SLOVENIA

ANALYSIS OF ECONOMIC DEVELOPMENTS AND
TARGET DEVELOPMENTAL SCENARIO BY 2003

(1999 SPRING REPORT)

Institute of
Macroeconomic Analysis
and Development

Analysis, Research and Development

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Institute of Macroeconomic Analysis and Development
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PREFACE

The 1999 Spring Report provides an estimate of the economic developments and factors of growth underlying the Slovenian economy in the period since 1995. The Report comprises six sections. A short summary (Chapter 1) is followed by an overview of developments in the international environment (Chapter 2) which are having a strong impact on the economic situation in Slovenia due to the openness of its economy, and by a report on institutional changes (Chapter 3). A detailed survey and analysis of developments in different areas in 1998 and the first months of 1999 are presented together with short-term development projections for 1999 and 2000 in Chapter 4. In Chapter 5 development issues that frequently relate to the process of accession to the EU have been raised (regional and social development, and environmental dimensions of economic development). The next chapter presents the main guidelines and dilemmas of economic policy for the next two years (Chapter 6). The target development scenario up until 2003 is presented in the last chapter.

For several years, the Spring Report has been prepared by the Institute of Macroeconomic Analysis and Development in the English and Slovenian languages. The Government uses it as one of its sources in preparing economic policy measures and drafting the state budget. This year, the budget is being prepared for the next two years, and will be adopted for the year 2000.

The Report has been prepared on the basis of data provided by information services (mainly the Statistical Office of the Republic of Slovenia (SORS), the Bank of Slovenia (BS), the Agency for Payments (AP)), expert estimates of other domestic and foreign institutes and international institutions. In March and April this year, IMAD prepared new estimates of national accounts for Slovenia for 1998-2003 on the basis of those data.

The 1999 Spring Report has been prepared by: Alenka Kajzer (editor, head of the project, summary), Branka Tavčar (national accounts), Tanja Česen (investment, construction), Pavle Gmeiner (technological restructuring), Matjaž Hanžek (social development), Andrej Hrovat (monetary policy, stock exchange), Slavica Jurančič (international competitiveness), Maja Kersnik Bergant (social development), Mateja Kovač (agriculture), Rotija Kmet (international environment), Saša Kovačič (incomes policy), Tomaž Kraigher (employment and unemployment), Jasna Kondža and Dušan Kidrič (public

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The Report is based on data available up to and including 2 June 1999.

1. SHORT SUMMARY

1.1. ECONOMIC DEVELOPMENTS IN 1995-1998 - Balanced economic growth and a slower fall in inflation

Slovenia is one of the transition countries that were among the first to overcome the transition depression experienced at the beginning of the 1990s. After falling in 1987-1992, economic growth again picked up in 1993, on average recording 4% growth in 1993-1998 per year. According to the latest SORS estimates,[1] **economic growth in 1996 and 1997 recorded growth rates even higher** than those previously published by the SORS. Economic growth in 1996 is therefore estimated at 3.5% (3.3% previously), and 4.6% in 1997 (previously estimated at 3.8%).

Unlike the majority of other transition countries, Slovenia has managed to achieve economic growth maintaining at the same time the external balance (without deficits in the current account of the balance of payments) and sound government finances (no major general government deficits). As early as in **1996** did Slovenia **record the level of gross domestic product** seen before independence, that is the **1990** level, and in **1998 it achieved the level of 1987**, when the economic crisis started looming over former Yugoslavia, also shown in the fall of gross domestic product.[2] Owing to the smallness, openness and strong links of Slovenia's economy with markets of the EU member-states, recession tendencies that emerged in the second half of the 1990s were soon reflected in a slowdown of economic growth in Slovenia.

Internationally comparable development indicators reveal that **Slovenia's lag behind developed countries has been narrowing**. In 1997, it attained 68% of the average gross domestic product per capita by purchasing power parity of the EU, compared to 65% seen in 1995. With its gross domestic product per capita by purchasing power parity at ECU 13,000 (USD 14,000), Slovenia is the most developed of all candidate countries for accession to the EU, and has caught up to economically least developed EU member-states

[1] In its latest publication (Rapid Reports, no. 93, 30 March 1999), the SORS introduced additional methodological changes, adjusting calculations to the European system of national accounts from 1995 (ESA-1995), which resulted in corrections to the 1996 and 1997 economic growth figures.

[2] Gross domestic product in 1995 constant prices is compared.

(Greece and Portugal). The Vienna Institute for Comparative Economic Studies (WIIW, 1999, p. 27) estimates that Slovenia attained 72% of the average gross domestic product per capita by purchasing power parity of the EU, surpassing thus Greece and Portugal (68% and 71% of the EU average, respectively). Taking the human development index as a measure of comparing the level of development, whereby indicators of economic development are supplemented by health and educational attainment indicators, Slovenia ranked 26th out of 175 countries, coming before some of the countries whose rank is above Slovenia when economic development is considered, or the place in the country risk rank (Euromoney, March 1999), where Slovenia was placed 32nd this spring.

Slovenia's economic development ranged within the (+) plus and (-) minus scenario set out in the Strategy of Economic Development of Slovenia (IMAD; 1995). Reasons for not attaining the (+) scenario lie in substantially less favourable international environment (the slower economic growth in Europe, the world financial crisis, war in the Balkans) and principally in the slow implementation of structural reforms and institutional changes.

Despite the slowdown in economic growth with regard to 1997, **economic developments were relatively favourable in Slovenia in 1998**. The SORS estimates that 3.9% economic growth was achieved last year, which is only slightly down on the autumn forecast of 4% (IMAD, 1998b). Even though exports of goods were the driving force behind economic growth, investment had a major role within domestic demand. Direct impacts of the Asian and Russian crises were limited owing to the relatively low amount of trade with Asian countries and Russia. Exports to countries of the former Soviet Union dropped by about 23% in real terms, exports to these countries, however, only accounted for about 5% in recent years. Exports to countries of former Yugoslavia, on the other hand, slowed down substantially last year (1997 saw 11.1% real growth, compared to only 1.1% in 1998). The effects of turbulent movements in world financial markets were felt in last year's slowdown in economic growth in the EU, particularly in the second half of the year, even though it was still stronger than in 1997 (2.9% and 2.7%, respectively). The economic deterioration in the EU did yet not affect Slovenia last year, as exports of goods to the EU rose by 11.6% in real terms in the third quarter compared to the same period of 1997, and by up to 21.9% in the last quarter, with the rise in exports of goods remaining quite high also in the first quarter of 1999 (an 11.1% real rise).

For the second consecutive year, **business results of commercial**

companies improved markedly last year. For the first time, commercial companies' total net profits exceeded net losses. A positive shift in terms of development has been seen in the cost structure of gross domestic product since 1996, which was due to the fall in social security contributions in 1996, and the slowdown in wages in 1997 and 1998. After substantial rises in wages seen in 1993-1996, exceeding the rise in labour productivity (except in 1994) and causing a fall in Slovenian exporters' competitiveness, the rise slowed down in 1997 and 1998. This was brought about by the agreement of social partners, which entered into force in mid-1997. The analysis of performance of enterprises in 1994-1997 by ownership categories (Rojec, Simoneti, Rems, 1999) reveals that the promoters of active development (a rise in employment, investment and value added) are mainly companies where foreign investors hold a majority stake and newly established private companies. This is why the modest foreign direct investment inflows recorded last year cause concern. In order to create an environment for faster economic growth, obstacles that hinder setting up new companies and prevent higher foreign direct investment must be removed.

Fluctuations in economic growth are also affected by movements in international competitiveness; the deterioration seen in 1995, for example, had an important impact on the slowdown in economic growth in 1996. International competitiveness improved in 1996, however, unit labour costs expressed in the basket of currencies rose above the average costs of Slovenia's seven most important OECD trading partners both in 1997 and 1998. The **deteriorated cost competitiveness recorded in 1998** was largely the result of a slightly stronger real appreciation of the tolar (after two year's break), with the tolar rising by 4% in real terms measured by relative consumer prices against the basket of currencies, and 3.8% measured by relative producer prices.

Despite deteriorated international competitiveness of Slovenian manufacturing, accounting for the majority of goods exports, and a gradual slowdown in economic growth in the most important trading partners, last year's exports of goods increased by 8.4% in real terms (11.4% in 1997), with market shares in the most important trading partners also rising by about 2% on average. Owing to the improved terms of trade, the **1998 trade deficit remained roughly at the 1997 level** even though imports of goods rose more quickly than exports (USD 774.9 million according to the balance of payments statistics). The surplus in services trade narrowed mainly due to the fall in net inflows from tourism. It was sufficient to cover about two-thirds of the trade deficit. With slightly wider surpluses in factor services and unrequited transfers, the **external balance was also achieved last year**.

The **inflation rate**, recording two-digit monthly rates when monetary independence was introduced in October 1991, already fell to a one-digit annual rate towards the end of 1995. The fall continued into the period after 1995, at a slower rate, however, mainly due to intensive price disparity corrections, maintaining the average annual inflation rate at about 9% in 1996 and 1997. In mid-1998, growth in prices (consumer, producer and retail prices) slowed down substantially. **At the end of 1998, the inflation rate was 6.5%**, with the **average annual rate** falling below 8% (**7.9%**). The slowdown in prices seen in the second half of the year was a result of reduced impulses coming from the changes in controlled prices and changed tax rates on the one hand, and a long period of subdued wage growth (a fall in demand and cost pressures on prices), a fall in import prices, real appreciation of the tolar and stronger competition on the domestic market on the other.

Balanced public finances recorded in 1992-1996 had a positive impact on economic stabilisation, as they did not create additional pressures on interest or exchange rates. The general government deficit appeared for the first time in 1997, when government revenues were affected by social security contribution rates falling by two times in 1996, and the liberalisation of external trade (real falls in customs duty revenues). The expenditure side was affected wage increases in the public sector (pressures, which came into effect in 1996), increased employment in the public administration, and a rise in social transfer expenditure. The rise in general government expenditure exceeded the rise in gross domestic product over the last three years; in 1998, it represented 43.8% of gross domestic product, 1.4 percentage points up on 1996. The rise in general government revenues was slower; in 1998, they represented 43% of gross domestic product, only 0.3 of a percentage point up on 1996. So far, Slovenia recorded the widest **general government deficit** in 1997 (1.2% of gross domestic product); in **1998**, it fell to **0.8% of gross domestic product**. The fall was brought about by the restrictive budget expenditure policy introduced towards the end of the year (the actual central budget expenditure was lower than that adopted), and part of the revenues from sales taxes (paid in January 1999) were included in budget revenues of 1998.

Dealing with unemployment behind factory gates, which was typical of socialism, economic restructuring (market re-orientation, bankruptcy) and long privatisation of socially owned property resulted in massive and structural unemployment, which are the basic reasons for stagnation in employment happening despite relatively dynamic economic growth experienced since 1993. The **registered unemployment rate therefore persists at high levels** (in 1993-1998, it ranged at about 14%), however, it slightly **overestimates the actual level of unemployment**. Internationally comparable **unemployment rates based on the labour force survey are substantially lower** (ranging between 7% and 8% since 1995). In 1998, the average unemployment rate based on the labour force survey was 7.9%, slightly lower than the average unemployment rate in the EU coming in at 10%. Regardless of the fact that certain criteria used in the survey to establish labour force participation are disputable[3], it nevertheless gives internationally comparable data. In referring to this unemployment rate, we should be aware of the fact that the labour force survey somewhat underestimates the actual unemployment level in rural areas.

1.2. ESTIMATES FOR 1999 - A slowdown in economic growth is expected

In 1999, economic developments are and will be characterised by slower economic growth in the most important trading partners and value-added tax introduction. It is difficult to pinpoint which of the available and presently incomplete data on macroeconomic developments at the beginning of the year already show the economy's response to the slowdown in economic growth in the EU, and which are only a reflection of preliminary adjustments to impacts expected with value-added tax introduction. The economy's response to restricted international conditions will to a large extent reveal whether economic structural and institutional reforms have managed to build a solid market economy framework that is able to respond to changes in the economic environment without state interventions.

After favourable economic developments in the EU last year (2.9%-growth), a slowdown in economic growth started looming last autumn, resulting from the Asian and Russian financial crises. Last October, the European Commission forecast 2.4% economic growth for this year (EC, 1998). The **latest growth forecasts in the most important trading partners have been corrected downwards** by 0.3 to 0.7 of a percentage point. At the end of March this year, the European Commission forecast 2.1%-growth (EC, 1999), April's estimate of the International Monetary Fund was 1.7% (IMF, 1999). Economic

[3] In particular, it is open to question whether someone who normally works only one hour a week can really be considered as employed.

developments seen at the beginning of this year and growth estimates recall the slowdown in EU experienced in 1996. As in 1996, the positive turn around is expected in the second half of the year.

What particularly concerns the Slovenian economy is a **slowdown in economic growth in the most important trading partners**. Estimates of this year's economic growth in Germany range between 1.5% (IMF, 1999) and 1.7% (IFO, 1999; EC, 1999), which is a considerable fall compared to 1998, when economic growth was 2.8%. It is nevertheless higher than the growth seen in 1996, when it was 1.2%. A similar slowdown is forecast for Austria, where this year's growth is estimated at 2% (IMF, 1999) to 2.3% (EC, 1999) compared to 3.3% recorded in 1998. Economic growth in France is expected to be about 1% lower than last year (3.2% last year and 2.3% in 1999 according to the European Commission's estimates). Italy's economic growth is expected to maintain the levels seen over the last two years, about 1.5%. Negative tendencies that emerged in the Croatian economy in the middle of 1998 persisted into the first months of this year. Analysts forecast a further slowdown in economic growth, already having more than halved last year. Negative figures appear in some estimates (Miljenović, 1999; WIIW, May 1999), also owing to the outbreak of the Kosovo crisis. Since trade with Yugoslavia is modest, impacts resulting from the Kosovo crises will mainly be indirect (except for tourism), principally coming through links with Croatia.

The Kosovo crisis, the deteriorated economic situation in Croatia and the Russian crisis have made Slovenia increasingly more dependent on European markets. As economic growth forecasts in Slovenia's most important trading partners have been lowered, the economic growth estimated in autumn (3.5% to 4%) is only realistic in its lower range. **This year's economic growth is** therefore **estimated at 3.5%**. In the light of available data on macroeconomic developments seen at the beginning of the year, this estimate may seem **optimistic**. It is nevertheless based on clear premises and if they are followed, the estimate is likely to be achieved (if those premises are not fulfilled, however, the growth may be up to half of a percentage point lower). Two of the key premises are related to international developments and two to domestic economic conditions, which crucially depend on economic policy makers. Those premises are the following:

(i) economic activity in the EU is expected to pick up in the second half of the year, driven by the recent fall in interest rates and the euro's depreciation against the US dollar;

(ii) the settlement of the Kosovo crisis and stabilisation in Croatia, where economic developments should not be further deteriorated;

(iii) the introduction of value-added tax is not expected to cause major disturbances in economic activity. Its impact on the inflation rate should only be felt in the first two months after the introduction and should be contained within the forecast 6.8% average annual inflation rate forecast last year. At the level of individual commercial companies, liquidity problems, uncertainties concerning details of the new tax system and the behaviour of business partners, and transfer costs to the new tax system are not expected to be so high that companies would be forced to restrain their activities;

(iv) favourable trends in the monetary market seen last year should be maintained this year, particularly low interest rates (despite a possible increase in demand for loans in the second half of the year) and increased savings. Considering restricted conditions in the international business, it is even more important that the real stagnation of the foreign exchange rate achieved last year is also continued into 1999.

In the environment of the expected slowdown in economic growth in the most important trading partners, also causing lower forecasts of the growth in imports, that is Slovenia's export markets, a slight deterioration of terms of trade and international competitiveness of manufacturing, export growth rates are expected to fall by a half compared to 1998 (8.4% growth in 1998, 4.1% this year). A rise in services exports is not expected owing to the Kosovo crisis reducing inflows from tourism, with the total rise in exports of goods and services being estimated at 3.4%. With slight deterioration of terms of trade and a rise in the imports of goods and services (4.7%), the trade deficit is estimated to rise to USD 900 million (4.4% of GDP). A surplus in the services and transfer balance will not be high enough to cover the entire trade deficit. The deficit in the current account of the balance of payments is therefore estimated at about USD 145 million (0.7% of GDP).

With the deteriorated conditions in the international environment, foreign and domestic demand as factors of economic growth will be more balanced than in the last two years. Increased household spending taking place in the last two months will slacken in the second half of the year. The rise in private consumption is estimated to be higher this year (3.1%) than in 1998 (2.4%), but still lower than the rise in government consumption (3.7%). As in previous years, investment demand should increase the most out of all components of domestic demand (about 8%).

The agreement of social partners on incomes policy in 1999-2001 is expected to **keep this year's rise in the average real gross wage per employee** (about 2%) **below the increase in labour productivity** (about 3%). Subdued wage and labour cost growth coupled with an expected pick-up in production and modest real appreciation of the tolar (about 0.5%), is estimated to contribute to slower cost competitiveness deterioration of Slovenian manufacturing (about 1%) than that recorded last year. Such development, however, largely depends on the boost in production in the following months.

The **number of persons in employment**, recording positive trends in enterprises and organisations in the first months of the year, partially owing to changes in the status of the unemployed participating in the public works scheme, is estimated to **rise by about 0.6%** this year. The fall in the number of unemployed recorded in the first months is expected to slow down during the year, with the average annual registered unemployment rate coming in at about 14%. The unemployment rate by the labour force survey (internationally comparable) is expected to remain at about 8% annually this year.

