150.0	143.0	153.0	148.0	205.0
Low/medium	91.0	88.0	95.0	84.0	77.0	78.0	84.0	74.0
High/low	145.1	140.9	157.9	178.6	185.7	196.2	176.2	277.0

Source of data: OECD Education at a Glance 2005, Table A9.2a.

The education structure of employees in Slovenia is improving. According to the employment register, the share of employees with a tertiary education rose in 1998-2002 to total 23.5% in 2002, when the corresponding shares of workers with medium or low qualifications were 57% and 19.4% (for more details on changes in the education structure, see Chapter 4).

A decomposition of the relative gross wage per employee in the private sector (A to K) by education level (compared with the Slovenian average gross wage) shows a slight rising trend in the gross earnings of highly qualified people while the relative earnings of workers with medium or low qualifications witnessed a small drop between 1998 and 2002. The share of employees with a tertiary education in the private sector is rising very slowly and strongly lagging behind the shares of highly qualified staff in both the public sector and the economy as a whole.

We continue by looking at the relative earnings of the private sector by level of education in selected groups of activities: industry, production services, and business services, which share some common characteristics.

Table 51: **Relative gross earnings per employee by education level in the private sector (average Slovenian gross wage = 100)**

Qualifications	1998	1999	2000	2001	2002
High	176.5	179.1	178.2	177.5	178.9
Medium	83.6	84.1	82.7	80.9	81.2
Low	62.7	61.9	61.1	60.3	60.5

Source of data: SORS; IMAD's calculations.

The level of gross earnings of highly qualified workers is the highest in industry (activities C to F, including construction) within the private sector. Like the private sector as a whole, industry also recorded a rise in the relative level of gross earnings of highly qualified workers and a drop in the level of gross earnings of workers with low or secondary qualifications in the 1998-2002 period. The education structure of employees is worse than in the total private sector, while the share of highly qualified workers is growing at a much slower pace than the corresponding shares of the two other analysed groups of activities.

Table 52: **Relative gross earnings per employee by education level in industry (C to F) (average Slovenian gross wage = 100)**

Qualifications	1998	1999	2000	2001	2002
High	180.3	182.6	182.7	181.3	182.5
Medium	81.1	81.8	81.3	79.7	80.2
Low	63.0	62.4	61.9	61.0	61.3

Source of data: SORS; IMAD's calculations.

Table 53: **Structure of employees by level of qualifications in industry (C to F)**

Qualifications	1998	1999	2000	2001	2002
High	11.6	11.6	11.6	11.8	11.9
Medium	58.1	58.0	57.5	57.4	56.7
Low	30.3	30.4	30.9	30.8	31.5

Source of data: SORS; IMAD's calculations.

Production services (G, H and I) achieved the lowest relative level of gross earnings of highly qualified employees in comparison with the other analysed activity groups in the private sector. On the other hand, the drop in the relative earnings of workers with a low or medium qualification was more pronounced than in other groups of the private sector. The structure of employees shows a high share of workers with secondary education, whereas the share of employees with a tertiary education shrank in the observed period.

Table 54: **Relative gross earnings per employee by education level in production services (G to I) (average Slovenian gross wage = 100)**

Qualifications	1998	1999	2000	2001	2002
High	168.2	169.2	168.1	169.4	170.1
Medium	84.4	84.0	81.1	78.6	78.9
Low	65.1	63.2	61.0	60.3	60.5

Source of data: SORS; IMAD's calculations.

Table 55: **Structure of employees by level of qualifications in production services (G to I)**

Usposobljenost	1998	1999	2000	2001	2002
High	14.9	14.5	14.5	14.6	14.4
Medium	75.4	75.2	75.2	75.1	75.2
Low	9.7	10.3	10.3	10.3	10.4

Source of data: SORS; IMAD's calculations.

The group of business activities (J and K) has a large share of highly educated employees. The relative level of gross earnings of highly qualified staff in business activities is roughly at the relative level of comparably qualified workers in industry, with the difference that it rose much more in business services than in industry from 1998 to 2002. In contrast, the relative level of gross wages earned by workers with low qualifications is very low, amounting to just 50% of the average Slovenian pay. In the remaining two groups, the level of the corresponding gross earnings achieves around 60% of the average wage. This is precisely the reason why the differences between the levels of gross earnings by qualifications (high/medium: 215.7%; low/medium: 76.7%) are much wider than for the Slovenian average. In the structure of employment, the share of employees with high qualification levels is by far the largest. Shifts observed in the structure during the analysed period are also very positive, with the share of highly qualified workers showing a strong rising trend while the share of low-qualified labour was trending down.

The relative level of the average gross earnings of highly qualified labour in the public sector (L to O) is lower than both the Slovenian average for this category of employees and the selected activity groups of the private sector. Workers with a

Table 56: **Relative gross earnings per employee by education level in business services (J and K) (average Slovenian gross wage = 100)**

Qualifications	1998	1999	2000	2001	2002
High	177.9	182.9	180.9	179.5	181.7
Medium	94.2	97.0	95.2	94.3	94.0
Low	54.4	54.0	53.0	53.1	53.7

Source of data: SORS; IMAD's calculations.

Table 57: **Structure of employment by level of qualifications in business services (J and K)**

Qualifications	1998	1999	2000	2001	2002
High	34.7	34.8	35.4	36.5	36.2
Medium	52.1	51.2	51.3	51.1	51.0
Low	13.2	14.0	13.2	12.4	12.8

Source of data: SORS; IMAD's calculations.

secondary education achieved the highest relative level of gross earnings, while those with an elementary education were around the average. Therefore, the differences between the levels of gross earnings by education level (high/medium: 166%; low/medium: 63.3%) were considerably lower than the Slovenian average and relatively close to the differences observed in EU countries. All three levels (high, medium, low) of gross earnings exhibit a rising trend, except in the gross earnings of highly qualified employees where this trend came to a halt in 2002. The public sector has a very large proportion of highly qualified staff. Although the level of gross earnings of highly qualified people is lower than both the Slovenian average and the other analysed groups, the share of highly qualified staff is much higher and hence the average gross pay per employee in this sector is also high, i.e. approximately at the level of business services, as shown in Figure 26 (p. 151). Up until 2002, the level of gross earnings per employee in the public sector relative to the Slovenian gross wage was rising steadily but began to decline thereafter.

Table 58: **Relative gross earnings per employee by education level in public services (L to O; average Slovenian gross wage = 100)**

Qualifications	1998	1999	2000	2001	2002
High	163.5	166.1	166.7	169.0	164.4
Medium	96.7	98.2	96.0	97.9	99.0
Low	60.6	60.7	60.0	60.9	62.7

Source of data: SORS; IMAD's calculations.

Table 59: **Structure of employees by level of qualifications in public services (L to O)**

Qualifications	1998	1999	2000	2001	2002
High	41.6	41.5	41.7	42.1	46.2
Medium	47.1	46.3	45.8	45.6	44.1
Low	11.4	12.2	12.4	12.3	9.7

Source of data: SORS; IMAD's calculations.

8   Labour market flexibility

Labour market flexibility is a broad concept encompassing the following aspects: the adjustment of employment (hours worked) to demand, the adjustment of wages to productivity, and the mobility of the workforce across sectors and regions. Due to this broad conception it is practically impossible to define a single criterion of labour market flexibility. Estimates of labour market flexibility are therefore usually limited to one of its components and the application of partial criteria. The most commonly used partial criterion used in international comparisons is the incidence of temporary and part-time employment. In addition to simple measures of labour market flexibility such as the incidence of part-time and temporary jobs, we also estimate flexibility using econometric estimates of the responsiveness of employment and wages to macroeconomic shocks. Some definitions of labour market flexibility regard the regulation of work contracts as one of the main reasons for labour market inflexibility. Therefore, the Employment Protection Legislation Index (explained in Chapter 1.1) is also used as a measure of labour market flexibility. Below we discuss the flexibility of the Slovenian labour market by applying selected criteria.

8.1   Incidence of temporary and part-time employment

The proportions of temporary and part-time jobs relative to total employment are used fairly frequently as indicators of labour market flexibility. The incidence of temporary employment is an indicator of labour market adaptability. However, this indicator has a number of weaknesses as a measure of adaptability since a high share of temporary jobs is often the result of rigid regulations on dismissals of workers in regular employment. Due to the high dismissal costs of permanent contracts, employers tend to rely more on fixed-term contracts, which are generally associated with lower dismissal costs.

An increase in the incidence of part-time employment is often interpreted as a positive trend. Part-time jobs increase labour market flexibility on the demand side by facilitating adjustment of production and labour costs. On the supply side, part-time work improves the choice of individuals who may not be willing or able to work full-time, and allows a better reconciliation of work and family obligations.

In Slovenia, labour market flexibility measured by the incidence of temporary and part-time jobs increased from 1995 to 2005. A notable rise was observed particularly in fixed-term jobs, while the incidence of part-time work remained relatively modest. This may be due to the low compatibility of social security systems with flexible types of employment and the fact that part-time jobs are relatively expensive for employers. Higher flexibility mostly affects younger people (15-24 years), particularly young women.
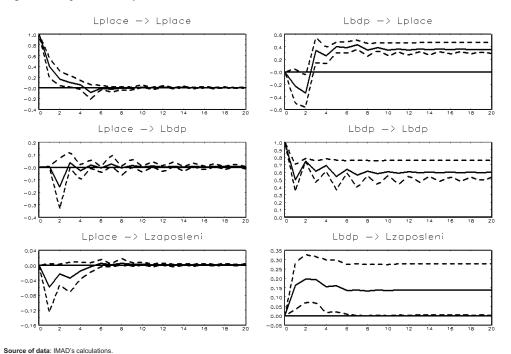
Part-time employment is a common way of entering or leaving the labour market in the countries of the EU-15. In Slovenia, this type of employment is rarely used as a way of exiting the market since the pension system currently does not allow people to retire in such a gradual way.

8.2   Response of wages and employment to higher GDP growth

According to some estimates, Slovenia has a relatively rigid labour market due to its high dismissal costs and a substantial fiscal burden on wages. To investigate this assumption we analyse Slovenia's labour market on aggregate quarterly data covering the period from 1995 to 2005. We estimate a structural cointegrated vector regression model using the following variables: gross domestic product in constant prices, real gross wages, and aggregate employment. Based on cointegration analysis we find one equilibrium relation: the relation between gross domestic product and wages. Employment does not enter into this relation. The results show that a long-term 1% increase in GDP correlates with a 0.6% real increase in wages in the long run.

The analysis of the responsiveness of employment and wages focuses on their reactions to two macroeconomic shocks: first, a permanent rise in GDP resulting from increased economic activity and, second, a transitory increase in wages caused by non-equilibrium cost pressures in firms. The results are shown in Figure 27. The plots on the left reveal the responses to a transitory increase in wages lasting one year. We expect that firms would react to such cost pressure by reducing employment. The figure shows, however, that the decrease in employment was small and statistically insignificant. The response of economic activity is similarly negligible.

Figure 27: **Dynamic responses of the labour market to macroeconomic shocks[97]**

---

[97] Figure 27 shows the impulse responses of the variables to structural shocks and 95-percent bootstrapped confidence intervals calculated with 1000 replications.

The weak response of employment to cyclical changes in wages indicates the rigidity of the Slovenian labour market. Faced by wage pressures, firms find it difficult to adjust their employment levels. Further, lower wage growth does not result in significantly higher employment. The plots on the right show the responses of variables to a permanent shock caused by stronger economic activity that significantly raises GDP, i.e. by 0.6% in the long run. This increase can also be viewed as a permanent increase in aggregate productivity, expected to result in a permanent increase in employment. The analysis again reveals the structural rigidities of the Slovenian labour market since an increase in economic activity is mainly accompanied by an increase in wages (by 0.35% in the long run) while the response of employment is much smaller – only 0.1% in the long run – an increase on the verge of statistical significance. The Slovenian labour market appears to show signs of 'hysteresis', which is also characteristic of other labour markets in Europe and poses a major developmental challenge to economic policymakers. Both Europe and Slovenia can only hope to achieve greater employment growth based on higher GDP growth if they succeed in carrying through the labour market reforms.

9   Active labour market policy

The focus of active labour market policies (ALMPs) has shifted since their beginnings in the early 1960s. According to experts from the OECD, the main task of active labour market policies today is to facilitate job mediation and reduce imbalances in the labour market. ALMPs are an integral part of the European Employment Strategy and the Lisbon Strategy. Public expenditure on ALMPs is allocated to the following programme categories[98]:

1. Public employment services and administration, which includes job mediation and placement, counselling and professional orientation, job search assistance and related counselling services for people who have problems finding work, support for geographical mobility and similar costs arising from looking for work, total administrative costs of employment services (regional and head offices), the costs of institutions granting unemployment benefits (including separate agencies) and other administrative costs of employment programmes.

2. Training for the labour market, which includes institutional training, workplace training, integrated training, support for apprenticeship and all programmes for young people.

3. Employment incentives – recruitment incentives for target groups and employment maintenance incentives for groups facing unemployment.

4. Direct job creation in the public and non-profit sector – temporary employment, sometimes regular employment in the public sector and in non-profit organisations offered to the unemployed; this category includes public works.

5. Start-up incentives for entrepreneurs to help them set up a business.

6. Integration of the disabled – measures promoting the employment of the disabled, sheltered employment, and rehabilitation.