A marked **downward trend in the inflation rate**, already registered in the middle of last year, continued into the first months of 1999. In April, the year-on-year rise in consumer prices dropped below 5%, recording 4.3% in May. According to estimates of the Economic Institute of the Faculty of Law, which are based on 1.5%-real growth in the gross wage per employee and 4% economic growth, the impacts of value-added tax on inflation should be about 70% of the existing annual price levels (a general rise in prices by 3% to 3.5%). If those model estimates come true and effects of value-added tax introduction are limited to a single price rise in the first two months after the introduction, the **average annual rate of inflation should not exceed 6.8% this year**.

Estimates of general government revenues in 1999 are uncertain because of value-added tax's introduction in the middle of the year. On the expenditure side, additional state obligations have been passed after the state budget has been adopted. For these reasons, it would be sensible re-assess revenues and expenditure in the autumn months and reconsider the possibilities of introducing certain measures. Taking into account model and expert estimates of value-added tax and excise duty revenues, and other changes planned in the tax system, total general government revenues are expected to represent about 43.5% of the estimated gross domestic product. General government expenditure is estimated to reach 44.5% of gross domestic product if central budget expenditure will be executed in adopted amount. The general government deficit should therefore amount to about 1% of gross domestic product, remaining roughly at the 1998 level (0.8% of gross domestic product).

1.3. PROSPECTS FOR 2000 AND 2001 - Improvement in the international environment expected

As in autumn last year, spring estimates of economic growth in Slovenia's most important trading partners, prepared by international institutions (OECD, 1999; IMF, 1999; EC, 1999) and various economic institutes, forecast **a more favourable international economic environment in 2000** compared to 1999. Spring forecasts of next year's economic growth are somewhat lower compared to autumn ones, however, those estimates still show that Europe is expecting growth rates seen in 1998 next year. The European Commission estimates that **economic growth in EU-15 will come in at 2.7%**. Available estimates of economic growth in the most important trading partners for 2001 are also fairly optimistic.

Favourable economic developments forecast in the most important trading partners, together with stable conditions in the Slovenian economy, could contribute to a slightly stronger growth next year. Slovenia is estimated to attain about **3½% economic growth next year**, with further improvements expected in **2001** (**about 4%**).

Despite increasingly stiff competition in international markets, the resumed strengthening of economic growth in the most important trading partners should enable Slovenia to boost real exports of goods (about 5%-increase) and to at least moderately increase exports of services (about 2%-rise) with the excepted normalisation of the situation in the Balkans. In the next two years, foreign demand would again become an important factor of economic growth. Regarding domestic demand components, investment demand is estimated to be the most prominent in the following two years (about 6.5%-growth), with private and government expenditure retaining growth rates expected for this year.

Terms of trade are not likely to change in the next two years, a slight deterioration may even be expected. This, together with a rise in imports exceeding exports, will contribute an increase in trade deficit (to about 4.3% of gross domestic product), and the current account of the balance of payments would be in deficit still below 1% of gross domestic product.

While the growth in wages in the private sector is forecast to be subdued, a **stronger wage growth is expected in the public sector next year**. Wages in the public sector will rise due to regular promotions pursuant to the rules on promotion, which are based on the Act on Wage Ratios in Public Institutions, Government Bodies and Local Community Bodies, supplements to branch collective agreements already agreed upon in previous years (health-care, education), and a rise in base wages in the collective agreement for the non-market sector agreed to take place in December 2000. The real rise in the average gross wage per employee (about 2.5%) is estimated to be higher than this year, it will nevertheless still be below the rise in labour productivity. **In 2001, the rise in wages should also slow down in the public sector**. A relationship between individual branches of the public sector will be established, enabling the introduction of a single pay system.

Since value-added tax was introduced in the middle of the year, its potential impact on prices shown in the average annual inflation rate will also be felt next year. Despite expectations of a rapid slowdown in prices next year, the fall in the average annual inflation rate will not be substantial. With a moderate rise in prices during the year 2000, the **average annual inflation rate should come in close to 6%**. Potential impacts of value-added tax on the inflation rate are expected to be exhausted in **2001**, when the inflation rate should drop **below 4%** assuming that similar price trends and factors that affect those trends will be seen in that period.

With intensifying the active employment measures (more jobs in the public works scheme), relatively subdued wage growth and the increased flexibility in the labour market expected with the passing of the Labour Relations Act, total **employment** (by the national accounts statistics) is estimated to **rise in the following two years** (between about 0.7% and 0.9%). This will contribute to a further fall in the number of registered unemployed, with the survey unemployment rate remaining at about 8%.

General government revenue and expenditure projections for 2000 and 2001 **indicate deterioration of public finance situation**. Increased expenditure arising from legal obligations already passed, adopted annexes to collective agreements in the public sector, and all other passed and planned programmes will not be accompanied by a rise general government revenue, estimated on the basis of planned changes in the tax system, that would enable a supportable general government deficit. The government will have to prepare a mix of measures to raise revenues and reduce expenditure, and introduce additional measures when the impacts of value-added tax on general government finances are known. While preparing budgets for 2000 and 2001, a clear goal of a moderate general government deficit will have to be adopted; the deficit in the next two years should not exceed this year's, it should settle at about 0.5% of gross domestic product. In 2000, measures aimed at increasing the tax capacity will have to be introduced. Regarding the central budget expenditure, legally binding obligations will have to be restructured in line with the public sector reform. A real rise in subsidy expenditure, capital expenditure and investment transfers from the central budget should be below the rise seen in previous years and in line with clearly defined state priorities and the state aid programme. With the adoption of the Pension and Disability Insurance Act at the beginning of 2000, the rise in expenditure will gradually slow down, however, no major results are expected in the year 2000. Changes will only be felt in 2001, when the impacts of changes to the system of pension valorisation and lower accrual rates come into effect.

In order to maintain competitiveness of the Slovenian business sector in foreign markets, fiscal burden on commercial companies, should not rise in the following years. However, the possibilities of reducing general government expenditure are limited owing to the existing system of social security and functioning of the public sector. Due to the smallness of the monetary area and insufficient level of saving at the macroeconomic level, **general government deficit should not exceed substantially the supportable level** (about 0.5% of gross domestic product). In order to achieve this, **restructuring of general government revenue and expenditure will be required**.

1.4. TARGET DEVELOPMENT SCENARIO UNTIL 2003 - Accelerated economic growth and reducing inflation

The processes of **negotiating for full membership in the EU** and adoption of the Acquis, **are accelerating the institutional reform**. In the following years, the development of Slovenia will largely be characterised by the process of adjusting to EU standards. The basic **goals** of the economic policy in this process are further **economic growth** that will together with employment policy enable an **increase in employment**, and raise the general level welfare in the country, and **a further decline in inflation**. The fall in inflation to the European levels is a goal of the monetary policy as well as those policies which are the responsibility of the Government and social partners. Subdued wage growth that will not exceed an increase in labour productivity will have to remain a priority of the incomes policy also in the period after 2001. The public finance policy will have to support the stabilisation efforts of other policies by means of maintaining roughly balanced general government accounts, and not increase the fiscal burden. Provided that all economic policies are well co-ordinated, the **average annual inflation rate** could be reduced to **3% to 4%** in the period 2001-2003.

The target development scenario until 2003 anticipates successful accession to the EU and formation of an effective and consistent institutional framework, that is bringing reforms successfully to an end. Acceleration of economic growth to between 4.5% and 5.5% annually in the period after 2001 is forecast under the assumption that the rise in exports will be more pronounced (including services), investment efficiency will be increased, foreign direct investment inflows will rise and domestic demand will increase moderately as well.

2. INTERNATIONAL ECONOMIC ENVIRONMENT - Slowdown in economic growth in 1999 stronger than expected at the end of last year

Due to the Asian and Russian financial crises, last year's **world economic growth** was almost half of what it was the year before (4.2% in 1997 and 2.5% in 1998; IMF, 1999). International institutions estimate that **this year's economic growth will be even weaker** than last year's, ranging between 1.9% (LINK, 1999) and 2.3% (IMF, 1999). There have been signs of a resolution of the crisis in South East Asia, however, new crisis areas have emerged continuing the financial instability. One such area is Brazil, from where financial instability and negative turbulence may spread internationally. Experts from the International Monetary Fund estimate that the financial sector is unstable in many other developing countries, including China. The Russian crisis is expected to aggravate further this year. The negative impacts of the war in Yugoslavia will be felt mainly in the countries of neighbouring areas. Nevertheless, the Organisation for Economic Development and Co-operation estimated in May that the world's general economic situation was better than six months ago (OECD, 1999). World economic growth is expected to **strengthen again in 2000**, reaching 2.9% according to estimates of the European Commission, or even 3.4% according to the International Monetary Fund. Experts participating in creating the world econometric model, LINK, are less optimistic, however, expecting only 2.5% growth.

Economic growth in the **EU** in 1998 was 2.9%. It was stronger in 1998 than in 1997, however, following a boost at the turn of 1997 and 1998, economic growth slowed down gradually throughout 1998. The **slowdown** was the result of the unfavourable international environment (the Russian and Asian financial crises) and related falls in export demand. The real rise in exports of goods and services seen in 1998 was almost half of that in 1997 (9.7% in 1997 and 5.4% in 1998), domestic demand, on the other hand, retained the 1997 growth level. The rise in private consumption (2.8%, 0.8 of a percentage point up on the year before) was driven by increased real income and a rise in employment. The rise in gross fixed capital formation also improved, capital goods in particular, recording an 8.4% real increase (5% in 1997), which was supported by favourable financing terms and expectations of stronger domestic demand.

According to international institutions' estimates, the negative impacts of the Asian and Russian financial crises on the volume of international trade should also be felt this year, resulting in the slowdown of economic growth in the EU. It is expected to achieve a rate between 1.7% and 2.1% (IMF, 1999; LINK, 1999; EC, 1999; OECD, 1999). **Spring estimates of economic growth in the EU for this year have been corrected downwards by 0.3 or 0.5 of a percentage point compared to those in autumn** (EC, 1998; IMF, 1998; OECD, 1999). However, this slowdown should only be temporary. A recovery is already expected in the second half of the year, and should continue into next year. These expectations are based on the fall of the Euro against the US dollar and favourable impacts of lower interest rates. With stronger domestic demand and a gradual rise in exports, economic growth in the EU should almost recover to the 1997 and 1998 level, reaching between 2.3% and 2.7% (EC, 1999; IMF, 1999; LINK, 1999; OECD, 1999).

A slowdown in growth in 1999 stronger than forecast in autumn is also expected in Slovenia's most important EU trading partners. The European Commission's estimates for Germany, Italy and Austria are half a percentage point lower than those forecast in autumn, and 0.3 of a percentage point lower for France.

As across the whole of the EU, **German economic growth** already started waning in the course of 1998, even though the growth in 1998 (2.8%) was higher than in 1997 (2.2%). The slower rise in exports of goods and services (11.1% real rise seen in 1997 and 5.9% in 1998) was partly offset by stronger domestic demand. For the first time since the German unification, investment in capital goods had a major role in economic growth (an 8.6% real rise). With favourable developments in the labour market, private consumption also strengthened, rising by 1.7% in real terms in 1998 (0.5% in 1997). The trend of a slight slowdown in economic activity also continued into the first two months of 1999 (5.1% fewer production orders, and 0.2% lower production volume in manufacturing compared to the same period of 1998). In February this year, expected exports and companies' investment plans were lower compared to those in autumn or last February (Commerzbank, April/May 1999). After declining for nine months, the business climate survey conducted by the German IFO Institute recorded an improvement of expectations in industry in March. In April, however, they declined again. Estimates of this year's economic growth range between 1.5% (IMF, 1999) and 1.7% (IFO, March 1999; EC, 1999). Following expectations of improvement in the international environment, economic activity should pick-up in the second half of the year, with next year's economic growth ranging between 2.4% (EC, 1999) and 2.8% (IMF, 1999).

Table 1: Economic growth and imports of goods and services in Slovenia's main trading partners

	Real growth in gross domestic product (GDP), in %					Real growth in imports of goods and services, in %			
	1998	1999	2000	2001	2002-06	1998	1999	2000	2001-06[1]
EU	2.9	2.1	2.7	2.5	2.5	7.8	5.4	5.7	np
Germany	2.8	1.7	2.4	2.7	2.5	5.2	3.8	4.8	5.5
Italy	1.4	1.6	2.3	2.6	2.8	6.1	1.3	5.8	4.7
Croatia	2.7	-1.0	0.0	np	np	np	np	np	np
France	3.2	2.3	2.7	2.5	2.6	8.0	4.2	5.4	4.5
Austria	3.3	2.3	2.7	np	np	6.5	5.4	6.3	np
Russia	-4.6	-3.0	0.0	np	np	np	np	np	np
USA	3.9	3.3	2.2	1.8	2.4	10.9	7.3	5.8	5.1

Sources: European Commission, March 1999 (economic growth for the EU and USA until 2001), OECD, December 1998 (imports of goods and services until 2000), Association of European Conjunture Institutes - AIECE, May 1999 (average estimates until 2006), WIIW, April 1999 (Russia and Croatia). **Notes**: [1] goods only, nd - no data.

After the accelerated growth seen in 1997 and 1998, mainly driven by exports, this year's real growth in gross domestic product in **Austria** is expected to be about one percentage point lower compared to last year on account of slowing economic growth in its most important trading partners, particularly Germany. According to estimates of the International Monetary Fund, it should be 2% (IMF, 1999), 2.2% as forecast by the Austrian WIFO Institute (WIFO, April 1999), or 2.3% according to the European Commission (EC, 1999). In 1999, the real rise in manufacturing's production volume is estimated to achieve half of the 1998 rise, when it recorded 5% (WIFO, 1999). This year, the main driving force behind economic growth should be private consumption (about a 2% rise), which already strengthened 1998. Increased private consumption is expected to be complemented by gradual improvements in investment and exports. In 2000, economic growth is forecast at about 2.6% (WIFO, April 1999; EC, 1999) or 2.5% (IMF, 1999).

The same as Germany and Austria, **France** also expects a slowdown in its economic activity. Lower growth rates in exports caused by reduced demand from abroad and deteriorated competitiveness were reflected in a slowdown of economic growth already in the second half of last year. Nevertheless, economic growth in 1998 (3.2%) was stronger than in 1997 by almost one percentage point. While the rise in exports of goods and services halved last year (12.1% in 1997 and 6.3% in 1998), a surge in real private consumption (3.2% compared to 0.9% in 1997) was favourable to economic growth. With favourable developments in the labour market, a stable rise in private consumption should also continue this year, albeit at a slightly lower rate than last year (2.8% according to estimates of the European Commission). This year's economic growth is estimated at 2.2% (IMF, 1999) or 2.3% (EC, 1999), about one percentage point down on 1998. As in other EU member-states, economic growth is forecast to accelerate in 2000, when the French economy should see 2.7% (EC, 1999) or 2.9% growth (IMF, 1999).

Italy saw 1.4% economic growth last year, which is slightly less than in 1997 (1.5%). This year's estimates are similar, ranging between 1.3% (Dun&Bradsteet Int., April 1999) and 1.6% (EC, April 1999). This year's rise in exports is expected to be relatively modest for the second consecutive year (a 1% real increase according to the European Commission's estimates compared to last year's 1.3%). However, the negative impact of net exports on economic growth should be weaker this year compared to 1998, as the strong rise in imports seen over the last two years is expected to slow down. Lower interest rates should contribute positively to domestic demand this year (about 2% real rise in 1999; EC, 1999). Economic growth should improve gradually in 2000, when both domestic and foreign demand are expected to increase in line with favourable forecasts of developments in the international environment. Next year's economic growth is expected at about 2.3% (EC, 1999) or 2.4% (IMF, 1999).

Economic growth in CEFTA countries (excluding Bulgaria, which became member only this year) slowed down again last year (from 3.9% in 1997 to 2.1% in 1998). Last year's real growth in gross domestic product was lower compared to 1997 in all countries, except Hungary. International institutions forecast even lower average economic growth in CEFTA (excluding Bulgaria) this year compared to 1998 (about 1.5%), also largely caused by the slowing economic growth in the EU.

Table 2: Economic growth and inflation in CEFTA countries

	Real growth in gross domestic product (GDP), in %			Inflation, average annual rate, in %		
	1998	1999	2000	1998	1999	2000
Bulgaria	3.5	-1.5	2.0	22.3	5.0	5.0
Czech Rep.	-2.7	-1.5	2.0	10.7	4.0	4.0
Hungary	5.1	4.0	4.0	14.3	10.0	8.0
Poland	4.8	3.0	4.0	11.8	8.0	7.0
Romania	-7.3	-5.0	0.0	59.1	50.0	40.0
Slovakia	4.4	0.0	-2.0	6.7	10.0	6.0
Slovenia	3.9	3.5	$3^3/_4$	7.9	6.8	6.2

Source: WIIW, April 1999, for Slovenia: SORS, IMAD.