Countries differ by their level and structure of expenditure on active labour market policies. Scandinavian countries traditionally have the highest expenditure on employment policy and particularly the ALMP programmes. In the early 1990s, expenditure on employment policy rose in almost all European countries, reflecting the deteriorated economic situation and the increased significance of active labour market policies in response to high unemployment levels. Countries that earmarked the highest shares of GDP for active labour market policies in 2003 were the Netherlands (1.83%), Denmark (1.74% of GDP), Sweden (1.63%), Ireland (1.17%) and Germany (1.14%). In comparison with these countries, Slovenia's expenditure on ALMPs has been relatively low, totalling around 0.4% of GDP for a number of years (and 0.34% of GDP in 2004 and 2005).
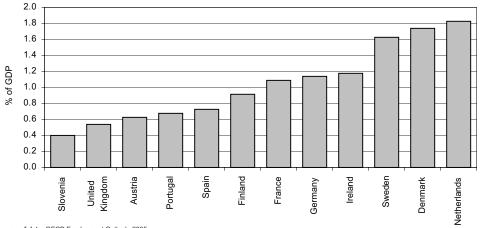
Since not all ALMP programmes are equally effective, we should also compare the structure of this expenditure and analyse its effectiveness.

Table 60 shows the structure of expenditure on active labour market policies in selected countries broken down by main programme category. The proportion of

---

[98] The classification of expenditure corresponds to that in the OECD Employment Outlook, 2005.

Figure 28: **Expenditure on active labour market programmes in selected countries, as a % of GDP**

Source of data: OECD Employment Outlook, 2005.

Table 60: **Structure of expenditure on active labour market policies by country in 2003**

	Sweden	UK	Spain	Nether-lands	Ireland	Finland	Denmark	Austria
Public employment service and administration costs	8.12	38.20	12.50	10.23	17.92	44.85	12.07	26.98
Training programmes	45.78	15.73	20.83	21.73	34.68	26.47	29.89	47.62
Employment incentives	5.52	0.00	41.67	42.18	1.16	13.97	28.16	9.52
Direct job creation	11.36	1.12	12.50	12.78	12.14	6.62	0.00	6.35
Start-up incentives for entrepreneurs	1.30	41.57	6.94	8.95	0.00	0.74	0.00	0.00
Integration of the disabled	27.92	3.37	5.56	4.14	34.10	7.35	29.89	9.52
Total	100	100	100	100	100	100	100	100

Source of data: OECD Employment Outlook, 2005.

expenditure for the operation of public employment services and administration-related costs is particularly high in the United Kingdom, Ireland, Austria and Finland. We can also see that the Scandinavian countries earmark a substantial share of this expenditure for training programmes.

The structural share of funds allocated to public employment services in total expenditure on ALMPs has been fairly stable in Slovenia. In 2005 it increased primarily due to the higher costs of renewing offices. This expenditure also covers personalised counselling interviews and motivation programmes, which are an important part of the overall employment policy and are vital for the further inclusion of people in other programmes leading to their successful exit from unemployment in the form of direct employment. Programmes of personalised and intensive counselling have been cut down in Slovenia in recent years while the share of shorter workshops has increased.

Table 61: **Structure of expenditure on active labour market policy in Slovenia, %**

	1995	1997	1999	2001	2003	2004	2005
Public employment service and administration costs	23.59	31.76	22.42	24.73	25.35	26.30	29.90
Training programmes	10.85	19.72	19.82	14.15	9.86	15.74	18.48
Employment incentives	45.66	15.16	10.43	24.21	24.40	19.69	13.32
Direct job creation	6.87	17.43	35.75	24.36	26.19	26.58	23.59
Start-up incentives for entrepreneurs	6.58	5.08	2.69	2.30	3.25	2.36	4.97
Integration of the disabled	6.45	10.84	8.89	10.25	10.96	9.34	9.75
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source of data: annual reports on budget realisation, Ministry of Finance.

The shares and levels of expenditure earmarked for public employment services also depend on the different institutional setups and the role of these services in individual countries. The basic functions of most public employment services focus on the needs of job-seekers. In some public services, however, the keeping of unemployment registers and the provision of unemployment benefits are separated from the job search and employer mediation services. Some countries have special unemployment funds to finance active labour market policies while others provide the necessary funds through the budget. There is an ongoing process of improving the co-operation between employment services, centres for social work and benefit administration. The Employment Service of Slovenia integrates the functions of job mediation and benefit administration[99], in addition to its other tasks such as granting pupil and student scholarships and issuing work permits. To make the performance of the organisation more efficient, the ESS should be reorganised in the direction of the better provision of information and counselling assistance to the unemployed seeking work and the monitoring of their activities. Further, possible alternative ways of financing should be examined, the number of unemployed persons per counsellor reduced and the counsellors should undergo professional training to improve their skills.

Training programmes for participation in the labour market are the second important category of the ALMP programmes. In 2003, the selected countries spent from around 47% (Austria, Sweden) to 16% (UK, Slovenia) of the total funds available for active labour market policies on training programmes. Slovenia's expenditure on training programmes was the highest in 1999 (19.72%) when the so-called 'Programme 5,000' was launched (in the 1998/1999 school year) – at the moment the 'Programme 10,000', which promotes participation of unemployed persons in formal education. After 1999 expenditure on training programmes was cut and totalled only around 10% of total expenditure on ALMP programmes in 2003. In the last two years, expenditure on workplace training and training of the employed has been raised again. In 2005 the share of this expenditure totalled 18.5%, partly

---

[99] More information on the advantages and weaknesses of the different management schemes of public employment services can be found in: Employment Outlook 2005, Chapter 5: Public Employment Services: Managing Performance.

due to the programme for training of employees co-financed by the European Structural Fund. Public works are primarily aimed at the integration of unemployed people with serious impediments to employment and the long-term unemployed into the labour market. The relatively high share of expenditure for public works programmes is related with the structure of the unemployed in which people from this group represent a significant percentage.

In comparison with other countries, Slovenia spends a much higher share of its total ALMP expenditure on community and local employment programmes, which received over 26% of total expenditure in 2004. Public works programmes received the highest funds in 1998 and 1999 but their share in total expenditure has shrunk in the subsequent years.

Figure 29: **Level and structure of Slovenia's expenditure on ALMP in selected years, as a % of GDP**

Regarding employment incentives (subsidies for creating jobs in the private sector), Slovenia was among those countries with a high share of this expenditure in the mid-1990s, but the percentage of these funds began to drop thereafter. The drop in the share of expenditure on subsidies recorded in Slovenia in 2005 is partly related to the fact that some types of subsidies only began to be granted in the second half of 2005. The breakdown of expenditure in other countries shows high percentages of expenditure on subsidies in the private sector in Spain and Germany (around 42%), where these incentives have been on the increase for several years. In contrast, countries such as the United Kingdom, Ireland[100] and Sweden spend a relatively

---

[100] In 1993-1995 Ireland had much higher expenditure on these incentives and public works programmes than it does today, but it was also less developed at that time.

small share of funds on direct incentives (between 0% and 5% of total expenditure on ALMPs). However, there are significant differences across countries in the content and types of subsidy programmes for the private sector. Slovenia, for example, in most cases gives a lump-sum subsidy to firms that employ an unemployed person. The amount of the subsidy depends on the characteristics of the unemployed person and the type of employment (temporary or regular). The efficiency of this type of subsidy is questionable.[101] Denmark and Finland, on the other hand, have a different type of employment incentive, the so-called job rotation scheme that combines activation for work with training and has proved to be a successful incentive, unlike the lump-sum subsidies. The high proportion of direct employment incentives in the Netherlands is partly due to the incentives given for flexible types of employment.

For the last ten years, the active labour market policy programmes in Slovenia have not been evaluated by independent institutions in terms of either the impact of a specific programme on the probability of finding employment or the 'dead-weight' effect[102]. Below we therefore briefly present the results of a study on the effectiveness of the European active labour market policies carried out by Kluve et al. in 2005.[103] The study shows that programmes applying a combined 'services and sanctions' approach are the most successful in increasing participants' employment probability. These programmes include all activities that increase the effectiveness and intensity of job searching and counselling for the unemployed, as well as sanctions for the passivity of an unemployed person or their failure to satisfy the imposed obligations. These activities are, however, inappropriate and inefficient for 'disadvantaged' groups of the unemployed for whom a different kind of programme is more appropriate. Kluve et al. (2005) found that direct job creation in the public sector is not highly effective but it does target specific vulnerable groups of the unemployed and allows them to remain in the labour market and keep their work habits. A similarly small positive outcome as in public works was also observed in subsidised jobs in the private sector. The traditional training programmes similarly show a relatively small positive impact on the job prospects of the unemployed.

Similar results were found in the estimated impact of public works schemes and education and training programmes (formal education and other shorter types of training) on exits from unemployment into jobs in Slovenia. The empirical framework used in estimating these impacts applies an augmented matching function[104] approach that relates exits to employment with unemployment, available vacancies or the 'Beveridge curve', and active labour market policy measures. Efficient labour market policy should in addition to the impact of the number of the unemployed and available

---

[101] The main reservation is that subsidised jobs may displace non-subsidised ones. Subsidising should therefore be reserved only for specific groups of unemployed people with serious impediments to employment.

[102] Measuring the uselessness of certain activities within ALMP programmes by means of a control group.

[103] The study summarises the results obtained by 130 evaluation surveys of active labour market policy programmes in the EU.

[104] By matching ALMP programmes (expenditure on ALMP and the number of participants in programmes) as a separate component with the number of the unemployed and available vacancies in the matching function we obtain the 'renewed matching function'. The estimate covers quarterly data from the Employment Service of Slovenia's register for the period from 1994 to 2002. The analysed unit is a regional unit of the ESS and quarterly data (from Q1 of 1994 to Q4 of 2002).

vacancies stimulate exits into employment. Expenditure on training and education shows a small positive impact on exits into employment. Within these programmes, most funds are spent on formal education. This expenditure has an effect on exits out of unemployment but it does not show any impact on exits into employment. Formal education lasts for one year or longer, during which time participants do not actively seek work. In order to make these programmes more effective, they should be made more target-oriented and linked with concrete jobs. Similar observations are found in Kluve et al. (2005). Public works similarly show a marginal positive effect on exits into employment. As a rule, longer time lags correlate with higher impacts on the exits. The outcomes of both programmes also depend on the time lag of explanatory variables. A comparison of the estimated levels of expenditure earmarked for these programmes and the estimated number of participants in these programmes shows better results in the latter. In public works, this is due to the fact that the more people participate in the programmes, the more of them will be hired (Klužer, 2006, and Barbo-Škerbinc and Vodopivec, 1999).

Based on the findings of their analysis, Kluve et al. (2005) advise countries to develop a suitable mix of measures: to continue to implement training programmes, to increase employment incentives in the private sector and to apply the 'services and sanctions' approach, i.e. to achieve more intense co-operation (counselling and stimulation) with the unemployed and their more active job search.

While some of these recommendations can also be used in shaping the appropriate policy in Slovenia we should also construct independent evaluations of the ALMP programmes in Slovenia based on research methods. Drawing on the results of the abovementioned study, it would be reasonable to place more emphasis on those programmes that combine services and sanctions by comprising all activities that enhance the effectiveness and intensity of job searching and job counselling as well as sanctions for passivity or failure to fulfil the imposed obligations. To this end, Slovenia should reduce the ratio between unemployed persons and counsellors as well as enhance activities for improvement of the skills of employment counsellors.

To make the ALMP schemes more efficient, they should be brought together in thematically coherent programmes with a clearly defined purpose. The presently fragmented ALMP programmes could thus receive more stable funding and better targeting at the needs of both employers and unemployed. Further, employers should have more say in the creation and implementation of the ALMP programmes to ensure that the programmes adequately respond to the labour market needs.

Bibliography and sources

Allocation of 2004 EU Expenditure by Member State. (2004). Brussels: European Commission.

Autumn Report. (2005). Ljubljana: Institute of Macroeconomic Analysis and Development. ISSN 1318-3842.

Barbo-Škerbinc, M., Vodopivec, M. (1999). How effective are Slovenian active labour market programs? *IB-revija,* 33(2–3), 35–45.

Bednaš, M., Kajzer, A. (Ed.) (2005). *Izhodišča za ciljni razvojni scenarij Strategije razvoja Slovenije* (Grounds for the Target Development Scenario of Slovenia's Development Strategy). Working Paper No. 12, Ljubljana: Institute of Macroeconomic Analysis and Development.

Bednaš, M., (Ed.) (2005). *Učinki vstopa Slovenije v EU na gospodarska gibanja v letu 2004* (Effects of Slovenia's Accession to the EU on Economic Trends in 2004). Working Paper No. 5, Ljubljana: Institute of Macroeconomic Analysis and Development.

Bertola, G, Boeri,T. and Canzes S. (2000): Employment protection in industrialized countries: the case of new indicators. *International Labour Review,* 13(1), 1-24.

Bulletin. (2006). Ljubljana: Bank of Slovenia. 1991–. ISSN 1318–0770.

Consensus Forecasts. (September 2005, February 2006, March 2006). London: Consensus Economics Inc. ISSN 0957-0950.

Convergence Programme Update 2005. (December 2005).
Obtained at: http://www.gov.si/mf/angl/tekgib/conv_programme_2005.pdf

Commodity Price Data (Pink Sheet). Washington: World Bank. Obtained in April 2006 at: http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:20268484~menuPK:556802~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html

Development Report 2006. (2006). Ljubljana: Institute of Macroeconomic Analysis and Development. ISSN 1581-6907.