Stabilisation measures introduced by the **Czech** government after the outbreak of the currency crisis in May 1997 had a positive impact on reducing the foreign trade deficit (from 8.6% of GDP in 1997 to 5.4% in 1998). However, the restrictive economic policy hindered any rise in domestic demand (Creditanstalt estimates show a 3.5% real fall in private consumption in 1998, and 3.2% lower gross fixed capital formation). Coupled with slow structural reforms, this has brought the Czech economy into recession. The Vienna Institute for Comparative Economic Studies estimates that gross domestic product fell by 2.7% last year (WIIW, April 1999). Currently, there are many factors that hinder an economic upturn, particularly slow restructuring (mainly in industry and banking) and further restrictions in fiscal and monetary policies. A marked improvement is not expected to be seen this year; economic growth forecasts range between –1.5% (WIIW, April 1999) and 0.5% (IMF, April 1999; Creditanstalt, March 1999). The fall in economic activity is likely to be coupled by a further increase in the registered unemployment rate, rising from 4.9% to 7.5% in the period from October 1997 and December 1998.

With the almost 5% real rise in gross domestic product seen in 1998, dynamic economic growth, starting in mid-1996, continues in **Hungary**. Over the whole period, the driving force behind economic recovery was exports, with domestic demand also starting to improve last year. In the first nine months of 1998, gross fixed capital formation and private consumption rose by 13.7% and 3.3% in real terms, respectively. For the first time since the beginning of transition, employment also rose last year by about 2% according to WIIW estimates (March, 1999). This year's slowdown in EU economic growth will affect the Hungarian foreign trade sector, resulting in a slowdown in economic growth estimated at about 4% (WIIW, Creditanstalt, IMF: 4.3%) despite further growth in domestic demand (11%-12% in investment in real terms, 3%-4% in private consumption; WIIW, February 1999). However, the recurrence of the deficit increase in the current account of the balance of payments seen in 1998 warns of the danger of stimulating economic growth by increasing consumption, and of the recurrence of the external balance crisis.

In **Poland**, economic growth started to slow down in the second half of last year, mainly due to the negative impacts of the Russian crisis. Domestic demand began to slow down at the same time, triggered by an increasingly restrictive economic policy aimed at halting further deficit increases in the current account of the balance of payments. After the 7% economic growth recorded in 1997, real growth in gross domestic product was 4.8% in 1998. This year's economic growth will depend on developments in the international economic environment on the one hand (Russian crisis developments and the intensity of EU economic slowdown), and the response of domestic demand to the planned fall in interest rates on the other. Economic growth estimates for 1999 vary, ranging between 3% (Business Monitor Int., April

1999; WIIW, April 1999) and 4.8% (Creditanstalt, March 1999).

Economic growth assessments for **Slovakia** for 1998 are about 2 percentage points below the growth rate achieved in 1997 (6.5%). Within domestic demand, gross fixed capital formation rose by an estimated 8% in real terms (WIIW, February 1999), household consumption was also strong. A large part of capital formation was financed by borrowing abroad, reflecting in an increase in external debt to about two-thirds of gross domestic product. A further deficit increase in the current account of the balance of payments was also characteristic of 1998, rising from less than 7% of gross domestic product in 1997 to over 9% (Creditanstalt estimate, March 1999). The deteriorated economic situation necessitated passing a package of economic policy measures whose aim is to narrow the balance of payments and budget deficits, dampen down domestic demand and improve competitiveness. Economic growth estimates for 1999 range between 0% (WIIW, April 1999) and 3% (Creditanstalt, 1999), whilst variability of forecasts for next year are even bigger, predicting falls in gross domestic product (WIIW, 1999) or 5%-growth (IMF, 1999).

This year, **Romania** is experiencing economic recession for the third consecutive year. Last year's gross domestic product is estimated to have fallen by 7.3% in real terms (WIIW, 1999), more than forecast in mid-1998. An intensive restructuring is under way in the business sector, which will also continue this year, and the fall in production should be weaker than last year. In 1999, real gross domestic product is estimated to fall between 2% (IMF, 1999) and 5% (WIIW, 1999).

After rising at more than 6% on average per year in the 1994-1997 period, economic growth in **Croatia** slowed down substantially last year. The GDP growth was 2.7% (Croatia's statistical office, march 1999), which is much lower than expected. The slowdown is the result of an increasingly restrictive economic policy coupled with strong recession tendencies, particularly in the second half of the year. Those tendencies were even more pronounced in the last quarter, with the fall in production also continuing into the first months of this year. The introduction of value-added tax, which took place at the beginning of 1998, aggravated liquidity problems in the business sector, which also spilled over into the banking sector. Last year, positive signs were seen in the narrowing of the deficit in the current account of the balance of payments from 12.6% of gross domestic product in 1997 to an estimated 7.6% of gross domestic product (Miljenović, March 1999). This year, it should further drop by about one percentage point. Estimates of economic growth range widely between –0.9% (Miljenović, March 1999) and 3% (Creditanstalt, March 1999). The optimism is based on the expected privatisation of certain large companies, which should have a positive impact on economic restructuring.

3. INSTITUTIONAL FRAMEWORK - Negotiations for full membership stimulate the development and search for solutions

In order to establish the basis for sustainable economic growth, structural reforms and further development of an efficient institutional framework, often linked to approaching the EU or to the adoption of the *acquis*, are essential. The World Bank's study (Keefer and Shirley, 1998) has shown that the appropriate institutions, in the sense of an efficient implementation of the rule of law as well as a clear definition and protection of the property rights, may be even more important for economic growth than right macroeconomic policies. A similar conclusion is drawn by the "Economic Freedom Network", a network of institutes which has ascertained a positive link between the index of economic freedom[4] and the economic growth and development (see Gwartney, Lawson, Block, 1996, p. 89-107). Lagging behind in reforms restrain the economic development and increases the gap between the actual and potential gross domestic product of a given economy.

Institutional reforms, often deferred in transition countries due to the lack of political will or the search for compromises, are accelerated by the process of negotiations for full membership in the EU in the applicant-states. In order for Slovenia to be ready for accession to the EU, the clearing up of the economic inheritance of the past and a lasting search for solutions, which also leads to not the most efficient compromise solutions from the economic point of view and to the slowness of changes, will have to give way to a strategic view of the future and more dynamic changes. Of course, such changes, as already stated in the Strategy of the Republic of Slovenia for Accession to the EU, are necessary not merely because of accession to the EU, but particularly for completion of the transition which will provide faster economic growth to Slovenia as an associate-member or a future full member of the EU.

Since the relatively critical assessment by the European Commission of Slovenia's progress in adoption of the *acquis* in November 1998, a number of important laws reducing the lagging behind in this area have been adopted: the Value Added Tax Act, the Excise Duty Act, the Banking Act, and the Foreign Exchange Act. The National Assembly has already discussed the

[4] Economic freedom means the freedom of personal choice, freedom of exchange and protection of private property. The role of the state is restricted to the protection of the property rights and the provision of infrastructure necessary for the realisation of free exchange.

pension system reform, and the social partners have eliminated their disagreement relating to this issue. The preparation of the first annual report on state aid in Slovenia is being terminated. With the entry into force of the Europe Agreement, the Bank of Slovenia reduced impediments to long-term capital inflow (for details see Chapter 6.2).

The value-added tax and excise duty replaced the former system of sales taxes on 1 July. A well prepared transition is the basis for minimising potential problems, which could have occurred at the time the above taxes came into force (liquidity problems, unjustified prices growth, a fall of demand).

Privatisation of social ownership in industry and trade is officially over. Social capital (less than 2% of total capital) in enterprises which had not undergone the process of ownership transformation was taken over by the Development Corporation of Slovenia at the end of 1998. However, the problem of the privatisation gap which appears in the outstanding ownership certificates of authorised investment companies has not yet been resolved. In the Act on the Conclusion of Ownership Transformation, the Government announced that by the end of January 1999 it would have prepared a list of state property to be given to the authorised investment funds in exchange for ownership certificates. In February, this term was extended to the end of July 1999. In June, the Parliament adopted the Act on First Pension Fund offering the possibility to solve the problem of the privatisation gap in connection with the pension system reform.

The proposed new Pension and Disability Insurance Act was discussed by the National Assembly in March and adopted after its first reading. The proposed basic solutions were accepted, and the discrepancies with the social partners opposing the original Government proposal were eliminated. The social partners accepted the agreement on the pension reform enabling preparation of the bill for its second reading in the Parliament.

One of the purposes of modifying the pension system was **the prolongation of the active life** and the postponement of early retirement. It has been proposed that the retirement age gradually (by 4 months a year for women and by 6 months a year for men) rise to 61 years for women and 63 years for men. At this age, there are no deductions for the pension benefit, but afterwards there are supplements for each month of later retirement. Pensioners who have made 40 (men) or 35 (women) years of pension contributions before the age of 63 or 61 are not subject to deductions for not having reached the necessary age; if they remain in employment they are awarded higher annual accrual rates.

The reform foresees the **individualisation of decisions and acceptance of consequences of early retirement**. It has been proposed that an insured person may retire at the age of 58 if he/she fulfils other conditions. However, in the event of not reaching the necessary pension contributions period, the insured person accepts a reduction of pension. There will also be a partial pension where an insured person will have the possibility to combine employment and retirement in the years preceding total retirement. In such an event, the income consists of half of the wage and half of the pension; partial retirement will ease the transition from the labour market to retirement and mitigate the pressure on early full retirement. For special cases of retirement, equal criteria with the highest possible deviation from the general conditions will apply, and for hard and unhealthy work there will be capital funded compulsory additional insurance, whereby the increased contributions (as currently) will be paid by employers.

Because of the relative reduction of future pensions in consequence of the proposed lower annual accrual rates, insured persons in employment **will have the possibility of voluntary additional pension insurance**. It will be offered by pension companies or mutual funds. The contributions (premiums) up to the agreed level will be taxed more favourably; they will be equalised with the contributions for compulsory pension insurance on the basis of regular contribution funding.

According to the **Act on First Pension Fund,** the property entitlements from privatisation with immediate due-date may be turned into pension entitlements with deferred due-date. This solution foresees the distribution of additional state property in order to reduce the debt from the privatisation entitlements, but at the same time there is still an implicit debt deriving from the pension system. From the macroeconomic point of view, this does not increase the savings, however it might postpone the immediate potential consumption. In terms of guaranteeing social security for the old age, it will be necessary to connect these pension entitlements with the rules and principles deriving from the pension insurance in the implementation of the Act.

The economic and financial effects of the proposed changes will stabilise the pension and disability insurance expenditure at the approximately same level as today. There will be a considerable increase of expenditure again in 2012 when post-war generations, bigger in number, will start to retire; the reduction of current expenditure and increase of savings will occur only in the event of a strong development of voluntary additional pension insurance.

The reform of the social security system has also started in the field of social care. The National Programme of Social Care until 2005, comprising the principles of the European social policy (from the principles of equal opportunities to the freedom of choice concerning the form and kind of social services as well as guaranteeing plurality), was already discussed by the National Assembly in May. In addition, the project of the Ministry of Labour, Family and Social Affairs under the PHARE programme, studying the possibilities and ways to realise the national programme in the field, is about to be terminated by testing or experimental implementation of certain measures, by setting up information bases which are important for monitoring and assessment as well as for the initial training of the performers of social care programmes at the public, private and voluntary levels.

The draft parenthood and family earnings act, which will regulate anew the issues of employment relations during parenthood, is undergoing its second reading. It adjusts family earnings to the changes in the personal income tax system (new income tax relief will be the same for all children) and mitigates the negative effects of implementation of the value-added tax. New: 45-day paternity leave, allowance for a large family, adopters' leave, and extension of the child-care leave from 260 to 305 days. The purpose of this draft act is to improve the material standing of families with lower incomes, therefore child benefits will remain selective, and the demographic aspect is also taken into consideration (the amount is progressive in relation to the order of birth). The adopted amendments of the existing Act in the field of child benefits already comprise such orientations. Furthermore, the amendments introduce extension of the eligibility period for the child-care benefit from the current 18 to 26 years of age or to the completion of schooling.

In October 1998, the Government adopted the agricultural reform programme for the period 1999-2002 which amends the measures, mechanisms and methods of implementing the agricultural policy, whereas the objectives set in the Strategy for Agricultural Development of Slovenia from 1993 remain unchanged. The reform is based on the loosening of the market-price protection, and it will contribute to the reduction of inflation and to the disburdening of the socially weak, stimulate the restructuring of the food processing industry, and redirect support of agriculture at the budgetary level (direct payments). This will increase the transparency of the support and the possibilities of monitoring. Agricultural policy will try to support the producers who are capable of increasing their capacity and make a living from agriculture or supplementary activities on the farms. The agricultural policy reform complies with the tasks of other national strategies, in particular with the Strategy of the Republic of Slovenia for Accession to the EU. Its purposes are to slow down the processes of overgrowing and maintain high population density, to support the environment and a more environmentally-friendly production as well as the orientation towards an eco-social type of agriculture. The plan to implement the specific measures is being prepared.

3.1. RESTRUCTURING OF THE CORPORATE SECTOR - Urgent continuation of privatisation, stimulating competition and foreign investments with a different role for the state

An important part of the structural reforms, emphasised as a priority by the Strategy of the Republic of Slovenia for Accession to the EU and the Joint Assessment of Medium-term Economic Policy Priorities of Slovenia, is **reform of the corporate sector**. The analysis of the performance of companies by ownership categories in the period 1994-1997 (Rojec, Simoneti, Rems, 1999) shows that the restructuring of the Slovenian corporate sector is relatively fast in privatised, externally- and internally-owned and foreign-owned enterprises, but is slow in non-privatised and state-owned enterprises. **The ofensive development** (new employment and growth of value added) is characteristic in particular **of enterprises where foreigners have a majority stake and new private companies**. Another integral part of such positive development is the intensive investment activity of these enterprises; in fact the value of fixed assets in private companies in the period 1994-1997 increased by 30.5% in real terms and in foreign-owned companies by 13.7%. The “development” in non-privatised enterprises in the same period was based in particular on the reduction of the number of employees and the stagnation or modest growth of value added. A defensive restructuring by reducing employment is often accompanied by the sale of fixed assets and negative net investments, which is particularly characteristic of non-privatised enterprises.

The investment activity of enterprises is increasing, however the situation in 1997 was still particularly typical of transition. The investment activity in all categories of former social enterprises was very modest. External and internal enterprises only registered positive net investments in 1997, yet non-privatised companies still disinvest. On the other hand, new private and foreign-owned companies were expanding their operations, employing and intensively investing in the development. Nevertheless, the most important investor remained state-owned enterprises.

Up until 1996, the state in the form of the Development Fund, now the Development Corporation of Slovenia, was relatively successful in the defensive restructuring, however this process stopped in 1997. This is shown by **a strong slowdown of exits of predominantly loss-making non-privatised enterprises** (mostly owned by the Development Corporation of Slovenia). The slowdown is taking place together with a slow improvement, or no improvement at all, of business results (return on equity, value added per employee) of the surviving non-privatised companies. The result is a maintaining of a great number of "clinically dead" companies, which are an increasingly heavy burden on the healthy part of the Slovenian corporate sector.

Irrespective of the above-average profitability of new private companies, "cleansing" in this category is by far the most intensive. New private companies are undoubtedly the most flexible and open to various new initiatives, which leads to a higher frequency of exits and entriesto the market. The substantial intensity of private companies' exits may be partially due to the fact that these companies are new and therefore on the one hand the most "prone" to

Table 3: Selected performance indicators of companies by ownership categories[1] in the period 1994-1997

Net (operating) profit/loss per equity (%)	1994	1995	1996	1997
Foreign	6.1	4.9	6.8	9.5
Private (new)	0.9	4.3	5.9	8.3
External	1.8	0.6	2.1	2.6
Internal	1.3	-0.6	0.9	2.8
Non-privatised	-3.2	-6.4	-3.8	-1.8
State-owned	0.4	0.4	-2.0	-1.0
Total	**1.0**	**0.1**	**0.2**	**1.5**

Value added (in '000 SIT) per employee	1994	1995	1996	1997
Foreign	2,902	2,851	3,042	3,279
Private (new)	2,150	2,356	2,442	2,609
External	2,540	2,468	2,592	2,740
Internal	2,110	2,070	2,161	2,290
Non-privatised	1,991	1,917	2,105	2,220
State-owned	2,604	2,785	1,992	2,315
Total	**2,263**	**2,261**	**2,302**	**2,452**

Source: Figures are computed using the Agency for Payments data for 1329 companies, 1997 constant prices. **Notes**: [1]The analysis comprises enterprises which met simultaneously the following three criteria: (i) average number of employees of at least 10; (ii) total value of assets of at least SIT 90 million and (iii) value of net sales revenues of at least SIT 180 million. The companies are divided into: private, which were not established through the privatisation process; foreign, in majority-foreign ownership; internal, mostly owned by internal owners; external, mostly owned by external owners (funds, small investors); non-privatised, mostly owned by the Development Corporation of Slovenia (partially state-owned), and state-owned enterprises, mostly owned by the state (public utilities and some monopolies).

various initial problems whereas, on the other hand, they are exposed “without protection” to the market or they are not granted any kind of support in the form of various soft budget constraints, granted to former social and currently state-owned enterprises. Banks are also probably less tolerable in relation to the financial problems of the new companies.
The above business results of the companies confirm the expectations of the comparatively greater efficiency of the open and competitive private market economy, which is also the reason why Slovenia has decided to undergo the process of economic transformation. Success of the Slovenian economy in the future is therefore very dependent on **continuing privatisation and stimulating competition** also in those fields which have been up to now relatively protected (because of their effects on the national economy, the fields of financial intermediation, telecommunications and infrastructure or public utilities are of key importance). In this sense, more efforts are necessary in order to create an environment which will **stimulate foreign direct investment**. It must be taken into consideration that international investors, when choosing a location for their investments, appreciate the accessibility of information, simplicity of administrative procedures and in particular a clearly positive attitude of economic policy makers towards foreign investments no less than legislation, macroeconomic stability and financial incentives. Stipulating conditions for investors must give way to the creation of an investment-friendly environment.