Eastern Europe Consensus Forecasts. (July 2005, January 2006). London: Consensus Economics Inc. ISSN 1462–4001.

Education at a Glance 2005. (2005). Paris: OECD.

Employment Outlook 1999. (1999). Paris: OECD.

Employment Outlook 2005. (2005). Paris: OECD.

Economic situation and outlook. Assessing developments since the Commission spring 2005 forecast. (August 2005). Brussels: European Commission, DG EcFin.

Enlargement. Two Years After: An Economic Evaluation (2006). Brussels: European Commission.

Obtained in May 2006 at: http://europa.eu.int/comm/economy_finance/publications/occasional_papers/2006/occasionalpapers24_en.htm.

Economic forecasts. Spring 2006. Brussels: European Commission. Obtained in May 2006 at: http://europa.eu.int/comm/economy_finance/publications/european_economy/2006/ee206en.pdf

Fagerberg, J. (2000). Technological Progress, Structural Change and Productivity Growth: a Comparative Study. *Structural Change and Economic Dynamics*. Elsevier Science B.V., No. 11.

First Releases. (Various issues until 30 April 2006). Ljubljana: Statistical Office of the Republic of Slovenia.

Hatzichronoglou,T. (1997). *Revision of the High-Technology and Product Classification.* STI Working Papers. Paris: OECD.

Hlouskova, J. and Wagner, M. (2004). What's Really the Story with this Balassa-Samuelson Effect in the CEECs?. Bern: Universität Bern, Volkswirtschaftliches Institut. 4-16 September 2004. Obtained at: http://130.92.195.20/publikationen/download/dp0416.pdf

Interim Forecast. DG Ecfin. (February 2006). Brussels: European Commission.

Kluve, J. et al. (2005): Study on the effectiveness of ALMPs. Research project for the European Commission. Essen: Reinisch-Westfälisches Institut fur Wirtschaftsforschung e.V. (RWI). Obtained at: http://europa.eu.int/comm/employment_social/incentive_measures/studies/effect_imp_almp_fin_rep_en.pdf

Klužer, F. (2006): Učinki aktivne politike zaposlovanja na izhode iz brezposelnosti v zaposlenost v Sloveniji (Effects of active labour market policy on exits from unemployment to employment in Slovenia), *IB-revija*, No. 3. (In print).

Krediti in obrestne mere (Loans and Interest Rates). (2006). Ljubljana: Bank of Slovenia. Obtained in April 2006 at: http://www.bsi.si/iskalniki/financni-sistem.asp?MapaId=232#

Landesmann, M, et al. (2000). *Structural Development in Central and Eastern Europe*. Structural Report. Vienna: The Vienna Institute for International Economic Studies.

Monthly Statistical Report. (2006). Ljubljana: Ljubljana Stock Exchange.

Mihaljek, D., Klau, M. (2004): The Balassa-Samuelson Effect in Central Europe: a Disaggregated Analysis. Obtained at: http://www.iue.it/ECO/Conferences/accession_countries/papers/EUIconferenceMay2004_paperMihaljek.pdf

Morley, J. C., Nelson, C. R. and Zivot, E. (2003): Why are the Beveridge-Nelson and unobservable-components decompositions of GDP so different? *The Review of Economics and Statistics*, 85(2), 235-243.

Monatsberichte. (January 2006). Wien: Osterreichisches Institut Fur Wirtschaftsforschung.

Monetary Policy Report. (2004–2006). Ljubljana: Bank of Slovenia. ISSN 1854-0309. Obtained

in May 2006 at: http://www.bsi.si/en/publications.asp?MapaId=786

Podkaminer, L. et al. (July 2005). Back from the Peak, Growth in Transition Countries Returns to Standard Rate of Catching-up. *WIIW Research Reports.* No. 320. Vienna: The Vienna Institute for International Economic Studies.

Podkaminer, L., Gligorov, V. et al. (February 2006). Strong Growth Driven by Exports in the NMS and by Consumption in the Future EU Members. *WIIW Research Reports.* No. 325. Vienna: The Vienna Institute for International Economic Studies.

Programme for ERM II Entry and Adoption of the Euro. (2003). Ljubljana: Bank of Slovenia and the Government of the RS.

Predlog proračuna republike Slovenije za leto 2006 (draft national budget for 2006). *Bulletin of the National Assembly*, No. 75/2005. Ljubljana: National Assembly.

Predlog proračuna republike Slovenije za leto 2007 (draft national budget for 2007). B*ulletin of the National Assembly*, No. 77/2005. Ljubljana: National Assembly.

Public Finance Bulletin. (2006). Ljubljana: Ministry of Finance. ISSN 1580–3126.

Rapid Reports. (Various issues until 30 April 2006). Ljubljana: Statistical Office of the Republic of Slovenia.

Spring Report 2005. (2005). Ljubljana: Institute of Macroeconomic Analysis and Development. ISSN 1318-3869.

Statistično raziskovanje o izplačanih čistih plačah in osebnih prejemkih (statistical survey of disbursed net wages and personal income). (2006). Ljubljana: National Agency for Public Legal Records and Related Services (AJPES).

Stock, J. H., Watson, M. H. (1998): Diffusion indexes, *NBER Working Paper* No. 6702. Cambridge, MA: National Bureau of Economic Research.

The Russia Business Forecast Report (Q2 2006, Q4 2005). London: Business Monitor International. ISSN 1744-8824.

Uredba o podlagah in postopkih za pripravo predloga državnega proračuna (Decree on the Criteria and Procedures for Preparing the Draft National Budget), Official Gazette of the RS, No. 45/2002.

Van Ours, Jan C., Vodopivec, M. (2004). "How Changes in Benefits Entitlement Affect Job-Finding: Lessons from the Slovenian "Experiment"," IZA Discussion Papers No. 1181, Bonn: Institute for the Study of Labor.

Vodopivec, M. (2004). Labour market developments in 1990s. In: Mrak, M., Rojec, M., Silva-Jauregui, C. (Ed.): Slovenia: From Yugoslavia to the European Union. Washington: World Bank.

Vodopivec, M. (2005). Analiza mobilnosti dela in fleksibilnost sistema plač (An analysis of labour market mobility and wage system flexibility). Final report on a research project. (Manuscript).

World Economic Outlook. (September 2005, April 2006). Washington: International Monetary Fund. ISSN 0256–6877.

Zakon o davku na dodano vrednost (Value Added Tax Act), Official Gazette of the RS, No. 134/2003.

Zakon o delovnih razmerjih (Employment Relationship Act), Official Gazette of the RS, No. 42/2002.

Zakon o zaposlovanju in zavarovanju za primer brezposelnosti (Employment and Insurance Against Unemployment Act of 1998), Official Gazette of the RS, No. 69/1998.

Statistical Appendix

Table of Contents

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

							Real growth rates in %		
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
							forecast		
GROSS DOMESTIC PRODUCT	**4.1**	**2.7**	**3.5**	**2.7**	**4.2**	**3.9**	**4.2**	**4.0**	**3.9**
Structure in value added in %									
Agriculture, forestry, fishing (A+B)	3.2	3.0	3.2	2.6	2.5	2.3	2.2	2.0	1.8
Industry and construction (C+D+E+F)	36.2	35.9	35.3	35.6	35.1	34.5	34.3	34.0	33.6
- Industry (C+D+E)	30.0	30.1	29.6	29.8	29.5	28.8	28.5	28.2	27.8
- Construction F	6.3	5.8	5.7	5.8	5.7	5.7	5.8	5.9	5.8
Services (G…P)	60.6	61.1	61.5	61.9	62.3	63.2	63.5	64.0	64.6
GDP in SIT m (current prices)	4,300,350	4,799,552	5,355,440	5,813,540	6,251,244	6,557,698	6,963,900	7,426,200	7,901,802
in which FISIM [1]	48,035	37,737	40,723	51,825	60,079	-	-	-	-
GDP in EUR m	20,974	22,099	23,673	24,876	26,171	27,365	29,065	30,994	32,979
GDP in US$ m	19,312	19,772	22,292	28,069	32,494	34,030	34,889	37,187	39,568
GDP per capita in EUR	10,543	11,094	11,866	12,461	13,103	13,677	14,500	15,440	16,403
GDP per capita in US$	9,703	9,925	11,170	14,057	16,269	17,008	17,406	18,525	19,681
GDP per capita (PPS)*	14,600	15,400	16,000	16,500	17,900	18,900	-	-	-
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS									
Exports of goods and services-real [2]	13.2	6.3	6.7	3.1	12.5	9.2	8.2	7.9	8.0
Exports of goods	13.2	7.0	6.4	4.4	12.8	8.7	8.5	8.2	8.3
Exports of services	13.4	3.2	8.0	-2.5	10.9	11.6	6.8	6.7	6.8
Imports of goods and services-real [2]	7.3	3.0	4.8	6.7	13.2	5.3	7.6	7.4	7.5
Imports of goods	7.4	3.2	4.4	7.3	14.5	5.1	7.6	7.4	7.5
Imports of services	6.8	1.8	7.5	3.0	5.6	6.8	7.0	7.1	7.5
Exports of goods and services in EUR m	11,626	12,632	13,522	13,882	15,715	17,740	19,724	21,771	24,033
As a % of GDP	55.4	57.2	57.1	55.8	60.0	64.8	67.9	70.2	72.9
Imports of goods and services in EUR m	12,364	12,781	13,167	13,890	16,038	17,876	19,962	21,856	24,036
As a % of GDP	58.9	57.8	55.6	55.8	61.3	65.3	68.7	70.5	72.9
Balance of goods and services in EUR m	-738	-149	355	-2	-323	-136	-238	-85	-3
As a % of GDP	-3.5	-0.7	1.5	0.0	-1.2	-0.5	-0.8	-0.3	0.0
Current account balance in EUR m	-583	38	344	-81	-544	-301	-480	-390	-300
As a % of GDP	-2.8	0.2	1.5	-0.3	-2.1	-1.1	-1.7	-1.3	-0.9
Foreign exchange reserves in EUR m	4,705	6,514	7,842	7,703	7,484	8,832	-	-	-
External debt in EUR m	9,490	10,403	11,484	13,259	15,278	19,566	-	-	-
As a % of GDP	45.2	47.1	48.5	53.3	58.4	71.5	-	-	-

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

							Real growth rates in %		
							2006	2007	2008
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	forecast		
EMPLOYMENT, WAGES AND PRODUCTIVITY									
Employment in full-time equivalent	0.8	0.5	-0.3	-0.2	0.4	0.7	0.8	0.6	0.8
Registered unemployed (annual average in thousand)	106.6	101.9	102.6	97.7	92.8	91.8	89.1	87.3	85.0
Rate of registered unemployment in %	11.8	11.2	11.3	10.9	10.3	10.2	9.8	9.6	9.3
Rate of unemployment by ILO in %	7.0	6.4	6.4	6.7	6.3	6.5	6.6	6.7	6.7
Gross wage per employee	1.6	3.2	2.0	1.8	2.0	2.2	2.4	2.6	2.8
Labour productivity (GDP per capita)	3.3	2.2	3.8	2.9	3.7	3.1	3.4	3.3	3.1
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS									
Final consumption	1.2	2.7	1.8	3.0	3.1	3.2	3.1	3.1	3.3
As a % of GDP	76.7	76.6	75.3	75.4	74.9	75.0	74.6	73.7	73.2
in which:									
Private consumption	0.7	2.3	1.3	3.4	3.1	3.3	3.3	3.3	3.6
As a % of GDP	57.4	56.6	55.5	55.8	55.4	55.4	55.0	54.3	53.9
Government consumption	2.6	3.9	3.2	1.6	2.9	3.0	2.7	2.8	2.4
As a % of GDP	19.3	20.0	19.7	19.6	19.5	19.6	19.6	19.4	19.3
Gross fixed capital formation	1.8	0.4	0.9	7.1	5.9	3.7	6.0	5.0	4.0
As a % of GDP	25.6	24.1	22.6	23.3	24.1	24.8	25.5	25.8	25.9
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES; GFS - IMF METHODOLOGY									
General government revenue (per cent share, relative to GDP)	41.7	42.7	40.6	42.6	42.9	43.8	-	-	-
General government expenditure (per cent share, relative to GDP)	43.0	44.0	43.5	44.0	44.3	44.9	-	-	-
Surplus/deficit (per cent share, relative to GDP)	-1.3	-1.3	-2.9	-1.4	-1.4	-1.1	-	-	-
EXCHANGE RATE AND PRICES (annual average)									
Average exchange rate SIT/US$, BS	222.7	242.7	240.2	207.1	192.4	192.7	199.6	199.7	199.7
Average exchange rate SIT/EUR, BS	205.0	217.2	226.2	233.7	238.9	239.6	239.6	239.6	239.6
Real effective exchange rate [3]	-2.2	-0.3	1.7	3.2	0.0	-0.3	-0.2	0.1	0.1
Inflation (end of the year)	8.9	7.0	7.2	4.6	3.2	2.3	2.0	2.1	2.2
Inflation	8.9	8.4	7.5	5.6	3.6	2.5	2.1	2.1	2.1

Source of data: SORS, BS, Ministry of Finance, * Eurostat-New Cronos, March 2006 and forecasts by IMAD.
Notes: [1] FISIM; Financial intermediation services indirectly measured, [2] Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets, [3] Deflated by consumer prices, growth in index value denotes appreciation of the tolar and vice versa.

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

SIT million, current prices

		2000	2001	2002	2003	2004	2005	2006	2007	2008
								forecast		
A	Agriculture, hunting, forestry	118,374	123,292	146,949	127,794	136,096	128,821	132,611	125,237	120,714
B	Fishing	723	742	854	1,060	903	882	942	971	1,001
C	Mining and quarrying	24,922	22,883	22,229	26,378	28,489	29,156	29,086	29,421	29,615
D	Manufacturing	988,880	1,111,276	1,210,946	1,332,453	1,406,406	1,444,039	1,518,437	1,594,395	1,674,281
E	Electricity, gas and water supply	102,733	123,594	141,645	147,844	166,900	171,623	179,058	188,653	200,755
F	Construction	233,104	243,891	264,710	290,297	308,827	325,382	352,562	376,427	398,848
G	Wholesale, retail, trade, repair	412,437	473,454	538,756	592,019	631,270	678,241	728,950	786,834	850,198
H	Hotels and restaurants	86,461	96,677	107,183	117,075	123,092	127,508	134,792	143,792	153,259
I	Transport, storage, communications	258,432	289,235	321,742	360,735	389,902	419,518	453,732	491,913	534,370
J	Financial intermediation	185,313	189,720	212,234	222,434	241,702	259,288	263,425	271,317	292,367
K	Real estate, renting and business activities	554,474	628,346	721,283	788,799	863,880	918,959	991,907	1,070,127	1,154,602
L	Public administration and com. soc. sec.	230,304	268,712	298,445	333,583	366,389	387,239	411,215	437,712	463,691
M	Education	206,337	239,691	263,963	288,351	315,597	335,148	357,713	378,736	402,992
N	Health and social work	191,500	217,439	235,140	252,472	270,670	282,734	298,112	316,291	336,571
O	Other community and personal activities	132,507	147,687	152,897	165,966	184,470	194,025	205,886	219,835	235,786
P	Private households with employed persons	1,369	1,789	1,728	1,336	1,349	1,510	1,649	1,791	1,945
1. TOTAL VALUE ADDED, basic prices		3,727,869	4,178,428	4,640,703	5,048,599	5,435,944	5,704,073	6,060,077	6,433,453	6,850,992
2. CORRECTIONS		572,481	621,124	714,738	764,941	815,301	853,624	903,824	992,746	1,050,808
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4,300,350**	**4,799,552**	**5,355,440**	**5,813,540**	**6,251,244**	**6,557,698**	**6,963,900**	**7,426,200**	**7,901,800**

Source of data: SORS, forecasts by IMAD.

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

structure in %, current prices

		2000	2001	2002	2003	2004	2005	2006	2007	2008
								forecast		
A	Agriculture, hunting, forestry	2.8	2.6	2.7	2.2	2.2	2.0	1.9	1.7	1.5
B	Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C	Mining and quarrying	0.6	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.4
D	Manufacturing	23.0	23.2	22.6	22.9	22.5	22.0	21.8	21.5	21.2
E	Electricity, gas and water supply	2.4	2.6	2.6	2.5	2.7	2.6	2.6	2.5	2.5
F	Construction	5.4	5.1	4.9	5.0	4.9	5.0	5.1	5.1	5.0
G	Wholesale, retail, trade, repair	9.6	9.9	10.1	10.2	10.1	10.3	10.5	10.6	10.8
H	Hotels and restaurants	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9
I	Transport, storage, communications	6.0	6.0	6.0	6.2	6.2	6.4	6.5	6.6	6.8
J	Financial intermediation	4.3	4.0	4.0	3.8	3.9	4.0	3.8	3.7	3.7
K	Real estate, renting and business activities	12.9	13.1	13.5	13.6	13.8	14.0	14.2	14.4	14.6
L	Public administration and com. soc. sec.	5.4	5.6	5.6	5.7	5.9	5.9	5.9	5.9	5.9
M	Education	4.8	5.0	4.9	5.0	5.0	5.1	5.1	5.1	5.1
N	Health and social work	4.5	4.5	4.4	4.3	4.3	4.3	4.3	4.3	4.3
O	Other community and personal activities	3.1	3.1	2.9	2.9	3.0	3.0	3.0	3.0	3.0
P	Private households with employed persons	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	1. TOTAL VALUE ADDED, basic prices	86.7	87.1	86.7	86.8	87.0	87.0	87.0	86.6	86.7
	2. CORRECTIONS	13.3	12.9	13.3	13.2	13.0	13.0	13.0	13.4	13.3
	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**
	GROSS DOMESTIC PRODUCT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	in which:									
	1. Agriculture, forestry, fishing (A+B)	2.8	2.6	2.8	2.2	2.2	2.0	1.9	1.7	1.5
	2. Industry and construction (C+D+E+F)	31.4	31.3	30.6	30.9	30.6	30.0	29.9	29.5	29.2
	- Industry (C+D+E)	26.0	26.2	25.7	25.9	25.6	25.1	24.8	24.4	24.1
	- Construction F	5.4	5.1	4.9	5.0	4.9	5.0	5.1	5.1	5.0
	3. Services (G...P)	52.5	53.2	53.3	53.7	54.2	55.0	55.2	55.5	56.0
	4. Corrections	13.3	12.9	13.3	13.2	13.0	13.0	13.0	13.4	13.3

as a share in total value added in %

	2000	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL VALUE ADDED, basic prices	**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)	3.2	3.0	3.2	2.6	2.5	2.3	2.2	2.0	1.8
2. Industry and construction (C+D+E+F)	36.2	35.9	35.3	35.6	35.1	34.5	34.3	34.0	33.6
- Industry (C+D+E)	30.0	30.1	29.6	29.8	29.5	28.8	28.5	28.2	27.8
- Construction F	6.3	5.8	5.7	5.8	5.7	5.7	5.8	5.9	5.8
3. Services (G...P)	60.6	61.1	61.5	61.9	62.3	63.2	63.5	64.0	64.6

Source of data: SORS, forecasts by IMAD.

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

SIT million

		Constant previous year prices						Constant 2004 prices		
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
								forecast		
A	Agriculture, hunting, forestry	109,790	113,613	139,709	123,680	141,539	131,074	136,382	129,625	125,736
B	Fishing	563	735	709	896	1,015	865	900	900	900
C	Mining and quarrying	24,493	23,580	20,980	23,617	27,037	29,140	28,862	28,862	28,718
D	Manufacturing	963,075	1,036,651	1,164,763	1,259,492	1,388,935	1,450,853	1,522,670	1,588,912	1,658,029
E	Electricity, gas and water supply	93,360	109,543	131,475	140,256	152,498	165,592	165,592	166,502	169,083
F	Construction	220,136	227,751	245,150	274,175	292,853	320,583	339,979	353,748	365,244
G	Wholesale, retail, trade, repair	388,901	420,861	489,314	553,700	612,767	659,079	683,795	709,437	736,750
H	Hotels and restaurants	82,706	91,938	99,912	110,905	117,501	126,703	132,215	138,627	145,212
I	Transport, storage, communications	241,293	267,550	297,719	334,458	363,569	408,621	427,622	446,651	467,420
J	Financial intermediation	165,441	190,722	201,104	221,699	255,426	272,458	288,942	309,312	329,572
K	Real estate, renting and business activities	514,347	577,120	653,642	742,611	818,961	896,036	936,806	974,746	1,014,223
L	Public administration and com. soc. sec.	215,122	242,720	277,053	311,343	353,074	379,017	391,335	403,271	413,554
M	Education	184,487	210,792	246,278	269,600	296,046	324,156	332,422	341,231	350,956
N	Health and social work	171,176	196,337	226,148	241,059	261,419	280,865	292,240	304,660	318,522
O	Other community and personal activities	130,803	136,297	146,734	158,845	171,961	192,071	200,426	209,546	220,049
P	Private households with employed persons	1,529	1,540	1,634	1,163	1,228	1,420	1,449	1,464	1,479
	1. TOTAL VALUE ADDED, basic prices	3,507,223	3,847,750	4,342,324	4,767,499	5,255,828	5,638,533	5,881,635	6,107,494	6,345,448
	2. CORRECTIONS	572,454	566,851	622,997	729,865	799,945	854,574	887,065	929,006	965,251
	3. GROSS DOMESTIC PRODUCT (3=1+2)	**4,079,676**	**4,414,601**	**4,965,320**	**5,497,364**	**6,055,773**	**6,493,107**	**6,768,700**	**7,036,500**	**7,310,700**

Source of data: SORS, forecasts by IMAD.

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

Real growth rates in %

		Constant previous year prices						Constant 2004 prices		
		2000	2001	2002	2003	2004	2005	2006	2007	2008
								forecast		
A	Agriculture, hunting, forestry	0.6	-4.0	13.3	-15.8	10.8	-3.7	4.0	-5.0	-3.0
B	Fishing	-2.6	1.6	-4.5	4.9	-4.3	-4.2	4.0	0.0	0.0
C	Mining and quarrying	-1.2	-5.4	-8.3	6.2	2.5	2.3	-1.0	0.0	-0.5
D	Manufacturing	8.9	4.8	4.8	4.0	4.2	3.2	4.9	4.3	4.3
E	Electricity, gas and water supply	5.8	6.6	6.4	-1.0	3.1	-0.8	0.0	0.5	1.5
F	Construction	0.8	-2.3	0.5	3.6	0.9	3.8	6.0	4.0	3.2
G	Wholesale, retail, trade, repair	3.4	2.0	3.3	2.8	3.5	4.4	3.7	3.7	3.8
H	Hotels and restaurants	4.1	6.3	3.3	3.5	0.4	2.9	4.3	4.8	4.7
I	Transport, storage, communications	2.5	3.5	2.9	4.0	0.8	4.8	4.6	4.4	4.6
J	Financial intermediation	4.3	2.9	6.0	4.5	14.8	12.7	6.0	7.0	6.5
K	Real estate, renting and business activities	2.4	4.1	4.0	3.0	3.8	3.7	4.5	4.0	4.0
L	Public administration and com. soc. sec.	5.3	5.4	3.1	4.3	5.8	3.4	3.2	3.0	2.5
M	Education	3.7	2.2	2.7	2.1	2.7	2.7	2.5	2.6	2.8
N	Health and social work	3.4	2.5	4.0	2.5	3.5	3.8	4.0	4.2	4.5
O	Other community and personal activities	3.5	2.9	-0.6	3.9	3.6	4.1	4.3	4.5	5.0
P	Private households with employed persons	11.0	12.5	-8.6	-32.7	-8.1	5.3	2.0	1.0	1.0
1. TOTAL VALUE ADDED, basic prices		4.6	3.2	3.9	2.7	4.1	3.7	4.3	3.8	3.9
2. CORRECTIONS		1.1	-1.0	0.3	2.1	4.6	4.8	3.8	4.7	3.9
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4.1**	**2.7**	**3.5**	**2.7**	**4.2**	**3.9**	**4.2**	**4.0**	**3.9**

Source of data: SORS, forecasts by IMAD.

Table 4a: **Expenditure structure of gross domestic product**

SIT million, current prices

		2000	2001	2002	2003	2004	2005	2006	2007	2008
									forecast	
1	GROSS DOMESTIC PRODUCT (1= 4+ 5)	**4,300,350**	**4,799,552**	**5,355,440**	**5,813,540**	**6,251,244**	**6,557,698**	**6,963,900**	**7,426,200**	**7,901,800**
2	EXPORTS OF GOODS AND SERVICES	2,390,328	2,745,667	3,059,976	3,246,747	3,761,522	4,249,416	4,725,769	5,216,329	5,758,241
3	IMPORTS OF GOODS AND SERVICES	2,539,626	2,780,830	2,986,173	3,251,114	3,837,032	4,272,572	4,782,857	5,236,714	5,759,043
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-149,298	-35,163	73,803	-4,367	-75,510	-23,157	-57,088	-20,385	-802
5	TOTAL DOMESTIC DEMAND (5=6+9)	4,449,648	4,834,715	5,281,636	5,817,908	6,326,754	6,580,855	7,020,988	7,446,584	7,902,602
6	FINAL CONSUMPTION (6=7+8)	3,297,483	3,676,235	4,030,681	4,381,303	4,680,583	4,920,289	5,191,591	5,471,616	5,785,387
7	PRIVATE CONSUMPTION	2,467,667	2,718,270	2,973,195	3,242,175	3,461,491	3,632,856	3,826,912	4,031,334	4,259,997
	- households	2,415,081	2,657,823	2,903,381	3,167,384	3,386,182	3,555,788	3,745,503	3,945,341	4,169,121
	- non-profit institutions	52,586	60,447	69,814	74,791	75,309	77,069	81,409	85,993	90,876
8	GOVERNMENT CONSUMPTION (individual and collective)	829,816	957,965	1,057,486	1,139,128	1,219,092	1,287,433	1,364,679	1,440,282	1,525,390
9	GROSS CAPITAL FORMATION (9=10+11)	1,152,165	1,158,480	1,250,957	1,436,604	1,646,171	1,660,566	1,829,397	1,974,968	2,117,216
10	GROSS FIXED CAPITAL FORMATION	1,098,894	1,158,679	1,211,519	1,353,058	1,506,015	1,625,770	1,778,462	1,913,249	2,043,503
11	CHANGES IN INVENTORIES AND VALUABLES	53,271	-199	39,438	83,547	140,156	34,796	50,935	61,719	73,712