In accordance with the creation of an open and competitive economy, **the role of the state** in directing and stimulating economic development must also radically change. Direct solving of individual concrete problems at the level of enterprises or group of enterprises must give way to the so-called horizontal approach. It is necessary to establish a system of regulation and stimulation of the economy which will exceed the stiffness of mere macroeconomic policies, and will not be based on direct state intervention but on promoting and strengthening the development potentials (human resources, technological knowledge, competitive ability, investments, etc). One of the urgent initial steps is to create a survey of the numerous, often uncoordinated and diversely presented forms of state and local aid to the economy.

In relation to preparations for accession to the EU, **Slovenia is preparing first annual survey on state aid** for 1997 and 1998. State aid includes all economic policy measures of a state in the corporate sector which incur additional tax or budget costs, or reduce state property. Since every intervention of the state sector into the corporate sector is contrary to the rules of free trade and free competition, the World Trade Organisation (WTO) and the EU are trying to reduce the volume of state aid or to redirect them to the horizontal objectives.

Within the WTO and the EU, where the rules are even stricter, state aids are legally regulated. The aids permitted in the EU are horizontal aids (research and development, environment protection, small and medium-sized enterprises, training, employment), sectoral aids to certain sectors (agriculture, fishery, coal mining industry, transport, shipbuilding industry, motor vehicles industry, synthetic fibres industry, steel industry) and regional aids. All permitted forms of aid may be awarded only under strict conditions. All export aids are prohibited, and aids for rescue and restructuring enterprises are permitted only under certain conditions (if they are in the common interest of the European market). The Member States must report to the European Commission every year about the amount of state aids. These reports show that in the period 1995-1997 state aids in the EU amounted to 1.2% of gross domestic product, EUR 549 per employee and 2.4% of the total general government expenditure of the Member States. 44% of all aids were awarded to the manufacturing industry and other services, 11% to agriculture and fishery, 9% to the coal mining industry, and 36% to the transport sector. The aids for manufacturing and other services were awarded for different objectives, most of them (57%) for regional objectives, 31% for horizontal objectives (within this framework, 10% of all aids for manufacturing were awarded for research and development, and 7% for small and medium-sized enterprises) and only 12% to individual sectors. Only the survey on state aids for Slovenia in 1997 and 1998 will give the answer to how much state aid we have in Slovenia, where do we direct it and how it complies with the EU's state aid regulations.

3.2. TECHNOLOGICAL RESTRUCTURING - Urgent non-discriminatory stimulation by the state

The experience of the successful and dynamic economies shows that **technological development and total quality management of resources are the central factors of sustainable development**. However, Slovenia's development in the last few years has been characterised by poor implementation and weak dynamics of both factors in practice, which is confirmed by the model of calculating Slovenia's global competitiveness (for details see Gmeiner, Figar, 1998). Within a reference sample of twelve small European countries, the groups of indicators "technology" and "management" have an unchanged rank already in the static analysis for the period 1995-1998, and their integration and quality in the global competitiveness of Slovenia among 13 countries[5] can be seen from the following international comparison:

Table 4: Ranks of global competitiveness factors of Slovenia in the period 1995-1998

	1995	1996	1997	1998
Openness	10	8	10	7
Government	9	8	8	6
Finance	9	7	7	6
Infrastructure	13	11	11	10
Technology	**11**	**11**	**11**	**11**
Management	**8**	**8**	**8**	**8**
Labour	2	2	2	1
Civil institutions	11	11	12	13

Source: Gmeiner, Figar (1998), p. 51

The analysed indicators from the technology group (for details see Gmeiner, 1999a, 1999b) influence the changes in production programmes of Slovenian enterprises. According to the latest data from the SORS (Rapid Reports, No. 170, 23 July 1998), Slovenia's manufacturing registers 60% higher activity in the introduction of new products and/or new processing technologies than in the abandonment of certain products. The latter is most intensive in companies undergoing rehabilitation from the sub-sectors of basic metals and metal products, furniture, wood and wood products, and rubber and plastic products. Generally, compared to the developed world, **the abandonment of programmes is three to four times slower.**

In more developed economies, the growth of value added is at least in the long term connected with the introduction of new products and abandonment of the old ones (in accordance with the product cycle theory: launching, market share growth, maturity and decline). If the growth of value added per employee is analysed in connection to the introduction of new and abandoning of old products in individual sub-sectors in the past year, the expected correlation in the Slovenian manufacturing cannot be ascertained (Spearman's coefficient 0.056). But this is mostly due to the differences between sub-sector groups within manufacturing.

The sub-sector of chemicals and man-made fibres has increased its share of net profit by having the biggest share of new and abandoned products, and minimised loss by abandoning obsolete programmes. This is mostly due to successful connections with strategic partners, the introduction of innovations through development departments of enterprises, and co-operation with

[5] Besides Slovenia, also Finland, Denmark, Austria, the Netherlands, Belgium, Ireland, Spain, Greece, Portugal, the Czech Republic, Hungary and Poland take part in the comparison.

research institutes. In general, the sub-sectors are abandoning (too) slowly obsolete programmes, a fact which would contribute to a faster reduction of losses.

In the process of approaching Europe, the Slovenian economy will look for the strategic orientation and competitive advantage of its sectors in the selectivity of market-oriented products with an increasing share of innovations and quality, whereas the state through non-discriminatory general accelerators will stimulate the technological development and not individual enterprises. **In the field of introducing the so-called horizontal programmes of stimulating technological development, Slovenia is still lagging behind the developed countries**. Even the Development Corporation of Slovenia, which in the assessment of corporate programmes takes into consideration the development indicators affecting value added per employee, is finding out that the development effects of these programmes vary considerably. Since long-term international competitiveness requires a self-propulsive technological development, such findings are still a poor forecast for a long-term growth of exports and value added in manufacturing.

Under the European competition rules the assistance of the state for the stimulation of the technological development is not controversial, neither are their connections with national and international research institutes as well as the accelerated establishment of development units in enterprises. Therefore a major part of the current, and for WTO and EU controversial, aid to the industry or individual companies will have to be redirected towards the technological development. As shown by the analysis of effects of 118 completed projects outside the Development Corporation of Slovenia, financed by the Ministry of Science and Technology in the years 1995 and 1996, 75% of the projects terminated with a successful market realisation (for details see Bešter, 1999). This simultaneously means technological following and catching up the competition, an increased level of return on equity and gross value added per employee, a more stable cash flow, entry into new and technologically more demanding markets, the increase of market shares, maintaining old and creating new jobs, improvement of human resources, new research knowledge and ecologically more acceptable production. A Government programme for promoting the technological development should be prepared: to increase the share of incentives in the form of state investments in modern technology, to study the tax relief system and non-financial measures to improve the innovative climate and to stimulate development cores in industrial enterprises. All the above should take place in an environment friendly towards foreign investments, since there are still not enough financial resources available for the promotion of technological development.

4. ANALYSIS OF CURRENT ECONOMIC TRENDS AND A SHORT-TERM PROJECTION

4.1. PRODUCTION STRUCTURE OF GROSS DOMESTIC PRODUCT - Value added rose by 3.9% in 1998, growth rates in 1999 and 2000 estimated at 3.1% and 3.7%

According to estimates published by the SORS in April (quarterly assessment of gross domestic product at constant 1995 prices by type of activity), Slovenia's economic growth was 3.9% in 1998. In the first quarter, growth in gross domestic product was 6.1% compared to the same period of 1997, which was followed by a substantial slowdown (2.7% in the second, 3.5% in the third and 3.6% in the last quarters compared to the same quarter of 1997). Last year, value added rose at the same rate as gross domestic product, namely 3.9% in real terms. The rise was most pronounced in transport, storage and communications (5.4%), followed by manufacturing (5.1%), other community and personal services (4.2%), wholesale, retail, certain repair (4.1%), construction (3.9%), and health services and social work (3.8%).

Last year's share of manufacturing in the value-added structure remained at roughly the 1997 level (29.3%). Despite subdued growth in value added seen in 1999, manufacturing's share is not expected to drop below 29%. Services' share in value added increased to 60.3% last year; a gradual rise is expected in the following years. Slovenia is lagging behind the European average in terms of the level of development of the services sector; only in the next two to three years will Slovenia be able to come closer to services shares recorded by Finland or Greece in 1995. However, it already has a share that is above the level recorded by Ireland in 1995 (55.7%). The problem of the Slovenian services sector is reflected in the high share of non-marketable services and the low share of marketable services compared to those in the EU.

With its 2.2%-growth in value added last year, **agriculture, forestry and hunting** made up for the drop seen in 1997, with value added rising to the level of 1996.

Last year's harvest of cereals was fine: wheat crops increased by 22%, whilst

Table 5: Growth and structure of value added by sectors of NACE Rev. 1

	Structure in %, current prices				Real growth rates in %, 1995 prices		
	1997	1998	1999	2000	1998	1999	2000
A Agriculture, forestry, hunting	3.7	3.8	3.8	3.7	2.2	2.0	2.0
B Fishing	0.0	0.0	0.0	0.0	-2.3	3.0	0.0
C Mining	1.2	1.1	1.0	1.0	1.4	-4.0	2.0
D Manufacturing	24.3	23.4	23.3	23.1	5.1	2.7	3.0
E Electricity, gas and water supply	2.5	3.0	2.8	2.8	2.6	-3.0	3.0
F Construction	4.9	4.7	4.7	4.8	3.9	4.0	5.0
G Wholesale, retail trade, certain repair	10.1	9.8	9.8	9.7	4.1	3.0	3.0
H Hotels and restaurants	2.7	2.5	2.4	2.4	2.5	0.0	3.0
I Transport, storage, communications	7.0	7.2	7.3	7.4	5.4	4.5	5.0
J Finanacial intermediation	3.7	4.0	4.0	4.1	2.7	4.5	4.5
K Real estate, renting and business services	10.0	10.2	10.2	10.2	2.8	4.0	4.0
L Public administration and defence	5.1	5.1	5.1	5.1	2.1	3.5	4.0
M Education	5.0	5.1	5.1	5.1	2.8	3.5	3.9
N Health srvices and social work	4.6	4.8	4.8	4.9	3.8	4.2	4.5
O Other community and personal services	3.0	3.1	3.1	3.2	4.2	5.2	4.5
FISIM	-2.0	-2.0	-1.9	-1.9	0.8	2.0	2.0
1. VALUE ADDED (A ... O + FISIM) in basic prices	86.1	85.8	85.5	85.5	3.9	3.1	3.7
2. Corrections (taxes on products and services - subsidies)	13.9	14.2	14.5	14.5	4.0	5.2	3.9
3. GROSS DOMESTIC PRODUCT (3 = 1+2)	100.0	100.0	100.0	100.0	3.9	3.5	3 3

Source: SORS 1997; IMAD estimates: 1998, 1999, 2000.

corn crops fell by 6% after the record yield seen in 1997. The crops of industrial plants and potatoes also improved (by 31% and 4%, respectively). The production of fodder remained at the 1997 level. Despite unfavourable weather, fruit and grape growers recorded good results (31% higher crops in plantations orchards and only 4% lower crops of grapes after the record yield in 1997).

8.2% more pigs were slaughtered in abattoirs, whereas levels of slaughtered cattle and poultry increased by slightly less (0.2% and 1.8%, respectively). The higher production of milk seen over the last few years, due to compulsory purchases of the amounts offered (a 14%-increase in 1998 compared to 1990), are causing problems for dairies burdened by financial difficulties and large stocks of cheese, butter, and powdered milk. Pig breeding is also facing difficulties due to large market surpluses. The problem relates to cheap imports, as CEFTA countries are trying to overcome such difficulties by offering high export incentives. In the last twelve months, the Government has twice opted for interventionist purchases first in June last year and then in March this year.

The value of goods trade in agricultural products and foodstuffs measured at the current US dollar rate totalled USD 1,095 million in 1998, 1.5% up on

1997. Trade with EU member-states increased (exports by 24% and imports by 7%), whilst trade with CEFTA countries (exports +40%, imports –18%) and former Yugoslavia (exports –4%, imports +4%) decreased. As in previous years, the majority of imports of agricultural products came from the EU whilst the most agricultural products were exported to former Yugoslavia. In the first quarter of this year, exports and imports of agricultural products fell by 0.7% and 5.6%, respectively (measured in dollars). The figures on exports and imports are the only ones showing developments in agriculture this year. The estimated **2% growth for this and next year** is therefore based mainly on the assumption that the trends seen last year will continue.

Value added in **mining** went up by 1.4% in 1998. The extraction of coal dropped by 0.7%, whilst other mining and quarrying production levels increased by 1.8%. In 1998, coal extraction accounted for about 87% of total mining. Lignite extraction fell by 1.9%, whilst extracted brown coal increased by 2% compared to 1997. In 1998, the quality (energy value) of extracted lignite improved, whilst that of brown coal was lower. The majority of lignite and brown coal (about 95%) was used in the production of electricity. It is estimated that 463,000 tonnes of brown coal was imported last year, meeting more than one-third of all domestic demand.

In 1998, Slovenian mining recorded a net loss of SIT 1,437 million, falling substantially for the second consecutive year, that is 57.4% in real terms compared to 1997. Coal mining, recording a net loss of over SIT 2 billion in 1997, concluded the last business year at break-even point. The loss in extraction of uranium and thorium ore increased by almost a quarter in real terms in 1998, totalling SIT 1,756 million. The activity of extracting non-energy materials concluded the business year with a net profit of SIT 318 million, one-quarter higher than in 1997.

In Slovenia's Energy Balance, domestic coal production is forecast to fall by about 5% in 1999. Taking this into account, value added in mining is estimated to fall by about 4% in real terms this year. The estimate of the rise in value added of mining for the following years largely depends on the pace of the gradual closing down of the remaining two brown coal mines at Trbovlje and Hrastnik. It is therefore not clear whether substantial falls in the value added of mining will be recorded already in 2000 or a few years later.

In 1998, value added in **manufacturing** increased by 5.1% in real terms, 1.5 percentage points down on 1997. Following the slowdown in production activity, the rise in value added also slackened towards the end of the year (an 8.9%-rise in the first quarter, 4.3% in the second, 5.5% in the third and 2.1% in the last quarter compared to the same periods of 1997).

Manufacturing's production volume increased by 3.9% last year. Data by end-use product groups show the highest rise in investment goods (11.3%), whilst the production of consumer goods only rose 1.4%. The production volume of durable goods increased by almost 10%, production of non-durable goods, on the other hand, fell by 1.1%. Producers of intermediate goods increased their production volumes by 3.1%, with the production of raw materials rising the most (4%).

The trend in production started to slow down in the last few months of last year, continuing also into the beginning of this year. Last year's stock levels began to increase persistently in the period after April. Towards the end of 1998, the rise in stock levels exceeded the rise in production, recording almost 3%-increase of stocks per production unit in manufacturing. High stock levels per production unit were recorded in the manufacture of electrical and optical equipment, rubber and plastic products, and leather and leather products (26.4%, 15.2% and 14.3%, respectively). Labour productivity in manufacturing rose by almost 6% last year, resulting from a lower number of employees as well as increased production volumes.

Business results of commercial companies operating in manufacturing were significantly better in 1998 compared to 1997, with net profits exceeding net losses by almost SIT 27 billion (SIT 2 billion in 1997). Net losses recorded in the last business year fell by 26.8% in real terms, with real net profits increasing by 10.5% at the same time. Nine sub-sectors (the manufacture of textiles and textile products, leather and leather products, wood and wood products, chemicals and man-made fibres, rubber and plastic products, basic metals and metal products, machinery and equipment, electrical and optical equipment, transport equipment), on average generating almost two-thirds of revenues in foreign markets last year, accounted for a solid four-fifths of all manufacturing's revenues from exports of goods and services. The sub-sectors listed above generated a solid two-thirds of net profits and almost three-quarters of the net losses of manufacturing. Business results of manufacturing improved substantially on account of a marked improvement in the operations of companies producing metals and metal products, recording a net profit of SIT 4,460 million, compared to high net losses seen in 1997 (SIT 20,612 million).

This year, manufacturing's production volume has been declining, however, trend indices show that the fall was gradually weakening from January to April (by one-tenth of a percentage point month-on-month). In the first four months of this year, the production volume in manufacturing fell by 3.3% compared to the same period last year, and by 5.5% compared to last year's average. Only two out of fourteen sub-sectors increased their production volumes (food, beverages and tobacco, and transport equipment by 2.4% and 9.4%, respectively). The biggest fall in production volume was recorded in the manufacture of leather and leather products (-19.2%). Sub-sectors that are mainly export-oriented[6] have seen greater falls in production compared to others. Stocks of unsold goods continue to go up, exceeding levels seen in the first four months of 1998 by up to 9% in the same period this year. Stocks per production unit in manufacturing increased by up to 12.7%, with falls being recorded only in the manufacture of machinery and equipment, and furniture, other manufacturing and recycling (0.3% and 13.9%, respectively).

The qualitative survey on business trends in manufacturing (PA-IND) reveals that the conditions for doing business have deteriorated this year, as reflected in the confidence indicator. The composite indicator of confidence (production expectations, total orders and stocks) was going down in the first five months, except in April, on account of lower total orders and higher stocks of finished products. Lower demand for manufactured products abroad is very likely the result of the slowdown in economic activity in Slovenia's most important trading partners. Business surveys conducted in EU member-states anticipate improvement in the following three to four months (production expectations). The May survey on business trends in manufacturing reveals that the confidence indicator again fell with regard to April, this time it was due to lower total orders, particularly foreign ones, and poor production expectations for the next three to four months. Total orders fell the most in large enterprises, whilst export orders fell the most in small enterprises. Production expectations for the next three to four months are the least favourable in small enterprises. Manufacturing's stock levels of finished products fell in May, mostly in small enterprises. Through trade, manufacturing companies are highly susceptible to developments in markets of those countries that are Slovenia's most important trading partners, where lower growth in industrial production is expected after the high growth rates seen last year. The European Commission (EC, 1999) estimates that this year's industrial production volumes will increase the most in Austria (3.2%), followed by France (2%), Italy (1.8%), and Germany

[6] Sub-sectors that, according to data from balance sheets and profit and loss accounts, generated more than 50% of revenues in foreign markets in 1998.

(1.5%). Next year, industrial production growth rates are expected to increase slightly; in Austria to 4.1%, France to 3.2%, Italy to 2.7%, and Germany to 2.0%. Imports of goods and services in the EU are expected to rise by 4.7% in real terms in 1999, and by 6.1% next year (EC, 1999). In 1999, value added in manufacturing is estimated to increase by about 2.7%, and about 3% in 2000.

The **electricity, gas and water supply** sector recorded 2.6% growth in value added in 1998. The electricity supply volume, as calculated by the SORS (production weighted by different types of power plants), increased by 3.3%. Production in public power plants (ELES data) rose by 3.9% in 1998, with hydro-electric and conventional power plants recording 11.3% and 3.5% increases, respectively, whilst production in the nuclear power plant edged down 0.1% compared to 1997. In 1998, electricity consumption rose by 2.6%. Since the end of July 1998, exports, or rather supply, of half of the electricity produced in the nuclear power plant to Croatia have been cut owing to disagreements concerning price, payment and certain basic status and ownership issues. Consequently, Slovenia has recorded an electric energy surplus amounting to 5.4% of total production. Production and distribution of gas is estimated to have fallen by 0.5% in 1998, and production and distribution of heat by 3.0%.

The electricity, gas and water supply sector recorded a SIT 18,593 million net loss, 23% less than in 1997 in real terms. Electricity supply accounted for the major part of the loss. According to Slovenia's Energy Balance for 1999, total electricity production is estimated to fall by about 4%. That estimate is founded on the premise that the entire first six-month production of the Krško nuclear power plant in 1999 will be distributed to the Slovenian energy system. Given the forecast increase in the production volume and distribution of heat by 2.5% and a fall in the production volume and distribution of gas by 5.4%, value added in electricity, gas and water supply is estimated to fall by 3% in 1999, with a slight rise being again expected in the following years.

According to SORS data (quarterly assessments of gross domestic product), value added in **construction** rose by 3.9% in real terms last year, whereas that in commercial companies remained at the 1997 level in real terms. The value of completed works in construction rose by 11.3% in real terms last year. 1998 saw the revival of housing construction, rising by one-quarter in real terms. Construction companies also recorded slightly better results in construction works carried out abroad compared to previous years, particularly in Russia, Ukraine, Germany, and Croatia. In the first nine months of 1998, the value of construction works completed abroad (SIT 16 billion) rose by one-third in real terms compared to the same period of 1997. Labour productivity improved by 3.5% last year, with a substantial rise being recorded in the last quarter (8%). The number of employees in construction went up by 0.4%. Commercial companies on average employed 33,220 workers in 1998, that is 63% of all persons employed in construction, with a solid one-third of employees working in the small businesses sector (7,616 individual entrepreneurs with 12,098 employees). The latter saw a 0.8% rise in employment. In the first quarter of 1999, the value of completed construction works rose by 5.3% in real terms compared to the same period last year. The rise in value added is estimated at 4% to 5% in the following years.

In 1998, value added in the sector of **trade, repair of motor vehicles and consumer goods** increased by 4.1%. Real revenues in retail trade and sales of motor vehicles rose by 1.9% compared to 1997 (1997 saw a 1.5% real rise). The most substantial real rise in revenues was recorded in the sales of motor vehicles (10.4%; the number of new vehicle and motorcycle registrations went up by 8.9% and 108.6%, respectively) and non-food products trade (8.9%). The sales of foodstuffs, beverages and tobacco increased by 1.6% in real terms. The sector of maintenance and repair of motor vehicles recorded a 4.1% real fall in revenues. Revenues in the sales of automotive fuels slumped by 27.2% in real terms, furthermore, monthly indices reveal substantial drops in the sales of automotive fuels with regard to the same month of the previous year, which started in July 1997. In 1998, only large enterprises recorded a rise in revenues (5.7% in real terms), revenues in medium-sized enterprises remained the same, whereas those of small enterprises fell by 12.4% in real terms. These figures suggest that the revenue structure is changing whereby large enterprises benefit the most, and point to changes happening within Slovenian trade. They are reflected in the number of completed and planned mergers and acquisitions. A trade network should therefore be established, comprising two to three large trading enterprises and 50 to 60 medium-sized trading organisations, accompanied by small traders at the local level. Some foreign trading companies have also announced that they will enter the Slovenian market. In 1998, commercial companies engaged in trade recorded a net profit of SIT 22,829 million, about 4% down on 1997 in real terms. The net figure is the difference between profitable companies, recording SIT 51,337 million of net profits (6% up on 1997 in real terms), and companies making a loss, which totals SIT 28,508 million (15% up on 1997 in real terms). Value added in trade is estimated to rise at 3% this year, a full one percentage point down on last year. Forecasts for the following year are the same (3%).

Value added in the sector of **hotels and restaurants** increased by 2.5% in real terms in 1998. After rising substantially in 1997, the number of tourists and their overnight stays stagnated or even fell slightly in 1998. Those poor results principally reflect the lack of interest of Slovenians in spending their holidays in their home country. The total number of tourists fell by 1.3% compared to 1997, of which local ones fell by 3.1%, whilst the number of foreign tourists increased by 0.2%. The number of overnight stays dropped by 1.4%, of which both local and foreign ones went down by 2.2% and 0.5%, respectively. Foreign tourists account for more than one-half of the total number of tourists (54.3%, compared to 53.4% in 1997), however, they represent less the one-half of the total number of overnight stays (48.6%, 0.4 of a percentage point up on 1997). In terms of locations, the rise in overnight stays was seen only in Ljubljana and spa resorts compared to 1997 (2.8% and 1.2%, respectively).

Results recorded over the whole period since Slovenia's independence substantially lag behind those of 1990, furthermore, the structure of tourists has also changed. In 1998, the total number of overnight stays was below those in 1990 by 20.9%, of which foreign tourist overnight stays were down by as much as 42.7%, those of local tourists, on the other hand, rose by 23.8%. For the sake of comparison, tourists coming from former Yugoslavia were in fact regarded as foreigners in the data for 1990. After Slovenia's independence, the number of tourists dropped substantially, with the number of Slovenians spending their holidays at home rising considerably, due to the uncertain situation in Croatia. However, the number was lower each year.

In 1998, real foreign exchange inflows from tourism were 6.5% lower compared to 1997, totalling USD 1,110 million. They represented 54.4% of total foreign exchange revenues from services (58.1% in 1997). As in the previous year, high real growth in payments to tourist companies was also recorded in 1998 (27.7%). Net purchases of cash in casinos rose by 3.9% in real terms. The Bank of Slovenia gradually started to change the methodology used in calculating foreign exchange inflows from tourism, which is why data for 1998 are not available for all items (purchases of cash and cheques in exchange offices and the item miscellaneous), further, sales of goods to foreigners in duty-free shops are expressed by their selling and acquisition values. The selling value is based on the data on deposits of foreign currency with domestic banks made by duty-free shops. Sales of goods to foreigners presented in this way are almost three times higher than those presented by the acquisition value, which is based on reports of bonded warehouses and duty free-shops. In 1998, sales of goods to foreigners expressed by the selling value fell by 21.9% in real terms, and 34.5% expressed by the acquisition value, compared to 1997.

According to preliminary data, the number of tourists increased by 1% in the first four months of this year compared to the same period last year (the number of local tourists was up 10%, and foreign ones down by 7%), and the number of overnight stays rose by 2% (those of local tourists went up 4% and those of foreign ones fell by 4%). The success of this year's tourist season is threatened by the proximity of the war in Kosovo, which has already been felt through cancellations of foreign tourist groups and will also probably affect the choice of destination in the future. In 1999, a rise in value added in hotels and restaurants cannot be expected owing to the negative impacts of the Kosovo conflict. According to some estimates, foreign tourist visits to Slovenia could drop by several 10%. More optimistic forecasts show that the drop in foreign tourist visits could be offset by a rise in local ones, who would give up spending a holiday abroad because of the crisis.

In 1998, the activities of **transport, storage and communications** recorded a 5.4%-rise in value added. Passenger transport increased the most in airport passenger traffic (10.8%). Air and rail transport recorded a 6.5% and 4.5% rise in passenger kilometres, respectively, compared to 1997. Road and urban passenger transport fell by 4% and 4.8%, respectively. Within freight transport activities, loading and unloading increased the most (21.3%), of which harbour loading and unloading by 16.5%. A substantial rise was registered in road freight transport measured by tonne kilometres (9.3%), whilst rail freight transport remained roughly at the 1997 level (a 0.2%-rise). Of all freight transport activities, a fall was seen only in maritime transport, 5.8%. Telecommunications services also rose; the number of subscribers connected to the fixed telephone network rose by over 8%. The rise was even quicker taking into account the sharp increase in mobile telephone use. Considering the rise in real gross wages, forwarding services increased by almost 5% in 1998.

Business results of transport, storage and communications improved substantially in 1998, with real net profits more than doubling compared to 1997 and totalling SIT 25,498 million. Land transport, recording a net loss of almost SIT 2.5 billion in 1997, concluded last year with a net profit of SIT 4,180 million. Air transport recorded a SIT 560 million net profit (a 145% real rise compared to 1997). Net profits in two of the transport activities exceeded SIT 10 billion. Auxiliary transport activities and tourist organisations recorded

SIT 10,092 million in net profits (an almost twofold real increase), and postal and telecommunications services SIT 10,686 million. Considering slightly worse results seen in the first quarter, particularly in rail transport, and loading and unloading, value added in transport, storage and communications is estimated to rise slightly less in 1999 compared to last year, that is by about 4.5%, with further increases being expected next year (about 5%).

4.2. THE EXPENDITURE AND COST STRUCTURE OF GROSS DOMESTIC PRODUCT - An important role of domestic demand, further positive developments in the cost structure

According to quarterly estimates published by the SORS in April, gross domestic product in 1998 rose by 3.9% compared to 1997 when measured at 1995 constant prices, which is close to the autumn forecasts. During preparation of the Spring Report 1999, the SORS has not yet published estimates of the gross domestic product for 1998 at current prices. According to IMAD's estimates, gross domestic product was about SIT 3,249 billion.

Being a small and open economy, Slovenia is highly sensitive to external business conditions. In the last two years, exports of goods and services accounted for about 57% of gross domestic product, which is well above the EU average (in the EU-15, they represent about one-third). For reasons of the size, openness and export orientation, economic growth in 1999 will largely be influenced by economic developments in the international environment and the export competitiveness of Slovenia's economy. As Slovenia's exports are mainly oriented towards the EU markets, economic developments in those areas are of crucial importance for the domestic economy. Foreign analysts and experts estimating economic developments expect a slowdown in economic growth this year, both in the EU and all of Slovenia's important trading partners (see Chapter 2 for details). Taking into account current economic developments in the international and domestic environments, and forecasts of European institutes and international organisations predicting slower economic growth and a subdued rise in imports in Slovenia's most important trading partners, a first spring estimate of Slovenia's national accounts has been made showing that Slovenia could achieve 3.5%-growth this year. Given improvement in the international environment, next year's growth is expected to strengthen to 3l'%.

Over the last two years, the driving force behind economic growth has been

foreign demand. After rising substantially in 1997 (11.3%), the rise in foreign demand already fell markedly last year (to 6.8%). As further falls in economic growth and imports of goods in Slovenia's most important trading partners are expected, the rise in export demand is expected to be half of what it was last year (it will drop from 6.8% to about 3.4%). Owing to an expected slower rise in industrial production and subdued increase in gross fixed capital formation, the rise in imports will more than halve.

In 1998, aggregate **domestic demand** increased by 4.4%, 0.5 of a percentage point above the rise in gross domestic product. This year's rise in domestic demand is estimated to be lower and should not exceed the increase in gross domestic product (3.5%).

Table 6: Growth in aggregate demand components, %

	1996	1997	1998	1999	2000
Total aggregate demand	3.6	6.2	4.9	3.5	4.2
Of which:					
Foreign demand (exports)	3.3	11.3	6.8	3.4	4.5
Domestic demand	3.7	5.0	4.4	3.5	4.1
- intermediate consumption	3.4	4.6	3.9	2.8	3.8
- private final consumption expenditure	2.4	3.3	2.4	3.1	3.6
- govern. final consumption expenditure	3.6	4.3	4.8	3.7	3.6
- gross fixed capital formation	9.2	11.3	11.3	8.0	6.6

Sources: SORS, National accounts estimates IMAD.

Form the point of view of development, the real domestic demand structure was favourable in 1998, as capital formation rose by 11.3%, which is well above the final domestic consumption expenditure (3%). The share of final consumption expenditure in the expenditure structure of gross domestic product is gradually decreasing, with the share of gross fixed capital formation increasing. The share of final consumption expenditure therefore fell by 2 percentage points in 1995-1998 (to 76.3% of the 1998 gross domestic product), whilst the share of gross fixed capital formation is estimated to have increased by 2.5 percentage points (to 23.9% of the 1998 gross domestic product). The fall in final consumption expenditure in the reference period was exclusively due to the fall in the share of household expenditure within gross domestic product (from 57.0% in 1995 to 54.7% in 1998). The rise in demand of residential households for final consumption expenditure products and services lagged behind the growth in gross domestic product in 1998. Given the strict normative framework of the incomes policy, a subdued rise in residential household expenditure at the national level is also expected this year. As interest rates are going down, households' final consumption expenditure is estimated to rise faster than last year (3.1% this year compared to 2.4% in 1998). Over the last three years, real government expenditure has grown faster than private expenditure; the government expenditure share within gross domestic product rose from 20.2% in 1995 to 20.7% in 1998. In accordance with the adopted state budget, the rise in government consumption expenditure is expected to be slower than last year (3.7% this year, 4.8% in 1998).

Table 7: Gross domestic product by expenditure, in %, current prices

	Structure				
	1996	1997	1998	1999	2000
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
External balance of goods and services (exports-imports)	-1.0	-1.2	-1.3	-2.0	-2.0
Domestic consumption & gross capital formation	101.0	101.2	101.3	102.0	102.0
- private consumption	57.3	56.5	55.6	55.5	55.3
- government consumption	20.2	20.5	20.7	20.7	20.7
- gross fixed capital formation	22.6	23.5	23.9	24.9	25.5
- changes in inventories	0.9	0.7	1.1	0.9	0.5

Source: SORS 1996, 1997, IMAD estimate: 1998, 1999, 2000.

Of all the components of domestic demand, investment demand increased the most last year. Given the rise in profitability, capital formation continued to go up in 1998. The share of capital formation in gross domestic product is estimated to have increased by 0.4 of a percentage point last year, accounting for 23.9% of gross domestic product. After value-added tax's introduction, it is expected that taxpayers will try to reduce liquid assets bound by the input tax by rationalising or reducing stocks and curbing investment expenditure. In the environment of unstable international financial markets and increased uncertainties regarding sales in foreign markets, the rise in investment demand is expected to slow down. This year's capital formation is forecast to rise by

Table 8: Supply and use of resources, in %

	Structure				
	1996	1997	1998	1999	2000
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
Factor income balance	0.8	0.7	0.7	0.7	0.7
GROSS NATIONAL INCOME	100.8	100.7	100.7	100.7	100.7
Unrequited transfer balance	0.4	0.6	0.6	0.6	0.5
GROSS NATIONAL DISPOSABLE INCOME	101.2	101.3	101.3	01.3	101.2
Final consumption	77.5	77.0	76.3	76.2	76.0
GROSS SAVINGS	23.7	24.3	25.0	25.1	25.2
Current account balance	0.2	0.1	0.0	-0.7	-0.8
GROSS CAPITAL FORMATION	23.5	24.2	25.0	25.8	26.0
of which: gross fixed capital formation	22.6	23.5	23.9	24.9	25.5
NET CAPITAL FORMATION	5.4	6.4	7.1	7.9	8.1

Source: SORS 1996, 1997; IMAD estimate: 1998, 1999, 2000.

about 8% in real terms, with its share in gross domestic product increasing to 24.9%.

Domestic final consumption expenditure has exceeded generated gross domestic product ever since 1995. Last year, the deficit in goods and services trade represented 1.3% of gross domestic product, and is expected to increase further this year (to 2% of gross domestic product). Owing to the positive factor income balance and unrequited transfers, last year's current account was roughly balanced, this year, however, a deficit of 0.7% of gross domestic product is expected.