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

Table 4b: **Expenditure structure of gross domestic product**

structure in %, current prices

		2000	2001	2002	2003	2004	2005	2006	2007	2008
								forecast		
1	GROSS DOMESTIC PRODUCT (1=4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	EXPORTS OF GOODS AND SERVICES	55.6	57.2	57.1	55.8	60.2	64.8	67.9	70.2	72.9
3	IMPORTS OF GOODS AND SERVICES	59.1	57.9	55.8	55.9	61.4	65.2	68.7	70.5	72.9
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-3.5	-0.7	1.4	-0.1	-1.2	-0.4	-0.8	-0.3	0.0
5	TOTAL DOMESTIC DEMAND (5=6+9)	103.5	100.7	98.6	100.1	101.2	100.4	100.8	100.3	100.0
6	FINAL CONSUMPTION (6=7+8)	76.7	76.6	75.3	75.4	74.9	75.0	74.6	73.7	73.2
7	PRIVATE CONSUMPTION	57.4	56.6	55.5	55.8	55.4	55.4	55.0	54.3	53.9
	- households	56.2	55.4	54.2	54.5	54.2	54.2	53.8	53.1	52.8
	- non-profit institutions	1.2	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2
8	GOVERNMENT CONSUMPTION (individual and collective)	19.3	20.0	19.7	19.6	19.5	19.6	19.6	19.4	19.3
9	GROSS CAPITAL FORMATION (9=10+11)	26.8	24.1	23.4	24.7	26.3	25.3	26.3	26.6	26.8
10	GROSS FIXED CAPITAL FORMATION	25.6	24.1	22.6	23.3	24.1	24.8	25.5	25.8	25.9
11	CHANGES IN INVENTORIES AND VALUABLES	1.2	0.0	0.7	1.4	2.2	0.5	0.7	0.8	0.9

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

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

SIT million

		Constant previous year prices					Constant 2004 prices			
		2000	2001	2002	2003	2004	2005	2006	2007	2008
								forecast		
1	GROSS DOMESTIC PRODUCT (1=4+5)	4,079,676	4,414,601	4,965,320	5,497,364	6,055,773	6,493,107	6,768,700	7,036,500	7,310,700
2	EXPORTS OF GOODS AND SERVICES	2,167,682	2,540,812	2,930,001	3,155,864	3,652,367	4,107,109	4,442,044	4,790,967	5,174,244
3	IMPORTS OF GOODS AND SERVICES	2,230,383	2,616,276	2,913,648	3,186,507	3,681,409	4,041,491	4,348,644	4,672,618	5,025,395
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-62,701	-75,464	16,353	-30,642	-29,043	65,618	93,400	118,349	148,849
5	TOTAL DOMESTIC DEMAND (5=6+9)	4,142,377	4,490,065	4,948,967	5,528,006	6,084,816	6,427,489	6,675,301	6,918,151	7,161,851
6	FINAL CONSUMPTION (6=7+8)	3,042,054	3,387,059	3,743,649	4,150,511	4,515,676	4,830,341	4,980,031	5,135,686	5,303,880
7	PRIVATE CONSUMPTION	2,287,851	2,525,157	2,754,891	3,075,589	3,343,496	3,574,114	3,690,450	3,810,578	3,946,969
	- households	2,240,139	2,470,027	2,691,330	3,005,173	3,271,483	3,499,039	3,613,458	3,731,618	3,865,956
	- non-profit institutions	47,713	55,130	63,561	70,417	72,013	75,074	76,992	78,960	81,013
8	GOVERNMENT CONSUMPTION (individual and collective)	754,203	861,902	988,758	1,074,922	1,172,180	1,256,227	1,289,580	1,325,108	1,356,911
9	GROSS CAPITAL FORMATION (9=10+11)	1,100,323	1,103,006	1,205,318	1,377,495	1,569,140	1,597,148	1,695,270	1,782,466	1,857,971
10	GROSS FIXED CAPITAL FORMATION	1,051,703	1,103,046	1,169,330	1,296,953	1,432,502	1,561,617	1,655,314	1,737,335	1,806,828
11	CHANGES IN INVENTORIES AND VALUABLES[1]	48,620	-39	35,988	80,542	136,637	35,531	39,956	45,131	51,144

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

Table 5b: Expenditure structure of gross domestic product

real growth rates in %

		Constant previous year prices					2005	Constant 2004 prices		
									forecast	
		2000	2001	2002	2003	2004	2005	2006	2007	2008
1	GROSS DOMESTIC PRODUCT (1=4+5)	**4.1**	**2.7**	**3.5**	**2.7**	**4.2**	**3.9**	**4.2**	**4.0**	**3.9**
2	EXPORTS OF GOODS AND SERVICES	13.2	6.3	6.7	3.1	12.5	9.2	8.2	7.9	8.0
3	IMPORTS OF GOODS AND SERVICES	7.3	3.0	4.8	6.7	13.2	5.3	7.6	7.4	7.5
4	*EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)*	*2.6*	*1.7*	*1.1*	*-2.0*	*-0.4*	*2.3*	*0.4*	*0.4*	*0.4*
5	TOTAL DOMESTIC DEMAND (5=6+9)	1.4	0.9	2.4	4.7	4.6	1.6	3.9	3.6	3.5
6	FINAL CONSUMPTION (6=7+8)	1.2	2.7	1.8	3.0	3.1	3.2	3.1	3.1	3.3
7	PRIVATE CONSUMPTION	0.7	2.3	1.3	3.4	3.1	3.3	3.3	3.3	3.6
	- households	0.7	2.3	1.3	3.5	3.3	3.3	3.3	3.3	3.6
	- non-profit institutions	3.1	4.8	5.2	0.9	-3.7	-0.3	2.6	2.6	2.6
8	GOVERNMENT CONSUMPTION (individual and collective)	2.6	3.9	3.2	1.6	2.9	3.0	2.7	2.8	2.4
9	GROSS CAPITAL FORMATION (9=10+11)	2.2	-4.3	4.0	10.1	9.2	-3.0	6.1	5.1	4.2
10	GROSS FIXED CAPITAL FORMATION	1.8	0.4	0.9	7.1	5.9	3.7	6.0	5.0	4.0
11	*CHANGES IN INVENTORIES AND VALUABLES[1]*	*0.1*	*-1.2*	*0.8*	*0.8*	*0.9*	*-1.7*	*0.1*	*0.1*	*0.1*

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

Table 6a: Main aggregates of national accounts

SIT million, current prices

	2000	2001	2002	2003	2004	2005	2006	2007 forecast	2008
1 GROSS DOMESTIC PRODUCT	4,300,350	4,799,552	5,355,440	5,813,540	6,251,244	6,557,698	6,963,900	7,426,200	7,901,800
2 Net primary incomes from the rest of the world	4,480	12,461	-27,640	-36,137	-57,705	-40,109	-73,934	-86,806	-111,052
3 GROSS NATIONAL INCOME (3=1+2)	4,304,830	4,812,013	5,327,800	5,777,403	6,193,539	6,517,589	6,889,966	7,339,393	7,790,748
4 Net current transfers from the rest of the world	25,746	31,166	32,180	21,955	10,241	10,418	16,046	13,767	40,018
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	4,330,576	4,843,179	5,359,980	5,799,358	6,203,780	6,528,007	6,906,012	7,353,161	7,830,766
6 FINAL CONSUMPTION EXPENDITURE	3,297,483	3,676,235	4,030,681	4,381,303	4,680,583	4,920,289	5,191,591	5,471,616	5,785,387
Private consumption	2,467,667	2,718,270	2,973,195	3,242,175	3,461,491	3,632,856	3,826,912	4,031,334	4,259,997
Government consumption	829,816	957,965	1,057,486	1,139,128	1,219,092	1,287,433	1,364,679	1,440,282	1,525,390
7 GROSS SAVING (7=5-6)	1,033,093	1,166,944	1,329,299	1,418,055	1,523,197	1,607,718	1,714,422	1,881,545	2,045,379
8 GROSS CAPITAL FORMATION	1,152,165	1,158,480	1,250,956	1,436,604	1,646,171	1,660,566	1,829,397	1,974,968	2,117,216
in which:									
Gross fixed capital formation	1,098,894	1,158,679	1,211,519	1,353,058	1,506,015	1,625,770	1,778,462	1,913,249	2,043,503
Changes in inventories and valuables	53,271	-199	39,437	83,546	140,156	34,796	50,935	61,719	73,712
9 SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-119,072	8,464	78,343	-18,549	-122,974	-52,848	-114,976	-93,423	-71,836

Table 6b: **Main aggregates of national accounts**

		2000	2001	2002	2003	2004	2005	2006	2007	2008
									forecast	structure in %
1	**GROSS DOMESTIC PRODUCT**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	Net primary incomes from the rest of the world	0.1	0.3	-0.5	-0.6	-0.9	-0.6	-1.1	-1.2	-1.4
3	GROSS NATIONAL INCOME (3=1+2)	100.1	100.3	99.5	99.4	99.1	99.4	98.9	98.8	98.6
4	Net current transfers from the rest of the world	0.6	0.6	0.6	0.4	0.2	0.2	0.2	0.2	0.5
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	100.7	100.9	100.1	99.8	99.2	99.5	99.2	99.0	99.1
6	FINAL CONSUMPTION EXPENDITURE	76.7	76.6	75.3	75.4	74.9	75.0	74.6	73.7	73.2
	Private consumption	57.4	56.6	55.5	55.8	55.4	55.4	55.0	54.3	53.9
	Government consumption	19.3	20.0	19.7	19.6	19.5	19.6	19.6	19.4	19.3
7	GROSS SAVING (7=5-6)	24.0	24.3	24.8	24.4	24.4	24.5	24.6	25.3	25.9
8	GROSS CAPITAL FORMATION	26.8	24.1	23.4	24.7	26.3	25.3	26.3	26.6	26.8
	in which:									
	Gross fixed capital formation	25.6	24.1	22.6	23.3	24.1	24.8	25.5	25.8	25.9
	Changes in inventories and valuables	1.2	0.0	0.7	1.4	2.2	0.5	0.7	0.8	0.9
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-2.8	0.2	1.5	-0.3	-2.0	-0.8	-1.7	-1.3	-0.9

Source of data: SORS, forecasts by IMAD.

Table 7: **Balance of payments**

EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008
							forecast		
I. CURRENT ACCOUNT	-583	38	344	-81	-544	-301	-480	-390	-300
1. TRADE BALANCE	-1,227	-684	-265	-543	-1,009	-1,034	-1,216	-1,145	-1,124
1.1. Exports of goods	9,574	10,454	11,082	11,417	12,933	14,517	16,160	17,870	19,779
1.2. Imports of goods	10,801	11,139	11,347	11,960	13,942	15,551	17,376	19,015	20,903
2. SERVICES	489	536	620	541	686	898	978	1,060	1,121
2.1. Exports	2,052	2,178	2,440	2,465	2,782	3,224	3,564	3,901	4,254
- Transport	534	559	635	680	808	922	1,036	1,150	1,271
- Travel	1,045	1,105	1,143	1,186	1,312	1,448	1,585	1,724	1,869
- Other	473	514	663	599	662	854	943	1,027	1,114
2.2. Imports	1,562	1,642	1,820	1,924	2,096	2,326	2,585	2,841	3,133
- Transport	385	356	385	419	485	524	586	644	710
- Travel	556	601	635	664	706	748	802	846	897
- Other	621	685	800	841	906	1,053	1,197	1,351	1,526
1-2. BALANCE OF GOODS AND SERVICES	-738	-149	355	-2	-323	-136	-238	-85	-3
Exports	11,626	12,632	13,522	13,882	15,715	17,740	19,724	21,771	24,033
Imports	12,364	12,781	13,167	13,884	16,038	17,876	19,962	21,856	24,036
3. INCOME	29	43	-153	-173	-250	-226	-309	-362	-463
3.1. Receipts	471	511	491	542	583	683	846	932	1,001
- Labour income	204	197	206	219	220	215	220	225	230
- Investment income	268	314	286	323	363	468	626	707	771
3.2. Expenditures	442	468	645	715	833	909	1,154	1,294	1,464
- Labour expenditures	29	30	36	43	46	54	65	75	85
- Investment expenditures	413	438	608	673	786	855	1,089	1,219	1,379
4. CURRENT TRANSFERS	125	144	142	94	29	61	67	57	167
4.1. Receipts	371	436	478	448	543	735	826	919	1,126
4.2. Expenditure	245	293	336	354	515	675	759	861	959
II. CAPITAL & FINANCIAL ACCOUNT	542	-148	-145	-12	638	703	-	-	-
A. CAPITAL ACCOUNT	4	-4	-164	-165	-105	-128	-	-	-
1. Capital transfers	1	1	-163	-164	-106	-124	-	-	-
2. Non-produced non-financial assets	3	-5	-1	-2	0	-5	-	-	-
B. FINANCIAL ACCOUNT	538	-144	19	154	743	831	-	-	-
1. Direct investment	77	251	1,538	-118	221	-27	-	-	-
- Domestic abroad	-72	-161	-162	-418	-442	-453	-	-	-
- Foreign in Slovenia	149	412	1,700	300	662	427	-	-	-
2. Portfolio investment	185	80	-69	-223	-575	-1,218	-	-	-
3. Financial derivatives	0	0	0	0	-2	-3	-	-	-
4. Other investment	462	964	435	759	843	2,268	-	-	-
4.1. Assets	-576	248	-668	-825	-1,408	-1,648	-	-	-
4.2. Liabilities	1,038	716	1,102	1,584	2,251	3,916	-	-	-
5. International reserves (BS)	-187	-1,439	-1,885	-264	256	-189	-	-	-
III. STATISTICAL ERROR	41	110	-199	93	-94	-402	-	-	-