As the factor income and unrequited transfers balance was positive, last year's gross national disposable income was 1.3 percentage points higher than gross domestic product. A positive factor income and unrequited transfers balance (1.3% of gross domestic product) is also expected this year. After covering the national final consumption, gross national savings represented 25% of gross domestic product (compared to 24.3% of gross domestic product in 1997), which was sufficient to cover domestic capital formation last year. The share of this key macroeconomic category in gross domestic product, a precondition for investment and further economic growth, is only expected to rise moderately in 1999 (to 25.1% of gross domestic product). This year's level of national savings will not be sufficient to finance domestic investments; the deficit is therefore expected to be covered by borrowing abroad.

Table 9: Cost structure of gross domestic product, in %

	Structure					
	1995	1996	1997	1998	1999	2000
1. COMPENSATION OF EMPLOYEES (1=1a +1b)	57.3	54.8	53.5	52.5	51.9	51.4
1a. gross wages and salaries	48.2	47.5	46.8	46.1	45.6	45.1
1b. employers' social security contributions	9.1	7.3	6.7	6.4	6.3	6.3
2. TAXES ON PRODUCTION AND IMPORTS	17.0	17.4	17.0	17.4	17.6	17.6
2a. taxes on products and services	13.1	13.4	13.3	14.1	14.6	14.8
2b. import duties	3.5	3.0	2.0	1.4	1.2	1.0
2c. other taxes on production	0.4	1.0	1.7	1.9	1.8	1.8
3. SUBSIDIES	2.2	2.1	2.1	2.1	2.1	2.0
4. GROSS OPERATING SURPLUS	17.1	19.1	21.0	21.8	22.2	22.5
5. GROSS MIXED INCOME	10.8	10.8	10.6	10.4	10.4	10.5
6. GROSS DOMESTIC PRODUCT (6=1+2-3+4+5)	100.0	100.0	100.0	100.0	100.0	100.0

Source: SORS 1996, 1997; IMAD estimate: 1998, 1999, 2000.

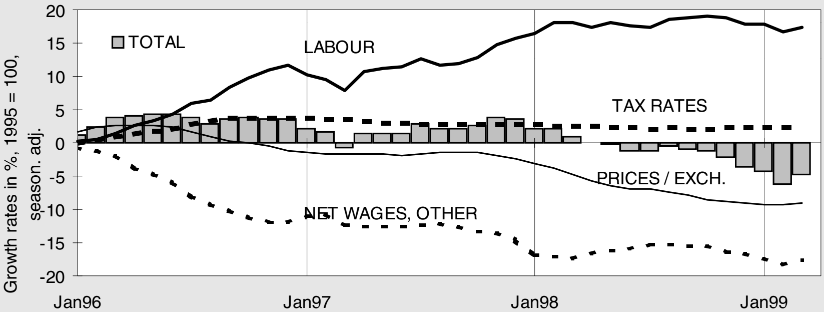
Over the last four years, positive developments were seen in the **cost structure** of gross domestic product. Owing to the lower rates of employers' compulsory social security contributions, and the aggregate gross wage and other labour costs nominally rising below the nominal increase in gross domestic product, the total labour costs (compensation of employees) share within gross domestic product fell substantially (from 57.3% in 1995 to 52.5% in 1998). Given the subdued wage growth, positive developments in the cost structure are expected to continue this year. The share of employee compensation is to fall to 51.9% of gross domestic product this year. Estimates of revenues from value-added tax and the excise duties, which was introduced in mid-1999, are based on model calculations (Bole, 1997) and methodological adjustments arising from the system of presenting individual categories in national accounts. The share of taxes levied on products and services in gross domestic product is expected to rise from 14.1% in 1998 to 14.6% in 1999, which will be due to lower tax evasion brought about by value-added tax's introduction. With the ongoing fall in customs and other import duties, their share in gross domestic product dropped from 3.5% in 1995 to 1.5% in 1998. Further falls in customs and other import duties are also expected this year (by 12.8% in real terms) owing to the implementation of the Europe Agreement and other free-trade agreements. The payroll tax, introduced in the second half of 1996, is not an element of employee compensation according to the system of national accounts methodology, it is part of other taxes on production. The impact of the policy of tax resources restructuring, the aim of which is to ease the labour cost burden, is reflected in a rise in the share of other production taxes. Owing to the rise in labour costs falling behind the increase in gross domestic product, and the fall in customs and other import duties, the position of equity owners and production managers in the primary gross domestic product distribution has improved gradually over the last four years. The share of business surpluses in the form of income of equity owners and production managers from the primary gross domestic product distribution increased from 17.1% in 1995 to 21.8% in 1998.

4.3. INTERNATIONAL ECONOMIC RELATIONS

4.3.1. INTERNATIONAL COMPETITIVENESS - Having slumped in the first three months, cost competitiveness is expected to improve during the year

The fall in price and cost competitiveness seen in **1998** deteriorated the international position of enterprises operating within **Slovenian manufacturing** sectors, which are predominantly exporters and importers of goods. After a two-year pause, the tolar again significantly appreciated in 1998. Measured by relative consumer prices, it rose by 4% in real terms against the basket of currencies of the seven most important OECD trading partners (the German mark, the Austrian schilling, the Italian lira, the French franc, the US dollar, the British pound and the Swiss franc), or by 3.8% when measured by relative producer prices. Last year's strong average tolar appreciation was largely due to a nine-month steady rise in the tolar taking place until June 1998. This was followed by its depreciation, at least against EU currencies, in the autumn months, which was triggered by the BS' interventions (repurchase agreement, changes to regulations on the open position of banks). The tolar's strengthening against the Croatian kuna was substantially lower than that against the EU currencies (1.3% and 4.2%, respectively), whilst against the CEFTA-4 currencies (the Czech koruna, the Hungarian forint, the Polish zloty, and the Slovakian kuna) it remained on average at the 1997 level (a 0.1%-rise), considering the relative rise in consumer prices.

COMPONENTS OF COMPETITIVENESS



Sources of data: SORS, AP, BS, calculations IMAD. Note: Growth indicates an increase in competitiveness.

Given the strong tolar, and **Slovenian manufacturing's lag in the rise in real employee compensation behind the increase in labour productivity less pronounced compared to the EU average and CEFTA-4**, the relative deterioration of Slovenian manufacturing's cost competitiveness was stronger than the worsening of its price competitiveness.[7] Slovenian manufacturing's unit labour costs rose by 5.8% compared to the EU average, and by 3.4% compared to the average of CEFTA-4. Despite the worse international competitive position of Slovenian manufacturing, Slovenia's market shares in EU member-states, CEFTA-4, and Croatia rose by 7.1%, 1% and 5.7%, respectively, last year (when measured by the share of Slovenia's

[7] A fall in real unit labour costs in Slovenian manufacturing expressed in the national currency was 1.5 percentage points lower than the EU average, and 3.1 percentage points lower than in CEFTA-4.

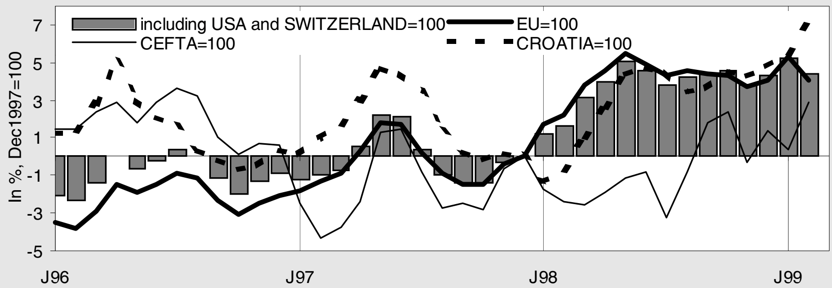
dollar exports in the imports of trading partners). The relative rise in the share of unit labour costs of Slovenian manufacturing in the value of goods exports indicates that the rise in Slovenia's market shares seen in 1998 was attained on account of the relative fall in Slovenian exports' profitability (according to available estimates, it fell by more than 5% compared to the EU average, and by more than 4% compared to CEFTA-3, excluding Slovakia).

In the first four months of this year, the exchange rate was not a factor contributing to the worsening of Slovenian manufacturing's international **competitiveness**. Measured by relative inflation, the tolar was 1.4% weaker against the basket of currencies in April compared to December 1998, due to the BS' interventions and a stronger US dollar in international foreign exchange markets, and 3.1% weaker measured by the rise in relative industrial producer prices. In the same reference period, exporters were still in a worse position compared to the first four months of 1998, due to foreign exchange rate movements (1.7% measured by relative inflation and 0.8% measured by relative industrial producer prices). However, year-on-year rises in the tolar's real effective exchange rate when the same months are compared were becoming gradually and substantially weaker. In April, the income attractiveness of exports was better than for last April (by 1% measured by relative inflation, and 1.5% measured by relative producer prices).

The **worse** position of Slovenian manufacturing in international markets seen in the first quarter was the **result of** the downward trend in cost competitiveness recorded in the first two months (by 2.7%). This was caused by a considerable fall in production volume, resulting in a **drop in labour productivity** (by 1.1%) and an **increase in the real compensation of employees** (by 1.3%). The latter was due to the **accelerated rise in other work-related remuneration as wages rose only moderately**. After a six-month period, the downward trend in cost competitiveness halted in March. A 1.3%-fall in unit labour costs against the basket of currencies was largely the result of the rise in labour productivity coupled with modest tolar depreciation, and a slight fall in the real compensation of employees.

After the strong deterioration of Slovenian manufacturing's cost competitiveness recorded in the **first quarter of 1999** compared to the same period of 1998 (by 5.9%), the **year-on-year rise in unit labour costs against the basket of currencies is estimated to slow down gradually before the end of this year**. With a 4.9% nominal and 0.5% real depreciation of the tolar on average expected this year (measured by relative inflation), the rise in relative unit labour costs in the basket of currencies will slow down to about 1% (5% seen in 1998), which largely depends on a stronger rise in production over the following months. Should there be no production boost, the rise in labour productivity is uncertain (about 3% this year, and 5.4% last year), as well as the trend of real employee compensation rising more slowly than labour productivity. Unit labour costs in the nation's important trading partners are estimated to remain at last year's level.

REAL EFFECTIVE EXCHANGE RATE
(compared to important groups of trading partners)



Sources of data: SORS, BS, OECD. WIIW, IMAD calculations. Note: a rise means lower competitiveness.

4.3.2. EXPORT-IMPORT FLOWS AND THE BALANCE OF PAYMENTS - A slower rise in exports of goods and services this year, another boost expected in 2000

After recording a surplus in the current account of the balance of payments in 1992-1994, Slovenia had a roughly balanced current account in 1995-1998, contributing to Slovenia recording an external balance. In the 1992-1997 period, two phases in changing the current account of the balance of payments structure can be discerned. Up to and including 1994, when capital flows were more manageable, the trade deficit represented 2.3% of gross domestic product, with the surplus in services trade increasing gradually to account for 4.7% of gross domestic product. In 1995-1998, when foreign money inflows from current transactions were replaced by strong inflows from financial transactions, the trade deficit rose to 5% of gross domestic product, with the surplus in services trade falling, on average representing 3.4% of gross domestic product. The share of the current transactions balance in gross domestic product ranged from 7.4% in 1992 to achieving an external balance in 1998.

Slovenia's total **international trade** (goods and services) **increased by 8.2% in real terms in 1998**. Total exports rose by 6.8% in real terms (exports of goods by 8.4%), with total imports rising by 9.7% (imports of goods by 10.4%). In 1998, international trade was carried out in a relatively favourable environment wherein terms of trade improved by up to 2.4%, with import prices for the Slovenian business sector falling and export ones dropping only slightly.

Net financial inflows, also including the statistical error, amounted to USD 204.3 million, that is 1% of gross domestic product, which is substantially less than in 1997 or 1996, when they accounted for 3.5% and 4.6% of gross domestic product, respectively. Lower net capital inflows were mainly the result of 50% lower inward foreign direct investment and foreign investment in securities, and increased crediting from the foreign private sector. Net financial inflows (less the current account balance) caused an increase in foreign exchange reserves by USD 200.5 million, less than in 1997, when foreign exchange reserves increased by USD 681.4 million. At the end of 1998, total foreign exchange reserves stood at USD 4,766.5 million,[8] 3.4% less than the total external debt.

In the first quarter of 1999, real exports of goods increased by 5.8% compared to the same period last year, with imports of goods rising by 2.6% in real terms. A subdued real rise in goods trade (in the first quarter of 1998, the rise was 16.9% compared to the same period of 1997) was the result of decreasing industrial production in Slovenia on the one hand and slowing economic activity in the EU and Croatia, the latter of which is a very important market for Slovenian companies.[9] Despite a relatively unfavourable international economic environment, the **first-quarter trade deficit was USD 73.8 million lower** than in the same period last year. This was largely due to increased exports to the EU, particularly those of sectors having a comparative advantage (the majority of consumer goods). The current account of the balance of payments recorded a deficit of USD 14.9 million, USD 64.1 million less than in the same period a year earlier.

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[8] The BS' foreign exchange reserves increased by USD 112 million last year, totalling USD 3,572.9 million at the end of the year. Commercial banks increased their foreign exchange reserves by USD 89 million, totalling USD 1,193.7 million at the end of 1998.

[9] In the first quarter of this year, exports of goods to Croatia dropped by 4.8% in real terms compared to the same period last year, with imports from Croatia also falling, by 3.6%. Slovenian exporters' position in the Croatian market also deteriorated on account of kuna's fall, depreciating by 5.2% compared to the same period last year. The surplus in goods trade with Croatia expressed in current US dollars totalled USD 57.1 million, USD 7 million down on the same period last year. Year-on-year trade comparisons, particularly those concerning exports, will be affected by the fact that electricity supply from the nuclear power plant was cut in the middle of 1998.

In 1999, the prices of strategic raw materials are expected to edge down further (by about 2%). Oil prices are likely to go up by an average of 11% because of a limited oil supply by OPEC countries. Given a moderate inflation rate in the EU, movements in foreign trade prices will also be affected by the inter-currency ratios. Terms of trade are expected to worsen slightly in 1999 (the index is 99.8), contributed to by stronger price competition of Asian countries in the European market, which will affect the export prices of most of Slovenia's important export products (transport equipment, machinery, textile products).

Economic growth in the EU is slowing down this year (see Chapter 2), which is likely to result in a lower rise in real imports of goods in those countries. Considering forecasts on goods imports growth in the seven most important OECD trading partners, of which Germany, Italy, France and Austria represent about 90% of Slovenia's total exports to the EU, the rise in Slovenia's export markets will be 4.4% this year, 3.5 percentage points down on 1998. In 1999, the goods trade of Slovenia with the EU will account for two-thirds of Slovenia's total trade in goods (about 66.5%). The share of exports and imports of goods in the EU is estimated to be 1 to 2 percentage points lower compared to 1998, with a real rise in trade with the EU recording 4% to 5% (compared to 13.2% in 1998), and 2% to 3% expressed in current US dollars. The reduced export expansion will cause a slowdown in domestic industrial production growth. Total exports and imports of goods are estimated to rise by 4.1% and 5.1% in real terms, respectively. The fact that imports will rise more quickly than exports, together with export and import prices falling at a roughly the same rate, will result in an increase in the trade deficit. Compared to 1998, that deficit is expected to rise by about USD 125 million, to total USD 900 million.

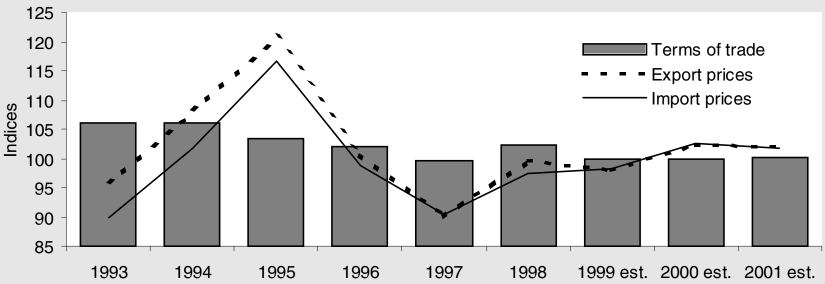
Exports of travel tours (tourism) and transport services on average represented 80.4% of total services exports in 1993-1998, whilst exports of services on average accounted for 19.7% of Slovenia's total exports (goods and services). The share of services exports in total exports in world trade is similar (19.3%). According to data from the World Trade Organisation, (Annual Report 1998, vol. II), Slovenia lags behind the EU average, particularly when compared to Austria recording a 39%-share, or Portugal with a 24%-share. The share of services in Slovenia's total imports is lower (13%), which is considerably less than the world average (19.6%) or the average of EU member-states (21.5%).

Slovenia is following international trends when it comes to exports of services; however, this cannot be said of the imports side. This situation is the result of the fact that Slovenia still regards the trade in services as an activity to create surpluses used to cover trade deficits, whereby the significance of imports of modern production services as promoters of development comparable to imports of equipment is neglected. Other small states, such as Ireland, Finland and Austria, attach greater importance to those imports (Stare, 1999, p. 6).

In 1999, the number of tourists from abroad will fall by about one-fifth due to the Balkans crisis. If duty-free shops are closed down, inflows from tourism will be even lower.[10] In estimating services trade flows, the closing down of duty-free shops has not been taken into account, it is nevertheless estimated that revenues from tourism will drop in real terms in 1999. With a lower volume of goods trade, international transport will also rise more slowly than in the previous year (6%-7% in real terms). The surplus in services trade is therefore estimated at USD 490 million, USD 23 million down on 1998.

The current account balance is estimated to be in deficit totalling USD 145 million. Consequently, imports of foreign capital are forecast to increase, with the investment-savings gap (the difference between domestic savings and domestic investment) representing 0.7% of gross domestic product, according to IMAD estimates.

TERMS OF TRADE OF THE SLOVENIAN ECONOMY



Sources of data: SORS, OECD Economic Outlook, December 1998; NIESE, May 1999, IMAD estimates.

The BS estimates that financial inflows in the capital and financial account in 1999 will remain roughly at last year's level, as the difference between domestic and foreign interest rates has largely been levelled off. An increase in financial inflows from abroad, foreign direct investment in particular, will be driven

[10] The study on the impacts of closing down duty-free shops in Slovenia (Damijan, 1999) estimates that tourist inflows would fall by USD 140 million in the event of closing down these shops.

by further privatisation. Owing to severe conditions in the international capital market (increasing difficulties in settling claims for unpaid exports), net short-term commercial credits to enterprises abroad will increase. Net financial inflows (excluding banks and the BS) are estimated at about USD 272 million, that is 1.3% of gross domestic product.

In **2000, exports of goods and services are estimated to rise by 4.5% in real terms** following forecasts of the recovery of the European economy. Real exports of goods and services are forecast to rise by 5% and 2%, respectively. Total imports of goods and services are expected to rise by 4.9%, with imports of goods and services increasing by 5.3% and 2.6%, respectively. The **trade deficit** expressed in current US dollars should rise by USD 50 million to **USD 950 million**. The services trade is expected to record a surplus of USD 500 million, resulting mainly from the surplus in tourist inflows and transport. In view of those projections of trade flows, the current account of the balance of payments will be in a deficit of USD 170 million, or 0.8% of gross domestic product.

4.3.3. FOREIGN DIRECT INVESTMENT – A fall in foreign direct investment inflows into Slovenia with inflows into other transition countries rising

Not only is **foreign direct investment** (FDI) **the most dynamic part of international capital flows**,[11] it has also proved to be the most stable part of those flows in the environment of international recession tendencies and the breakdown of financial markets in South-east Asia and Russia. In the crisis year of 1998, net portfolio investment in emerging market economies fell by up to 45.1%, whilst net FDI dropped only by 8.2%. With net portfolio investment inflows plunging from USD 19 billion in 1997 to USD 6.7 billion in 1998, net FDI inflows remained almost unchanged in transition countries (USD 18.5 billion in 1997, USD 17.8 billion in 1998). Consequently, the financial crisis did not affect FDI inflows in Central European transition countries. In the first half of 1998, FDI inflows to those countries shown in the balance of payments totalled USD 4,560 million. Should the same dynamics be retained in the second half of the year, FDI inflows would be substantially higher than in 1997, recording USD 8,666 million.

[11] In the 1992-1997 period, FDI flows doubled (to USD 400 billion), with the share of FDI in GDP increasing from 1.0% in 1980 to 2.3% in 1996. In 1997, the global FDI flows exceeded USD 400 billion for the first time, and there are possibilities of their further increase in 1998 (UNCTAD, 1998).

In the 1993-1997 period, the FDI stock in Slovenia increased from USD 954.3 million to USD 2,194 million, or 129.9%. Taking into account the USD 165 million inflow in 1998, the FDI stock in Slovenia is estimated at about USD 2.4 billion. The FDI stock increased the most in 1995 and 1994; however, much of the rise was due to increased borrowing of Slovenian subsidies in their holding companies abroad. In this respect, **1997 saw a qualitative turnaround** with equity rising the most in the period up to 1997 and net liabilities to foreign holding companies falling for the first time, which shows that the possibilities of domestic crediting improved.

In the 1993-1997 period, each year saw a rise in FDI inflows in Slovenia. Inflows reached a peak in 1997, whereas inflows in 1998 almost halved (from USD 320.8 million to USD 165 million). Excluding the largest transaction from last year's inflows, which was already concluded in 1997, inflows would be even below USD 100 million. Even though developments in 1999 are difficult to assess on the basis of available data, inflows in the first two months are not promising. In the first three months, FDI inflows were USD 44.8 million, which is up on the USD 12.4 million seen last year, but still substantially down on the USD 86.8 million seen in the first three months of 1997.

Table 10: Flows, stock and changes of stock in inward foreign direct investment (FDI) in Slovenia in 1993-1997

	1993	1994	1995	1996	1997	1998
VALUES in USD million						
a. End-year stock						
Total value[2]	954.3	1331.0	1744.7	1934.3	2194.0	np
Equity and reinvested profits	709.7	965.7	1200.1	1261.8	1551.5	np
Liabilities to foreign investor	346.6	494.0	677.6	841.6	828.6	np
Claims to foreign investor	102.2	128.7	133.0	169.1	186.1	np
Net claims to foreign investor	244.4	365.3	544.6	672.5	642.5	np
b. Change in stock						
Total value	np	376.7	413.7	189.6	259.7	np
Equity and reinvested profits	np	256.0	234.4	61.7	289.7	np
Net liabilities to foreigmn investor	np	120.9	179.3	127.9	-30.0	np
c. Annual inflow	112.6	128.1	176.0	185.5	320.8	165.0

Source: Bank of Slovenia. **Notes**: [1]foreign investment with 10% or higher foreign equity share; [2]total value = equity + liabilities to foreign investor - claims to foreign investor; nd = no data.

The impression of unfavourable FDI trends in Slovenia is confirmed by comparing these trends to other Central European transition countries. Of all countries, **Slovenia had the lowest inflows in absolute terms in 1998**. The **same** is true when they are compared **in relative terms**, for example FDI stock as a percentage of gross domestic product, whereby Slovenia is **ranked at the lower end**. At the end of 1998, only Slovakia and Romania had lower shares, and Slovenia lagged behind the average of transition countries by 6.3 percentage points (see Table 11).

Table 11: Balance of payments FDI inflows in Central European transition countries in the 1992-1998 period; in USD million

	1992	1993	1994	1995	1996	1997	I-VI. 1998	FDI stock, % of GDP; 1998[1]
Czech Rep.	1,004	654	869	2,562	1,428	1,300	589	14.9
Hungary	1,471	2,339	1,147	4,453	1,983	2,085	951	41.9
Poland	284	580	542	1,134	2,768	3,077	2,093	19.8
Slovakia	-	168	250	202	330	170	240	9.2
Slovenia	111	113	128	176	186	321	34	13.3
Bugaria	42	40	105	90	109	489	108	14.6
Romania	77	94	341	419	263	1,224	544	10.5
TOTAL	2,989	3,987	3,382	9,036	7,067	8,666	4,560	19.6

Source: Vienna Institute Monthly Report, no.12, Vienna: WIIW, 1998. **Note**: [1]assessed on the basis of FDI stock estimates in individual countries.

The fairly modest FDI in Slovenia has been concealed by the fact that relatively big foreign acquisition projects, when speaking in terms of Slovenia, have been concluded occasionally. Where there was no such project in any one year, annual inflows dropped dramatically. In 1998, this was accompanied by a general decline in the interest of foreign investors for investing in Slovenia, as FDI inflows were substantially lower in each month of the year (except July) compared to the same months of the previous year. Putting aside the small size of Slovenia's market, which will always be an important obstacle to ('greenfield') FDI – although less pronounced with full membership in the EU – there are four **main factors that reduce FDI in Slovenia**: (i) incomplete transition in terms of an incomplete legal framework regulating economic activities and discrimination that favours certain categories of companies, which increases the costs of establishing and operating a company in the broadest sense; (ii) problems in providing business premises for conducting business activities, production in particular; (iii) privatised companies still have not started a comprehensive restructuring of their business, which would encourage them to search for strategic partners abroad; and (iv) ambiguous signals about Slovenia's attitude towards FDI, since in individual cases a negative attitude often prevails over declarations of support for FDI.

Despite unfavourable trends concerning FDI inflows, their role is nevertheless increasing. At the end of 1997, foreign investment enterprises (FIEs) only represented 4.4% of all Slovenian enterprises; however, they had 10.7% of equity, 11.8% of assets and 8.1% of employees in the Slovenian non-financial corporate sector. With that equity, assets and employees, they generated 14.8% of total net sales, 18.6% of operating profits and 10.0% of operating losses. FIEs are most prominent in exports, realising as much as 24.1% of total exports of the Slovenian non-financial corporate sector. It seems therefore that FIEs already represent a relatively important category of the Slovenian business sector, especially as far as exports, profits and sales are concerned.[12] In 1994-1997, those enterprises increased their shares mainly in exports (by 5 percentage points), sales (4.1 percentage points), equity (4.1 percentage points), assets (3.8 percentage points), and the number of employees (2.8 percentage points).

Unfavourable trends in FDI inflows, analyses of the operations of FIEs, which record substantially better results than domestic enterprises thus contributing to economic restructuring in Slovenia towards its competitive advantages, an increasingly important role of FDI in the process of the internationalisation of economies and stability of FDI flows in periods of recession and financial crises all call for measures to accelerate FDI in Slovenia. In 1998, the Government of Slovenia set up an Inter-Ministerial Working Group for Encouraging Foreign Direct Investment. In 1999, the Trade and Investment Promotion Office will start implementing the following activities concerning economic and foreign investment promotion: (i) increase accessto industrial sites; (ii) introduce incentives to raise employment that will also be available to foreign investors; (iii) an expanded range of free services provided to foreign investors by the Trade and Investment Promotion Office; and (iv) a systematic upgrading of the image of Slovenia as a site for foreign investment. Commissioned by the Government, the World Bank's Foreign Investment Advisory Service has prepared a proposal of activities related to FDI promotion in Slovenia. The following measures will also improve the climate for FDI: (i) a measure of the BS, introduced this February, whereby the definition of a portfolio investment for which a custody account is required has been reduced from a 50% to 10% foreign share in a company's equity, and (ii) ratification of the Europe Agreement, incorporating a number of provisions liberalising FDI.

The main obstacles to higher FDI inflows in Slovenia are to a certain extent objective and concern the wider context (a small domestic market, drawbacks of transition) and cannot be dealt with in a short period of time or exclusively for the sake of FDI. It is, however, true that other (similar) countries deal with FDI more aggressively. If Slovenia wants to attract more greenfield investment (that used in new projects), it will have to: (i) set up new industrial

[12] This is especially true of manufacturing, where most FIEs operate in Slovenia. At the end of 1997, FIEs accounted for 16.8% of total assets, 17.5% of total equity, 21.1% of total sales, 21.2% of total profit and as much as 28.0% of total exports of Slovenian manufacturing.

areas offering not just favourable fiscal conditions but land, infrastructure and possibly premises for new projects under favourable conditions; (ii) give unused land and capacities of companies owned by the Slovenian Development Corporation over for investors' use; and (iii) provide the Trade and Investment Promotion Office with administrative capacities to attract concrete FDI projects that are prospective in terms of development. The first two measures not only relate to FDI, but are aimed at accelerating establishing new companies in general. A negative attitude towards FDI and a **belief that the current low level of FDI inflows** in Slovenia **will remain a target level in the future are entirely unproductive in terms of the development potential of FDI.**

4.4. INVESTMENT - To play an even more important role in future economic growth

Over the last few years, investment activity has been an important element of economic growth recording an above average rate of increase as an element of domestic demand. Gross fixed capital formation reached a relatively high share of GDP as early as 1997 (23.5%), which is considerably above the average share of gross fixed capital formation in the EU member-states (18.5%). In Europe, investments represent relatively high shares of GDP in Norway (23%), Austria (24.7%), Portugal (25.3%) and the Czech Republic (30.7%), but are even higher in the technologically advanced countries such as Japan (28.3%) and South Korea (35%) (data for 1997, source: OECD, 1999a).

The data about GDP from the SORS reveal the following technical structure of gross fixed capital formation in 1997: investment in machinery, transport and other equipment: 45.7%, construction work: 51.3%, intangible fixed assets: 3.3%, land improvement and breeding stock: 0.6%. The total rise in investment in machinery, transport and other equipment stood at 9.6%, with a 14.5% increase in investments in machinery and equipment and a 4.4% fall in investments in transport equipment. Investment in construction work rose by 11.2% in real terms, with investment in dwellings increasing by 9.1%. Investment in dwellings made up 16.5% of all investments, while investments in cars accounted for 5% of all investments.

In 1997, investments in economic infrastructure represented a relatively high share of the total volume of investments (21.1%), 15% of which was accounted for by investments in transport infrastructure (roads, motorways, telecommunications, postal facilities, railways, air traffic and maritime transport). Another significant sector was investment in the energy sector which made up 4.8% of all investments. While a direct impact of infrastructural investments on economic growth can be observed in the short run, improved conditions for doing business will only become apparent in the long run.

Data from the SORS annual report on gross fixed capital formation show that those legal entities employing over 10 workers increased their investments outlays by 11% in real terms in 1997. The industrial sector made up 37% of all investments, market services accounted for 34.7% and non-profit services (public administration, schools, education) for 25%. In the same year, investments of legal entities with over 10 employees accounted for 16.1% of GDP, which shows that one-third of all investments was realised by small businesses, private entrepreneurs and households.

The high capital coefficient and low investment efficiency can be explained by the structure of investments. Measured by the marginal capital coefficient or investment accelerator, investment efficiency has gradually decreased (6.4 in 1998; 5.3 in 1997). The capital coefficient stands at 5 in the U.S., with the average capital ratio in the EU member-states being the same. Investments are most effective, however, in dynamic Ireland, where the marginal capital coefficient is 2. In order to secure a greater degree of investment efficiency in the future, which can only be provided by a different structure of investment and investors, and more efficient spending of budgetary funds, clear criteria should be set for the approval of investments funded by the state (at both the national and local levels), and stricter control over their implementation should be introduced.

Investment activity also continued at an intensive rate in 1998. The IMAD estimates that last year also saw dynamic growth of gross fixed capital formation (of around 10%) as housing construction revived last year after a longer period of decline. Companies built 1,162 dwellings with an average surface area of 63.8 square metres last year (595 units in 1997). Housing construction seemed to be encouraged by lower interest rates and the greater availability of long-term loans. Despite that, housing construction is relatively scarce, just like in other countries in transition. While Slovenia builds three dwellings per thousand inhabitants, the EU member-states construct five. Equipment imports grew very fast last year (up 22% in real terms from 1997). The same trend was observed in the domestic production of investment goods (a 10.6% rise in the volume of production) and in the domestic construction sector.

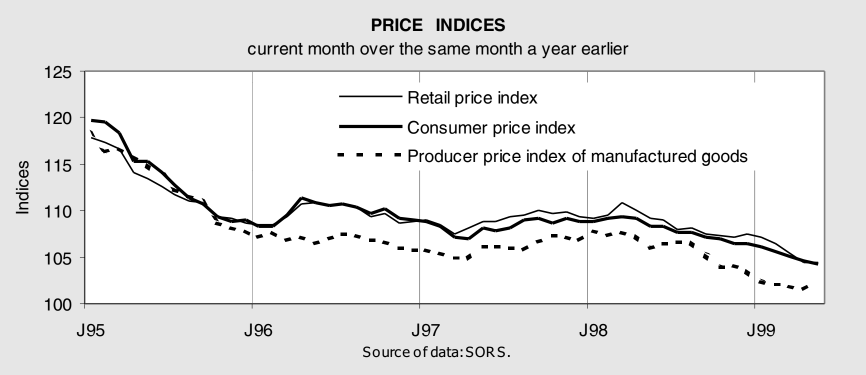
Given that investments are estimated to have grown more intensively in the third and final quarters of 1998, **investment activity is not expected to lose much momentum this year** (a growth rate of around 8% is anticipated). Measured against the first quarter of 1998, domestic construction activity was 5% up in the same period of 1999, domestic production of equipment rose by 8.7% and equipment imports increased by 1.3% in real terms. Investment activity will be of great importance to economic growth also in the future, which is obvious from the plans for the construction of infrastructure and state investments in the next few years as well as from the urgently required more intensive development-oriented restructuring of the corporate sector. As investment efficiency goes up in the future, **growth rates will settle at around 6%.**

4.5. INFLATION - Inflation to continue falling after the introduction of VAT

Last year saw a **further gradual decline in inflation**. Consumer prices at the end of 1998 exceeded those from the end of 1997 by 6.5%. On average, however, the prices of consumer goods increased by 7.9% in 1998 from 1997 (the annual average growth rate of consumer goods totalled 8.4% in 1997). Retail prices rose by 8.6% on average, while industrial producer prices increased by 6% in 1998 from a year earlier.

Following the seasonal deflation in June, **inflation slowed down considerably in the second half of 1998.** While the first semester saw a 4.9% rise in prices, the second one saw only a 1.6% increase, which can be explained by the somewhat reduced price pressures exerted by both the policy of government-controlled prices and by changes to tax rates. Besides, a substantial slowdown in unregulated prices was recorded already in the summer, which resulted from a longer period of steady wage growth (slower growth in the demand and lower cost pressure on prices), real appreciation of the tolar in real terms, a decline in import prices and keener competition in the domestic market. In the first half of 1998, controlled prices added 1.2 percentage points and the changes to tax rates (fiscal influences) 0.7 of a percentage point to the 4.9% rise in consumer prices. The rise in controlled prices and changes to special sales tax rates directly added 0.8 of a percentage point to inflation in the second half of last year. Competition in the domestic market was intensified as a result of lower customs duties and increasing competition among domestic trading companies. Import prices were by 2.6% lower on average in 1998 than they were in 1997, while in March this year, they fell by 5.2% compared to March 1998. After a downward trend on world markets last year, the prices of energy fuels only started rising last March, which has already manifested itself in pressures on prices, mainly on controlled fuel prices.