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

Table 8: **Exports and imports of goods and services by end-use of products**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
							forecast		
MILLION EUR									
1. Exports of goods	9,574	10,454	11,082	11,417	12,933	14,517	16,160	17,870	19,779
investment goods	1,230	1,432	1,559	1,653	1,895	2,076	2,343	2,627	2,927
intermediate goods	4,684	5,091	5,302	5,527	6,416	7,043	7,870	8,720	9,672
consumer goods	3,661	3,931	4,221	4,237	4,622	5,397	5,947	6,522	7,180
2. Exports of services	2,052	2,178	2,440	2,465	2,782	3,224	3,564	3,901	4,254
3. EXPORTS TOTAL	11,626	12,632	13,522	13,882	15,715	17,740	19,724	21,771	24,033
4. Imports of goods	10,801	11,139	11,347	11,960	13,942	15,551	17,376	19,015	20,903
investment goods	1,948	1,973	2,031	2,269	2,459	2,586	2,954	3,309	3,553
intermediate goods	6,443	6,579	6,682	6,917	8,230	9,381	10,513	11,447	12,625
consumer goods	2,410	2,587	2,633	2,774	3,253	3,583	3,910	4,259	4,724
5. Imports of services	1,562	1,642	1,820	1,924	2,096	2,326	2,585	2,841	3,133
6. IMPORTS TOTAL	12,364	12,781	13,167	13,884	16,038	17,876	19,962	21,856	24,036
7. BALANCE of goods and services	-738	-149	355	-2	-323	-136	-238	-85	-3
Services	489	536	620	541	686	898	978	1,060	1,121
Goods	-1,227	-684	-265	-543	-1,009	-1,034	-1,216	-1,145	-1,124
8. Exports to imports ratio (in %)	89	94	98	95	93	93	93	94	95
NOMINAL PERCENTAGE CHANGE AT ANNUAL RATE (IN %)									
1. Exports of goods	18.2	9.2	6.0	3.0	13.3	12.2	11.3	10.6	10.7
investment goods	20.2	16.4	8.9	6.1	14.6	9.6	12.8	12.1	11.4
intermediate goods	23.0	8.7	4.1	4.2	16.1	9.8	11.7	10.8	10.9
consumer goods	11.9	7.4	7.4	0.4	9.1	16.8	10.2	9.7	10.1
2. Exports of services	16.3	6.1	12.0	1.0	12.9	15.9	10.5	9.5	9.0
3. EXPORTS TOTAL	17.8	8.7	7.0	2.7	13.2	12.9	11.2	10.4	10.4
4. Imports of goods	16.6	3.1	1.9	5.4	16.6	11.5	11.7	9.4	9.9
investment goods	8.9	1.3	3.0	11.7	8.4	5.2	14.2	12.0	7.4
intermediate goods	26.3	2.1	1.6	3.5	19.0	14.0	12.1	8.9	10.3
consumer goods	1.3	7.3	1.8	5.3	17.3	10.1	9.1	8.9	10.9
5. Imports of services	9.0	5.1	10.8	5.7	8.9	10.9	11.2	9.9	10.3
6. IMPORTS TOTAL	15.5	3.4	3.0	5.4	15.5	11.5	11.7	9.5	10.0

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

Table 9a: **Foreign trade by geographical area, EUR million**

	EXPORTS (f.o.b.) , EUR million					
	2000	**2001**	**2002**	**2003**	**2004**	**2005**
TOTAL	9,492	10,347	10,962	11,285	12,783	14,315
DEVELOPED INDUSTRIAL COUNTRIES	6,706	7,046	7,249	7,437	9,410	10,599
EUROPEAN UNION	6,056	6,432	6,509	6,595	8,505	9,688
Germany	2,575	2,715	2,714	2,610	2,760	2,849
Italy	1,290	1,290	1,323	1,478	1,664	1,803
France	672	703	734	638	822	1,169
United Kingdom	203	290	268	252	289	355
Netherlands	164	172	183	197	190	206
Belgium	106	112	97	93	141	157
Spain	91	100	116	164	195	255
Denmark	89	97	97	102	127	145
Greece	26	33	36	39	63	58
Ireland	15	15	14	17	20	21
Portugal	17	17	22	20	24	49
Luxembourg	4	3	8	26	35	46
Austria	714	773	774	827	955	1.149
Finland	24	30	27	26	29	39
Sweden	66	82	97	105	124	153
Cyprus	-	-	-	-	4	5
Malta	-	-	-	-	1	1
Estonia	-	-	-	-	8	11
Latvia	-	-	-	-	15	12
Lithuania	-	-	-	-	29	31
Czech Republic	-	-	-	-	245	317
Hungary	-	-	-	-	249	282
Poland	-	-	-	-	344	362
Slovakia	-	-	-	-	174	211
EFTA	136	134	207	176	166	219
Switzerland	111	108	180	150	139	188
Norway	19	19	22	22	21	27
Liechtenstein	5	6	4	3	3	2
Island	1	1	1	1	3	2
OTHER OECD	440	400	447	586	634	561
of which:						
United States of America	293	273	297	410	400	294
Other countries	147	128	150	176	234	267
OTHER DEVELOPED COUNTRIES	74	80	85	80	105	131
DEVELOPING COUNTRIES	2,784	3,301	3,713	3,848	3,373	3,716
COUNTRIES OF EX-YUGOSLAVIA	1,486	1,750	1,952	1,967	2,251	2,476
Croatia	750	894	955	1,007	1,167	1,304
Macedonia	171	147	159	143	139	134
Bosnia and Herzegovina	408	445	492	471	491	515
Serbia & Montenegro	157	264	347	346	455	523
FORMER USSR COUNTRIES	309	460	509	550	604	686
of which: Russian Federation	210	315	320	347	420	467
CEFTA COUNTRIES	752	828	954	1.044	194	232
Czech Republic	165	188	201	205	-	-
Slovakia	76	93	132	162	-	-
Hungary	183	175	196	223	-	-
Poland	245	271	305	311	-	-
Romania	53	65	79	91	115	146
Bulgaria	30	36	42	52	79	86
Other European countries	8	12	13	13	16	18
OTHER COUNTRIES	229	250	285	273	308	303
Unclassified	2	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 9a: **Foreign trade by geographical area, EUR million**

	IMPORTS (c.i.f.), EUR million					
	2000	**2001**	**2002**	**2003**	**2004**	**2005**
TOTAL	10,984	11,344	11,574	12,239	14,143	15,728
DEVELOPED INDUSTRIAL COUNTRIES	8,595	8,753	8,947	9,368	12,422	13,609
EUROPEAN UNION	7,444	7,675	7,870	8,233	11,647	12,722
Germany	2,082	2,178	2,216	2,359	2,872	3,149
Italy	1,917	2,004	2,070	2,240	2,673	2,997
France	1,128	1,205	1,190	1,230	1,166	1,164
United Kingdom	337	292	278	256	243	237
Netherlands	230	219	240	257	508	566
Belgium	159	176	170	170	268	332
Spain	286	295	356	249	385	482
Denmark	57	63	67	67	71	72
Greece	24	36	51	38	40	43
Ireland	41	42	39	49	31	35
Portugal	13	17	19	22	26	38
Luxembourg	21	25	29	32	38	56
Austria	906	944	956	1,052	1,864	1,940
Finland	63	62	72	75	43	48
Sweden	180	115	116	137	146	127
Cyprus	-	-	-	-	13	8
Malta	-	-	-	-	3	0
Estonia	-	-	-	-	2	1
Latvia	-	-	-	-	6	2
Lithuania	-	-	-	-	3	3
Czech Republic	-	-	-	-	345	378
Hungary	-	-	-	-	540	599
Poland	-	-	-	-	189	237
Slovakia	-	-	-	-	173	209
EFTA	230	192	202	221	240	219
Switzerland	175	170	186	200	229	205
Norway	53	20	15	20	9	12
Liechtenstein	1	1	1	1	1	2
Island	1	0	0	0	0	0
OTHER OECD	738	732	715	761	452	548
of which:						
United States of America	325	333	333	294	166	145
Other countries	413	399	382	467	287	403
OTHER DEVELOPED COUNTRIES	183	154	160	154	83	120
DEVELOPING COUNTRIES	2,388	2,591	2,627	2,870	1,721	2,119
COUNTRIES OF EX-YUGOSLAVIA	648	604	575	613	805	1,027
Croatia	487	451	419	445	514	605
Macedonia	53	30	26	22	26	29
Bosnia and Herzegovina	63	70	69	78	152	206
Serbia & Montenegro	45	53	61	68	113	187
FORMER USSR COUNTRIES	286	361	342	381	359	389
of which: Russian Federation	251	315	269	311	300	334
CEFTA COUNTRIES	997	1,081	1,094	1,121	109	171
Czech Republic	273	278	288	308	-	-
Slovakia	144	160	162	163	-	-
Hungary	320	352	341	352	-	-
Poland	150	161	168	189	-	-
Romania	61	95	98	70	86	126
Bulgaria	49	35	36	38	24	45
Other European countries	2	6	2	3	1	2
OTHER COUNTRIES	455	539	614	752	446	530
Unclassified	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 9b: **Foreign trade by geographical area, structure in %**

	EXPORTS (f.o.b.)					
	2000	**2001**	**2002**	**2003**	**2004**	**2005**
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	70.7	68.1	66.1	65.9	73.6	74.0
EUROPEAN UNION	63.8	62.2	59.4	58.4	66.5	67.7
Germany	27.1	26.2	24.8	23.1	21.6	19.9
Italy	13.6	12.5	12.1	13.1	13.0	12.6
France	7.1	6.8	6.7	5.7	6.4	8.2
United Kingdom	2.1	2.8	2.4	2.2	2.3	2.5
Netherlands	1.7	1.7	1.7	1.7	1.5	1.4
Belgium	1.1	1.1	0.9	0.8	1.1	1.1
Spain	1.0	1.0	1.1	1.5	1.5	1.8
Denmark	0.9	0.9	0.9	0.9	1.0	1.0
Greece	0.3	0.3	0.3	0.3	0.5	0.4
Ireland	0.2	0.1	0.1	0.2	0.2	0.1
Portugal	0.2	0.2	0.2	0.2	0.2	0.3
Luxembourg	0.0	0.0	0.1	0.2	0.3	0.3
Austria	7.5	7.5	7.1	7.3	7.5	8.0
Finland	0.3	0.3	0.2	0.2	0.2	0.3
Sweden	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	1.4	1.3	1.9	1.6	1.3	1.5
Switzerland	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
Liechtenstein	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
OTHER OECD	4.6	3.9	4.1	5.2	5.0	3.9
of which:						
United States of America	3.1	2.6	2.7	3.6	3.1	2.1
Other countries	1.5	1.2	1.4	1.6	1.8	1.9
OTHER DEVELOPED COUNTRIES	0.8	0.8	0.8	0.7	0.8	0.9
DEVELOPING COUNTRIES	29.3	31.9	33.9	34.1	26.4	26.0
COUNTRIES OF EX-YUGOSLAVIA	15.7	16.9	17.8	17.4	17.6	17.3
Croatia	7.9	8.6	8.7	8.9	9.1	9.1
Macedonia	1.8	1.4	1.4	1.3	1.1	0.9
Bosnia and Herzegovina	4.3	4.3	4.5	4.2	3.8	3.6
Serbia & Montenegro	1.7	2.5	3.2	3.1	3.6	3.7
FORMER USSR COUNTRIES	3.3	4.5	4.6	4.9	4.7	4.8
of which: Russian Federation	2.2	3.0	2.9	3.1	3.3	3.3
CEFTA COUNTRIES	7.9	8.0	8.7	9.3	1.5	1.6
Czech Republic	1.7	1.8	1.8	1.8	-	-
Slovakia	0.8	0.9	1.2	1.4	-	-
Hungary	1.9	1.7	1.8	2.0	-	-
Poland	2.6	2.6	2.8	2.8	-	-
Romania	0.6	0.6	0.7	0.8	0.9	1.0
Bulgaria	0.3	0.4	0.4	0.5	0.6	0.6
Other European countries	0.1	0.1	0.1	0.1	0.1	0.1
OTHER COUNTRIES	2.4	2.4	2.6	2.4	2.4	2.1
Unclassified	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).

Table 9b: **Foreign trade by geographical area, structure in %**

	IMPORTS (c.i.f.)					
	2000	**2001**	**2002**	**2003**	**2004**	**2005**
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	78.2	77.2	77.3	76.5	87.8	86.5
EUROPEAN UNION	67.8	67.6	68.0	67.3	82.3	80.9
Germany	19.0	19.2	19.1	19.3	20.3	20.0
Italy	17.5	17.7	17.9	18.3	18.9	19.1
France	10.3	10.6	10.3	10.1	8.2	7.4
United Kingdom	3.1	2.6	2.4	2.1	1.7	1.5
Netherlands	2.1	1.9	2.1	2.1	3.6	3.6
Belgium	1.4	1.6	1.5	1.4	1.9	2.1
Spain	2.6	2.6	3.1	2.0	2.7	3.1
Denmark	0.5	0.6	0.6	0.5	0.5	0.5
Greece	0.2	0.3	0.4	0.3	0.3	0.3
Ireland	0.4	0.4	0.3	0.4	0.2	0.2
Portugal	0.1	0.1	0.2	0.2	0.2	0.2
Luxembourg	0.2	0.2	0.3	0.3	0.3	0.4
Austria	8.2	8.3	8.3	8.6	13.2	12.3
Finland	0.6	0.5	0.6	0.6	0.3	0.3
Sweden	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	2.1	1.7	1.7	1.8	1.7	1.4
Switzerland	1.6	1.5	1.6	1.6	1.6	1.3
Norway	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
Island	0.0	0.0	0.0	0.0	0.0	0.0
OTHER OECD	6.7	6.5	6.2	6.2	3.2	3.5
of which:						
United States of America	3.0	2.9	2.9	2.4	1.2	0.9
Other countries	3.8	3.5	3.3	3.8	2.0	2.6
OTHER DEVELOPED COUNTRIES	1.7	1.4	1.4	1.3	0.6	0.8
DEVELOPING COUNTRIES	21.7	22.8	22.7	23.5	12.2	13.5
COUNTRIES OF EX-YUGOSLAVIA	5.9	5.3	5.0	5.0	5.7	6.5
Croatia	4.4	4.0	3.6	3.6	3.6	3.8
Macedonia	0.5	0.3	0.2	0.2	0.2	0.2
Bosnia and Herzegovina	0.6	0.6	0.6	0.6	1.1	1.3
Serbia & Montenegro	0.4	0.5	0.5	0.6	0.8	1.2
FORMER USSR COUNTRIES	2.6	3.2	3.0	3.1	2.5	2.5
of which: Russian Federation	2.3	2.8	2.3	2.5	2.1	2.1
CEFTA COUNTRIES	9.1	9.5	9.5	9.2	0.8	1.1
Czech Republic	2.5	2.5	2.5	2.5	-	-
Slovakia	1.3	1.4	1.4	1.3	-	-
Hungary	2.9	3.1	2.9	2.9	-	-
Poland	1.4	1.4	1.5	1.5	-	-
Romania	0.6	0.8	0.8	0.6	0.6	0.8
Bulgaria	0.4	0.3	0.3	0.3	0.2	0.3
Other European countries	0.0	0.1	0.0	0.0	0.0	0.0
OTHER COUNTRIES	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

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

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

SIT MILLION, CURRENT PRICES

CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL GENERAL GOVERNMENT REVENUES	**1,000,873**	**1,135,798**	**1,270,079**	**1,450,626**	**1,648,042**	**1,793,528**	**2,048,225**	**2,176,399**	**2,477,425**	**2,683,056**	**2,870,087**
TAX REVENUES	**959,015**	**1,076,269**	**1,203,590**	**1,355,476**	**1,557,455**	**1,666,398**	**1,878,783**	**2,002,134**	**2,291,070**	**2,446,900**	**2,608,243**
TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	311,429	357,877	395,045	460,520	506,878	537,261
Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634	289,102	319,822	353,126	382,523	394,860
Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795	68,775	75,223	107,394	124,355	142,401
SOCIAL SECURITY CONTRIBUTIONS	405,687	420,168	448,121	501,121	554,397	619,265	701,347	774,355	839,216	899,400	955,611
TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071	83,369	93,897	107,424	117,676	126,097
Payroll tax	809	14,943	33,994	42,058	51,454	63,849	79,031	88,994	102,968	113,189	121,219
Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222	4,338	4,903	4,456	4,487	4,878
TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513	32,965	34,428	34,419	39,513	40,834
DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895	673,380	672,703	814,577	856,610	938,130
TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089	29,607	31,341	34,653	19,339	9,360
OTHER TAXES	451	241	208	787	100	136	238	365	261	7,484	950
NON-TAX REVENUES	**39,564**	**56,851**	**60,924**	**88,230**	**79,825**	**110,035**	**148,455**	**144,877**	**157,114**	**169,690**	**160,015**
CAPITAL REVENUES, VOLUNTARY DONATIONS	**2,294**	**2,678**	**5,565**	**6,920**	**10,762**	**17,095**	**20,987**	**29,388**	**29,241**	**22,628**	**29,360**
RECEIPTS FROM THE EU BUDGET	-	-	-	-	-	-	-	-	-	43,838	72,469

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

CONSOLIDATED GENERAL GOVERNMENT REVENUES	PER CENT SHARE RELATIVE TO GDP										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL GENERAL GOVERNMENT REVENUES	**41.6**	**41.0**	**40.3**	**41.5**	**42.1**	**41.7**	**42.7**	**40.6**	**42.6**	**42.9**	**43.8**
TAX REVENUES	**39.9**	**38.8**	**38.2**	**38.8**	**39.7**	**38.7**	**39.1**	**37.4**	**39.4**	**39.1**	**39.8**
TAXES ON INCOME AND PROFIT	6.7	7.1	7.2	7.2	7.0	7.2	7.5	7.4	7.9	8.1	8.2
Personal income tax	6.1	6.3	6.2	6.1	5.9	6.0	6.0	6.0	6.1	6.1	6.0
Corporate income tax	0.5	0.8	1.1	1.1	1.1	1.2	1.4	1.4	1.8	2.0	2.2
SOCIAL SECURITY CONTRIBUTIONS	16.9	15.2	14.2	14.3	14.1	14.4	14.6	14.5	14.4	14.4	14.6
TAXSES ON PAYROLL AND WORKFORCE	0.2	0.7	1.2	1.3	1.4	1.6	1.7	1.8	1.8	1.9	1.9
Payroll tax	0.0	0.5	1.1	1.2	1.3	1.5	1.6	1.7	1.8	1.8	1.8
Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TAXES ON PROPERTY	0.5	0.5	0.6	0.8	0.7	0.6	0.7	0.6	0.6	0.6	0.6
DOMESTIC TAXES ON GOODS AND SERVICES	12.4	12.6	13.1	13.7	15.3	14.0	14.0	12.6	14.0	13.7	14.3
TAXES ON INTERN. TRADE AND TRANSACTIONS	3.3	2.8	1.9	1.4	1.2	0.9	0.6	0.6	0.6	0.3	0.1
OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
NON-TAX REVENUES	**1.6**	**2.1**	**1.9**	**2.5**	**2.0**	**2.6**	**3.1**	**2.7**	**2.7**	**2.7**	**2.4**
CAPITAL REVENUES, VOLONTARY DONATIONS	**0.1**	**0.1**	**0.2**	**0.2**	**0.3**	**0.4**	**0.4**	**0.5**	**0.5**	**0.4**	**0.4**
RECEIPTS FROM THE EU BUDGET	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.7**	**1.1**

Sources of data: Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia, SORS; calculations by IMAD.

Table 11: Consolidated general government expenditures; GFS - IMF Methodology

SIT MILLION, CURRENT PRICES

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL EXPENDITURE	**999,960**	**1,127,569**	**1,304,159**	**1,476,217**	**1,671,340**	**1,848,249**	**2,111,416**	**2,332,423**	**2,555,893**	**2,768,430**	**2,941,639**
CURRENT EXPENDITURE	**182,986**	**207,137**	**236,776**	**268,455**	**317,033**	**363,785**	**431,647**	**477,431**	**522,778**	**536,739**	**552,177**
WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	81,286	98,087	112,053	120,657	135,145	152,929	180,226	202,198	227,022	242,268	254,993
PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	149,900	178,612	191,705	203,095	202,538	208,001
INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	60,956	72,809	83,528	92,661	91,933	89,183
CURRENT TRANSFERS	**723,670**	**813,053**	**946,202**	**1,067,398**	**1,186,537**	**1,313,519**	**1,480,824**	**1,648,085**	**1,800,113**	**1,947,285**	**2,072,557**
SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951	63,161	60,435	69,470	77,571	91,369
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077	821,358	910,392	986,100	1,053,417	1,109,176
Current transfers to public institutions and public utilities	279,824	322,011	373,320	415,533	438,366	487,432	563,780	631,249	684,098	685,406	717,838
OTHER CURRENT DOMESTIC TRANSFERS	10,315	12,311	13,813	28,806	37,012	36,059	32,525	46,009	60,445	130,891	154,174
CAPITAL EXPENDITURE TOTAL	**93,304**	**107,379**	**121,181**	**140,364**	**167,770**	**170,945**	**198,945**	**206,907**	**233,002**	**243,769**	**248,467**
CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	111,003	127,996	128,733	142,131	151,305	156,094
CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942	70,949	78,174	90,871	92,464	92,373
PAYMENTS TO THE EU BUDGET	-	-	-	-	-	-	-	-	-	**40,637**	**68,438**
SURPLUS / DEFICIT	**913**	**8,230**	**-34,081**	**-25,591**	**-23,297**	**-54,834**	**-63,191**	**-156,024**	**-78,468**	**-85,374**	**-71,552**

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

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	PER CENT SHARE RELATIVE TO GDP										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL EXPENDITURE	**41.6**	**40.7**	**41.4**	**42.2**	**42.6**	**43.0**	**44.0**	**43.5**	**44.0**	**44.3**	**44.9**
CURRENT EXPENDITURE	**7.6**	**7.5**	**7.5**	**7.7**	**8.1**	**8.5**	**9.0**	**8.9**	**9.0**	**8.6**	**8.4**
WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	3.4	3.5	3.6	3.5	3.4	3.6	3.8	3.8	3.9	3.9	3.9
PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.2	2.8	2.9	3.0	3.3	3.5	3.7	3.6	3.5	3.2	3.2
INTEREST PAYMENTS	1.1	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.6	1.5	1.4
CURRENT TRANSFERS	**30.1**	**29.3**	**30.0**	**30.5**	**30.3**	**30.5**	**30.9**	**30.8**	**31.0**	**31.2**	**31.6**
SUBSIDIES	1.7	1.2	1.3	1.4	1.6	1.4	1.3	1.1	1.2	1.2	1.4
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	16.3	16.0	16.5	16.4	16.5	17.0	17.1	17.0	17.0	16.9	16.9
Current transfers to public institutions and public utilities	11.6	11.6	11.9	11.9	11.2	11.3	11.7	11.8	11.8	11.0	10.9
OTHER CURRENT DOMESTIC TRANSFERS	0.4	0.4	0.4	0.8	0.9	0.8	0.7	0.9	1.0	2.1	2.4
CAPITAL EXPENDITURE TOTAL	**3.9**	**3.9**	**3.8**	**4.0**	**4.3**	**4.0**	**4.1**	**3.9**	**4.0**	**3.9**	**3.8**
CAPITAL EXPENDITURE	2.4	2.3	2.1	2.4	2.8	2.6	2.7	2.4	2.4	2.4	2.4
CAPITAL TRANSFERS	1.5	1.6	1.7	1.7	1.5	1.4	1.5	1.5	1.6	1.5	1.4
PAYMENTS TO THE EU BUDGET										0.7	1.0
SURPLUS / DEFICIT	**0.0**	**0.3**	**-1.1**	**-0.7**	**-0.6**	**-1.3**	**-1.3**	**-2.9**	**-1.4**	**-1.4**	**-1.1**

Sources of data: Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia, SORS; calculations by IMAD.

Tabela 12: **Population and labour force**

Numbers in thousands, indicators in percents

	2000	2001	2002	2003	2004	2005	2006	2007	2008
							forecast		
POPULATION (in thousand)	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	15.9	15.6	15.2	14.8	14.5	14.2	13.9	13.8	13.7
15-64 years	70.1	70.1	70.2	70.4	70.4	70.3	70.4	70.3	70.1
65 years and more	14.0	14.3	14.6	14.9	15.2	15.5	15.7	15.9	16.2
LABOUR FORCE (A=B+C1)	968.0	979.0	971.0	962.0	1007.0	1015.7	1020.0	1023.1	1027.5
Persons in employment (B)	901.0	916.0	910.0	897.0	943.0	949.2	952.5	954.5	958.8
Persons in paid employment (B1)	715.4	722.1	721.4	722.1	724.4	731.6	738.3	744.1	751.6
Formally self-employed persons (B2)	85.1	84.2	87.3	79.2	83.1	81.5	81.3	80.4	79.4
Informally employed (B3=B-B1-B2)	100.5	109.7	101.3	95.6	135.5	136.1	132.9	130.0	127.8
Survey unemployed - ILO standard (C1)	68.0	63.0	62.0	64.0	64.0	66.5	67.5	68.6	68.7
Registered unemployed persons (C2)	106.6	101.9	102.6	97.7	92.8	91.9	89.1	87.3	85.0
LABOUR MARKET INDICATORS %									
Participation rate (15-64 years)	67.8	68.3	67.8	67.1	69.8	70.9	70.8	71.1	71.4
men	72.2	73.1	72.5	72.0	74.5	75.1	75.1	75.1	75.3
women	63.2	63.5	63.0	62.1	65.0	66.5	66.4	66.8	67.4
Participation rate (65 years and more)	22.8	25.9	22.1	20.4	27.7	19.8	21.6	21.2	20.6
Employment rate (15-64 years)	62.9	63.9	63.4	62.6	65.3	65.9	66.0	66.2	66.6
men	67.2	68.7	68.2	67.4	70.0	70.4	70.0	70.0	70.2
women	58.5	58.9	58.6	57.6	60.5	61.4	61.9	62.3	62.8
Employment rate (55-64 years)	22.5	25.0	24.4	23.5	29.0	30.5	31.5	33.0	34.3
Unemployment rate - ILO definition (C1/A)	7.0	6.4	6.4	6.7	6.3	6.5	6.6	6.7	6.7
men	6.8	5.9	5.9	6.4	5.9	6.1	6.1	6.3	6.3
women	7.3	7.0	6.8	7.1	6.9	7.1	7.2	7.2	7.2
young people (15-24 years)	16.8	18.1	16.7	17.4	16.2	16.0	16.1	16.2	16.2
Registered unemployed rate (C2/(B1+B2+C2))	11.8	11.2	11.3	10.9	10.3	10.2	9.8	9.6	9.3
men	10.6	10.1	10.0	9.4	8.8	8.5	8.3	8.3	8.1
women	13.1	12.6	12.7	12.6	12.1	12.1	11.6	11.1	10.7
Structure of persons in employment according to Survey									
in agriculture	9.8	10.2	9.1	8.3	9.7	9.0	8.1	7.7	7.3
in industry and construction	37.4	37.9	38.2	37.3	36.0	36.7	34.6	34.4	34.2
in services	50.9	50.2	51.4	53.0	52.4	53.3	53.5	54.2	55.8
ANNUAL GROWTH RATES (%)									
Persons in employment (according to Survey)	1.7	1.7	-0.7	-1.4	5.1	0.7	0.3	0.2	0.5
Persons in formal employment	1.3	0.7	0.3	-0.9	0.8	0.7	0.8	0.6	0.8
Persons in paid employment	1.8	0.9	-0.1	0.1	0.3	1.0	0.9	0.8	1.0
Formally self-employed persons	-2.7	-1.1	3.6	-9.2	4.9	-1.9	-0.2	-1.1	-1.3
Informally employed	-21.2	9.1	-7.6	-5.6	41.7	0.5	-2.4	-2.2	-1.6
Registered unemployed	-10.4	-4.5	0.8	-4.8	-5.0	-1.0	-3.1	-2.0	-2.7
Labour force according to Survey	0.9	1.1	-0.8	-0.9	4.7	0.9	0.4	0.3	0.4
Working age population	0.5	0.1	0.3	0.3	0.0	0.1	0.3	0.0	-0.1
Population	0.2	0.1	0.2	0.1	0.0	0.2	0.2	0.2	0.2
Population, 65 years and more	2.2	2.4	2.5	1.7	2.0	2.2	1.5	1.9	1.9

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

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008
							napoved		
PERSONS IN EMPLOYMENT (according to SNA) in thousand*	894.8	898.9	912.5	910.5	914.3	920.9	928.3	933.9	941.2
Annual growth rate (in %), Total:**	0.8	0.5	-0.3	-0.2	0.4	0.7	0.8	0.6	0.8
Production activities (A-F):	-0.2	-0.7	-1.9	-1.8	-1.3	-0.9	-1.0	-1.4	-1.6
Mainly market-oriented services (G-K)**	2.4	1.3	1.5	0.6	1.5	2.3	2.6	2.3	2.9
Public and personal services (L-P)	0.8	2.0	0.8	2.2	2.7	1.8	1.9	2.0	2.1
A Agriculture, hunting, forestry	-3.2	-3.3	-2.7	-1.8	-2.4	-2.0	-3.4	-4.3	-4.5
B Fishing	-3.7	-2.5	42.5	1.3	-0.2	1.2	0.7	0.7	0.7
C Mining and quarrying	-15.9	-6.8	-5.9	-5.2	-8.9	-4.5	-7.8	-5.5	-6.4
D Manufacturing	0.0	0.4	-1.9	-2.2	-0.9	-1.9	-1.5	-1.3	-1.5
E Electricity, gas and water supply	-3.6	-0.5	0.2	-0.6	-1.6	0.8	-3.3	-2.8	-1.2
F Construction	6.6	0.0	-1.0	-0.1	-0.5	4.7	4.6	2.6	2.0
G Wholesale, retail, trade, repair	1.5	-0.3	0.7	-0.1	0.1	0.6	0.5	0.5	0.9
H Hotels and restaurants	7.3	-0.5	-0.6	-0.8	0.4	2.4	1.9	2.4	2.4
I Transport, storage, communications	1.3	1.5	1.3	-0.4	-1.4	0.8	2.0	1.8	2.3
J Financial intermediation	4.0	2.6	1.8	-0.9	2.7	4.0	1.5	2.4	3.0
K Real estate, renting and business activities**	2.1	4.4	4.0	3.1	5.1	4.6	5.7	4.4	5.4
L Public administration and com. soc. sec.	4.2	3.5	2.8	3.9	4.9	-0.2	2.0	1.8	1.3
M Education	1.9	1.4	1.7	1.5	1.6	2.3	1.4	1.5	1.7
N Health and social work	0.5	1.7	2.3	2.4	2.9	3.2	2.8	3.0	3.3
O Other community and personal activities	-5.4	1.0	-6.0	1.6	0.7	1.8	1.5	1.7	2.1
P Private households with employed persons	11.1	12.2	-10.3	-34.1	-8.1	5.9	1.6	0.6	0.6

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008
SIT m (current prices)	4.8	5.3	5.9	6.4	6.8	7.1	7.5	8.0	8.4
in EUR (current prices)	23,440	24,585	25,944	27,322	28,624	29,707	31,297	33,175	35,027
Real*** annual growth (v %)**	3.3	2.2	3.8	2.9	3.7	3.1	3.4	3.3	3.1
Total A:K	4.0	3.0	2.6	3.5	4.7	3.6	4.1	3.8	3.6
Agriculture and Fishing (A+B)	3.9	-0.7	16.3	-14.2	13.4	-1.7	7.7	-0.7	2.3
Industry and construction (C-F)	6.3	3.4	5.8	5.5	4.7	3.5	5.1	4.6	4.6
of what; Manufacturing	8.9	4.4	6.8	6.3	5.2	5.2	6.6	5.8	5.7
Mainly market oriented services (G-K)**	0.7	2.0	2.4	2.7	3.4	3.4	2.0	2.3	1.7
Public and personal services (L-P)	3.3	1.4	1.7	0.9	1.4	1.6	1.5	1.5	1.4

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 in SIT.

Table 14: **Indicators of international competitiveness**

<div style="text-align:right">

Annual growth rates in %
</div>

	2000	2001	2002	2003	2004	2005 estimate	2006 forecast
Effective exchange rate [1]							
Nominal	-8.0	-5.7	-3.6	-0.5	-1.4	-0.7	-0.4
Real - based on consumer prices	-2.2	-0.3	1.7	3.2	0.0	-0.3	-0.2
Real - based on producer prices [2]	-2.4	-0.3	0.9	2.8	2.0	0.6	-0.4
Unit labour costs in manufacturing [3]							
In SIT nominal	4.1	7.5	5.9	3.7	1.4	0.1	-0.3
In the basket of currencies	-4.2	1.4	2.1	3.2	0.1	-0.7	-0.7
Compensation of employees - real [4]	2.6	1.9	1.9	1.6	3.8	2.7	3.0
Net wages and other remunerations	1.7	1.2	1.1	0.8	4.0	3.4	3.7
Tax burden on wages [5]	0.8	0.4	0.3	0.4	0.1	-1.4	-0.9
Labour productivity	7.4	2.7	3.4	3.4	6.0	5.2	5.8
Prices/effective exchange rate	0.2	2.3	3.6	5.1	2.2	1.7	1.6

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.

Analysis, Research and Development	**Slovenia's Development Strategy (SDS 2006-2013)**, 2005
	Spring Report 2005
	Autumn Report 2005
	Human Development Report Slovenia 2002-2003
	Development Report 2006
	Slovenia – On the Way to the Information Society
Working papers	• No. 2/2006. Does Exporting Boost Capital Investments? The Evidence from Slovenian Manufacturing Firms' Balance Sheets, A. Burger, M. Ferjančič
	• No. 5/2004. On the possibility of negative effects of EU entry on output, employment, wages and inflation in Slovenia, A. Brezigar
	• 4/2004. Future GDP growth in Slovenia: Looking for room for improvement, E.L.W. Jongen
	• 3/2004. An analysis of past and future GDP growth in Slovenia, E.L.W. Jongen
	• 1/2004. Productivity growth and functional upgrading in foreign subsidiaries in the slovenian manufacturing sector, M. Rojec, B. Majcen, A. Jaklič, S. Radošević
	* More Working papers are available in lovene language
IB Revija	**IB revija 1-2/2006 VSEBINA:**
	Tomaž Čater: Prepletanje osnov in oblik konkurenčne prednosti podjetja: Kritična ocena primernosti dosedanjih šol. *Miroslav Verbič*: Analiza izraženih preferenc kot pristop k ekonomskemu vrednotenju okoljskih vrednot ter naravne in kulturne dediščine. *Milan Vodopivec*: The Evolution and Determination of Slovenia's Wage Structure in the 1990s. *Jože P. Damijan, Andreja Jaklič, Matija Rojec*: Vpliv zunanjih prelivanj znanja na inovativnost in produktivnost slovenskih podjetij.
	Posvet o enotni davčni stopnji (EDS)
	Vito Tanzi: The Economic Role of the State in the 21st Century. *Jože Mencinger*: Can a Flat Rate Tax Contribute to Growth and Welfare. Andreas Peichl: The Distributional Effects of a Flat Tax Reform in Germany - A Microsimulation Analysis. *Richard Murphy:* Flat Tax: Not as Simple as They'd Have You Think. *Ivo Vanasaun:* Experience of Flat Income Tax - the Estonian Case. *Ion Ghizdeanu, St. Fănel Videanu, Cristian Stănică, Daniela Plăvicheanu:* The Effects of Flat Tax in Romania. *Thomas Larsen*: A Flat Tax in Denmark? *Jean Tesche*: Direct Taxation in Southeastern Europe. *Alvin Rabushka*: A Flat Tax for Slovenia. *Tomaž Cajner, Jan Grobovšek, Damjan Kozamernik*: Welfare and Efficiency Effects of Alternative Tax Reforms in Slovenia. *Gonzalo C. Caprirolo*: Proportional ("Flat") Personal Income Tax Rate and Competitiveness in Slovenia: Towards Understanding the Policy Issues and Policy Implications
Internet	**http://www.gov.si/umar**

Subscription	* The subscription fee covers one print issue and one free electronic issue (for publications available in electronic form). Each subsequent edition in either format is charged separately. A 10% discount is granted for electronic-only subscriptions.
Discounts	Quantity discounts (for orders of five or more extra copies of each publication: up to 25%); discounts for multiple monthly series subscriptions (2 series: 20%; 3 series: 25%).
Subscription and info	**IMAD, Gregorčičeva 27, 1000 Ljubljana, Slovenia; phone +386 1 478 1043; fax +386 1 478 1070**. Publications and invoices are delivered by regular mail. E-mail: publicistika.umar@gov.si. All information concerning the IMAD's publications is available at the website: **http://www.gov.si/umar/public.php**
Renewal	Subscription is automatically renewed every year.
Cancellation	Cancellations should be made in writing and take effect from the end of the calendar year.

Title of institution and name of contact person or full name and phone no. of subscriber		Signature:
Address of subscriber		**E-mail:**
ID for VAT	**VAT – liable taxpayer:** ☐ YES ☐ NO	Date:
Payment in foreign currency	Payments should be made by bank transfer via SWIFT to LJBASI2X and credited to IMAD, Gregorčičeva 27, 1000 Ljubljana, Slovenia (with the notification »Subscription to *Name of Publication*«), account number 27628-5026407 at the Bank of Slovenia, Slovenska cesta 35, 1000 Ljubljana, Slovenia.	

I also wish to subscribe to the following additional services free of charge:

- **delivery of a free electronic copy of the subscribed publications by e-mail (in addition to the print copy delivered by regular mail)**	☐
- **notification of password changes by e-mail**	☐
- **information about new publications by e-mail**	☐

P e r i o d i c a l s	EUR	Enter the number of copies*	
		print	electronic
Slovenian Economic Mirror. 11 issues annually. Price per copy: 6.50 EUR	66.77		
Spring Report	14.61		
Autumn Report	14.61		
Annual subscription for **Spring / Autumn Report**	29.21		
Development Report	12.52		
** **Working Paper Series,** the prices in the pricelist are for a single issue, (mostly in Slovenian)	9.18		
IB revija. 4 issues annually. Single issue price: EUR 12.52, double issue price: EUR 16.69 (mostly in Slovenian)	41.73		
Info IMAD / UMAR **Info.** 1 issue free of charge. Useful information about the IMAD. Slovenian, English			

*** If you do not wish to subscribe to the entire series, please enter the selected publication:*

B o o k s	EUR	Enter the number of copies*	
		print	electronic
Slovenia's Development Strategy (2006-2013)	8.35		
M. Stare, R. Kmet Zupančič, M. Bučar: **Slovenia – On the Way to the Information Society**, 2004	19.20		
Human Development Report Slovenia 2002–2003 (book and CD)	20.86		
Human Development Report Slovenia 2002–2003 (book or CD)	17.94		
Slovenia in the New Decade: Sustainability, Competitiveness, Membership in the EU – summary	6.26		
Slovenia in the New Decade: Sustainability, Competitiveness, Membership in the EU (complete text)	29.21		
B. Radej, A. Pirc Velkavrh, L. Globevnik: **Indicators on environment and development**, 1999	7.85		/
Matija Rojec: **Restructuring with foreign direct investment: The Case of Slovenia**, 1998	8.35		/

Full information on the books published by the IMAD is available at the IMAD's website or at the above addresses or phone numbers. Please enter the selected book:

The prices in EUR are calculated on the basis of the central parity echange rate (EUR 1 = SIT 239.640).		
Tax	8.5% VAT is not included in the price.	March 2006