The downward trend of inflation continued into the first few months of 1999. Consumer prices rose by only 2.1% in April 1999 from December 1998 (by 2.7% in May), with inflation at the annual level falling to 4.6% (4.3% in May). The January-to-April period saw an average monthly rise in prices of 0.52% (1% in the same period last year) and an average rise in unregulated prices of 0.44% (0.67% in the same period last year).



Similar to previous years, the prices of services grew at a faster rate in comparison with the general growth of prices this year. Exceeding the growth in goods prices, which were up 3.8% on average in April compared to a year before, services prices rose by 6.8%. Alcoholic beverages and tobacco prices went up by 7.2%, a rise exceeding the average goods price rise, principally as a result of the higher sales tax rates imposed on them; housing, electricity, gas and other fuels increased by 6.1% on average (chiefly because of changes to special sales tax rates and government-controlled prices; electric power, fuels and utility services belong to this group). As to services, above-average rises were recorded in transport services (8.2%), communications (postal and telephone services) (9.4%) and miscellaneous goods and services (7.2%). The prices of food and non-alcoholic beverages only increased by 2.1%, a rise below the average.

Retail prices were also strongly **on the decreasing side**; having risen by 7.5% at the end of 1998 from a year earlier, they were up only 4.4% in April 1999 compared to April 1998. **Industrial producer prices** increased by

3.6% at the end of 1998 from a year earlier, but a mere rise of 1.6% was recorded in April over April 1998. The January-to-April period saw an average 1.9%-decline in industrial producer prices when measured against the same period last year. Prices of intermediate goods recorded the sharpest decrease, namely 2.4% in April over the year before. The prices of investment goods rose by 3.9% and of consumption goods by 4.8%. The main reason underlying the slower growth in factory-gate prices was falling import prices, that is to say the lower prices of strategic raw materials on world markets.

The government exerted a less active policy of controlled prices in the second half of 1998 as well as **in the first four months of 1999**. The prices controlled directly by the government grew at an annualised rate of 4.5% in April (they added 0.84 of a percentage point to the 4.6% inflation rate). Measured against last December, controlled prices rose by 2.2% in April (adding 0.32 of one percentage point to the 2.1% inflation rate). Measured in April against April 1998, prices of compulsory automobile liability insurance rose by 11.2%, radio and television subscription by 8.5%, electricity for households by 9%, utility services by 6%, school books by 6% and postal and telecommunications services by 9.8% on average, all of which are above-average rises. Amounting to merely 19% of the average price in the EU, the prices of postal services call for an increase. Within the group of government-controlled prices, the April-to-April period did not see any rise only in gasoline prices. The government increased the price of 95-Octane unleaded petrol by SIT 3.1 per litre only at the end of May.

Gradual liberalisation of prices began in 1996 when the government liberalised the prices of non-profit-making housing rent in the middle of the year. The years 1997 and 1998 saw a further liberalisation of prices; involving the prices of twelve products or services, namely urban passenger transport services, basic types of bread, parking fees, funeral expenses, natural gas, wholesale prices of medicines and medical products, fresh pork, retail milk price, diesel fuel and fuel oil. In addition, the prices of compulsory automobile liability insurance were liberalised in April this year. The government chiefly liberalised the prices of those products and services whose relative price level is believed to be high enough for prices to be shaped independently by costs and market forces. Consequently, while the share of controlled prices in the inflation basket stood at 14.5% in May 1999, it totalled 22.4% in 1996. Relative price disparities in postal services, petrol and telecommunications remain. The planned tax reform somewhat delayed the price disparity corrections in the first semester, postponing the process to the period after the reform, which in itself will have an impact on relative prices.

The prices act, currently in preparation, should bring price legislation into line with EU laws and create a greater degree of transparency in what remains of controlled prices.

Prices of agricultural products of Slovenian producers fell in 1998. A fall of 2.3% was recorded in December 1998 over December 1997, with the annual average prices being 4% higher. Both in Slovenia and the EU, the decreasing trend has continued this year. Under the market regulations adopted this year for wheat and rye grown in 1999, producers will receive an extra payment per kilo of wheat purchased and used for bread. Besides receiving payment for wheat and rye sold, open market wheat growers will for the first time receive a direct payment per hectare to cover the expenses of wheat-growing. In line with the adopted guidelines of agricultural reform, the subsidy system involving a gradual transition from subsidies per kilo of wheat to those based on surface area of land has also been introduced for white beet and hops. The introduction of direct payments, however, will result in greater budget expenditure on agriculture, but also in lower consumer food prices and lower inflation.

The sales tax system was replaced by a system of VAT and excise duties in July. The direct impact of value-added tax's introduction on prices will be shown in changes to relative price relationships. Given the rigidity of price reductions, the price level is likely to rise rapidly in the short-run, but a slowdown can be expected later due to market forces. Expectations, however, may have an indirect and stronger negative impact on the national economy. Moreover, the consequences of VAT largely depend on several variables within the economic environment, where a new tax is being introduced. Among the main factors are the formation of factor prices (labour costs, exchange rate and interest rates), the openness of the economy, stability of the structure of spending, the size structure of companies in individual stages of production, the timing of VAT's introduction in relation to the seasonal dynamics of budgetary expenses and other fiscal revenues, the distribution of households in terms of income, trends and seasonal movements of the final demand in the period when the new tax is being introduced (Bole, 1997).

As for the potential impact on prices, introduction of VAT in the middle of the year when seasonal price growth is very low or even negative is a good solution. Expectations that might have a negative impact on prices upon the introduction of VAT became apparent this spring mainly in the forms of higher incomes in real terms, increasing spending of households and rapid growth of loans made to households. Given the restrictive policies and impulses influencing inflation, a rise in the overall level of prices of about 70% of the existing annual price level is expected to occur upon introduction of VAT. The price adjustment is likely to be completed within two months, with inflation expected to start falling again by the end of 1999. Taking existing trends into consideration, the IMAD estimates that the annual average growth rate of prices should not exceed 6.8%, according to which the gradual fall in inflation will also continue in 1999.

The effect of VAT on prices and the annual average inflation rate will also be felt in 2000 because of its introduction in the middle of the year and, therefore, despite expected slower price rises recurring next year, a fall in the average annual inflation rate will not be substantial. **Should price rises slow down again in 2000** (average monthly growth of around 0.3%), **the annual average inflation rate could fall to some 6%** (6.2%).

4.6. EMPLOYMENT AND UNEMPLOYMENT - The growing structural problems of unemployment

A **characteristic** feature of **1998** is the similarity of the **seasonal dynamics of employment trends** to those seen in 1997: an increase in the spring and autumn months with a decrease in winter and summer. On average, the year's overall result is the stagnation of employment, but one which after an almost 10-year-period of falling employment actually represents a positive outcome. Up to November 1998, the number of employees in enterprises and organisations returned to the level at the beginning of 1997, after having dropped heavily at the end of 1997 and in the beginning of 1998. The number of employees in enterprises and organisations continued to grow throughout the first three months of this year. During these three months, growth was positive, even if we exclude the increase due to methodological changes[13], whose influence in this period was approximately 60% of growth. The number of those employed by individual private entrepreneurs is still increasing, with seasonal breaks in winter months, while the number of the self-employed fluctuates, mostly due to changing estimates of the number of farmers, taken from the quarterly labour force surveys. The number of individual entrepreneurs has been falling slowly, steadily and without a pause, already since autumn 1997.

[13] Since January 1999 also the persons included in public works scheme are counted as persons in employment (therefore as employed), who were previously statistically considered unemployed.

In 1998 the number of people in employment increased on average by 0.2% in comparison to 1997. In industry, the number of the employed continued to decrease, but less so than in 1997: in electricity, gas and water supply the number fell by 2.4%, in manufacturing by 1.9%, and in mining by 1.7%. On the other hand, employment increased in construction (by 0.4%), agriculture (2.2%) and services (by 1.1%), but here less than in 1997. Of all services sectors, employment decreased in wholesale and retail trade (by 1.7%), hotels and restaurants (by 0.9%) and, for the first time since 1992, also public administration (by 1.6%). Employment increased above all in financial intermediation (by 9.7%). Among the bigger sub-sectors of manufacturing, the number of employed increased mostly in rubber and plastic product manufacturing (by 7.8%), manufacturing of machinery and equipment (by 3.1%), and in the manufacture of electrical and optical equipment (by 1.3%); while it decreased in the majority of other activities, mostly in furniture making (by 5.7%), wood and wood products (by 4.6%), and leather and leather product manufacturing (by 4%). The structure of the employed by sectors has been changing only slowly since 1996. The share of the employed in agriculture has again been increasing for the past two years (from 5.8% in 1996 to 6.1% in 1998), the share of secondary activities is decreasing only slowly (from 41.4% in 1996 to 40.1% in 1998), the share of services is increasing, albeit also slowly (from 52.5% in 1996 to 53.8% in 1998).

Global labour productivity, which has been increasing all the way since 1993, also increased in 1998, according to IMAD estimates by a further 3.9%, while labour productivity in manufacturing increased by around 7% (value added per employee) and 5.4% (physical productivity). On the basis of the data available on the trend (decrease) of physical productivity and positive growth of employment in the first months and the foreseen slowing down of economic growth, IMAD estimates that the growth of productivity this year will be lower than in the preceding years. According to IMAD estimates, the number of the employed will increase by approximately 0.6% in 1999. That estimate results from the available data, the anticipated increase of employment due to the incorporation of those employed in public works scheme and from the predictions of enterprises and organisations gathered by the Employment Service of Slovenia (the LP-ZAP survey) every year. The results of this survey have in previous years forecast well fluctuations in employment. For 1999, they forecast a 0.4% employment fall as a result of a decrease in agriculture (by 4.8%), mining (by 6%), manufacturing (by 2.8%), wholesale and retail trade (by 0.6%), and hotels and restaurants (by 1.3%); and also in response to an increase in all other sectors, especially in financial intermediation (by 8.2%). This year, too, the fluctuation of employment will be seasonal: we expect a higher drop in the summer months and in December, and a smaller autumnal increase than last year.

One of the important instruments for the seasonal adaptation of employment or demand for work in Slovenia is **fixed-term employment**, which still represents more than 70% of vacancies, and which has become the major cause of inflows into unemployment due to job losses. Namely, of those people who lost their jobs in 1998, 44% became unemployed because of the termination of their fixed-term employment contracts, 17% of them were permanently redundant, 16.9% lost their jobs under a mutual consent to terminate employment, 8.5% due to bankruptcy, 3.7% due to the end of traineeship, 3.4% due to a notice to wind up a small business, and 6.5% due to other reasons. The figures in relation to job losses due to end of a traineeship period, bankruptcy, or permanent redundancy were by one-quarter lower than those in 1997, and for all other reasons they were somewhat higher, the most being in job losses due to the termination of fixed-term employment (7.5%).

Last year, 58,400 people who lost their jobs entered the registered unemployment, which is 3.6% less than in 1997; and 55,558 of the registered unemployed found work, which is 1.1% less than a year before. In addition, the inflow of first-time job-seekers was higher than the previous year (by 4%), and 23,520 unemployed people were taken off the employment register (28.5% more than in 1997). The average number of the registered unemployed thus increased from 125,200 in 1997 to 126,080 in 1998, and the unemployment rate from 14.4% to 14.5%. The seasonal growth of unemployment in the autumn months of 1998 was considerably lower than in 1997, so that the December rate of registered unemployment (14.6%) was only a little higher than the average level. Also in the first three months of **this year the seasonal decrease of unemployment was faster than last year**, and we can perceive that there is **less of the non-subsidised employing of the unemployed than last year**. The reduction of registered unemployment in the first few months can largely be attributed to the already mentioned change of status of the unemployed who are included in public works scheme (from the unemployed to the employed).

The structural problems of unemployment have recently **not** been **improving**. They are shown in high shares of the unemployed older than 40 (in April 1999 already 48%), the unemployed who finished primary school or acquired lower level of vocational qualifications (also 48%) and the long-term unemployed (63.3%). All these three phenomena are interrelated since in terms of the duration of unemployment the shares of people aged over 40 and the unskilled unemployed are also increasing. Among those persons who were unemployed for less than a year in April this year, 32% were older than 40, of these 56% had been unemployed for between 1 and 5 years, and 62% were unemployed for over 5 years. The share of the unskilled unemployed has been rising from 36% amongst those unemployed for less than a year, up to 63% amongst persons unemployed for over 5 years. Difficult employability of the unemployed without appropriate qualifications is also shown in the comparison between the unemployed and job vacancies according to the level of education required, which despite some fluctuation remains on average almost unchanged: for every one job requiring higher or high university education there are on average 3 registered unemployed persons with the same education, for every job requiring vocational or secondary school education there are 10 unemployed with such education, and for every non-qualified or semi-qualified job vacancy there are around 15 unemployed persons without any education.

The level of women's registered unemployment is still higher than the unemployment rate of men by approximately 2 percentage points, with the share of women among the registered unemployed remaining at around 50%. The unemployment rate of women is still higher than that for men also according to the Labour Force Surveys. In 1998, it increased from 7.6% in 1997 to 8.1%, while the unemployment rate of men rose from 7.1% to 7.7%. The unemployment of women increases especially in winter months, and in the second and third quarters the unemployment of men and women is almost the same. The general growth in the survey unemployment rate (from 7.4% in 1997 to 7.9% in 1998) shows that informal employment was somewhat reduced in 1998.

According to the Labour Force Survey, last year's unemployment rate in Slovenia was still lower than in the whole EU (10%). Nevertheless, it needs to be pointed out that while measuring unemployment with the Labour Force Survey, which takes into consideration three criteria for ascertaining unemployment, the extent of unemployment in rural areas is underestimated since there is a high possibility that the persons there work either for payment or family welfare, or do not look for work actively. Another important indicator of the labour market's cyclic trends are people who do not seek work because they think there is no work available (discouraged workers). According to the Labour Force Survey, such persons are classified as not participating in the labour force. If, hypothetically, these were also classified as labour force, the survey unemployment rate would exceed 9%.

The prediction of the registered unemployment trends for this year is pretty precarious. According to the estimates, only a few less people will lose their jobs, employment of the unemployed will increase above all because of the change in the status of those included in public works programmes. However, with the somewhat lower number of deletions from the employment register and approximately the same inflow of first-time job-seekers as last year, this does not present a substantial cut of the unemployment rate. The number of the registered unemployed would decrease by around 3,000 and, with that, the registered unemployment rate would lower to 14%. Similar thinking leads us to expect that the number of the unemployed and the level of registered unemployment will also continue to fall at approximately the same speed in the year 2000, and employment should increase even somewhat more than this year. The growth of productivity, which has been increasing in the past six years to a great extent as a result of the laying-off of permanently redundant workers or the giving up of unprofitable production, will probably slow down in the following few years which, with slightly faster economic growth and a more active employment policy, would lead to higher employment and lower unemployment.

4.7. OPERATIONS OF COMMERCIAL COMPANIES, BANKS, SAVINGS BANKS AND SAVINGS CO-OPERATIVES

4.7.1. BUSINESS RESULTS OF COMMERCIAL COMPANIES - Better results continue in 1998

By the close of 1998, there were 140,152 entries in the Companies Register, 2.3% more than in 1997. Of these, 54,927 were companies (39.2%), 22,078 were institutes, bodies and other legal entities (15.7%), and 63,147 were private individuals (45.1%). The number of private individuals increased the most (by 3.1%); there was also an increase in the number of companies (by 2.5%), while the number of institutes, bodies and other legal entities dropped slightly (by 0.4%). The predominant companies were those of wholesale, retail and certain repair (41.9%), real estate, renting and business services (20.1%), and manufacturing (15.9%). The predominant legal and organisational form within companies was a limited liability company (86.7%). Apart from the central bank, companies included 31 banks, 113 savings banks and other financial organisations, 45 investment companies and 12 insurance companies. Most companies (92.2%) were private enterprises, and most of those (91.8%) were in the hands of domestic capital.

The analysis of business results covered 37,585 commercial companies[14]. In 1998, the total of employees in these companies was 459,094. The number of commercial companies is still on the increase, while the number of their employees has been going down; however, the rate of decline has been lower each year. Between 1995 and 1998, the number of commercial companies went up by 11.8%, while the number of their employees fell by 5.3%.

Over the past five years,[15] **1998** was the most thriving year for the **operations** of commercial companies. In 1998, net profits of the financial year exceeded net losses for the first time, namely by SIT 36,536 million. In all the previous years, net losses exceeded net profits – net losses were the highest in 1996 (SIT 60,417 million) and the lowest in 1997 (SIT 3,868 million).

In 1998, commercial companies recorded a positive difference between operating profit and operating loss in the amount of SIT 66,321 million. The business results were up by 31.3% over 1997. The difference between financing revenues and financing expenses was negative as it was in 1997, only lower (it amounted to SIT 79,456 million). Due to the negative difference, there was also a negative difference between the loss and profit from regular operations in the amount of SIT 13,135 million (down by 74.5% over 1997). The difference between extraordinary revenues and extraordinary expenses was positive. The difference between total profit and total loss before taxation was therefore positive, amounting to SIT 60,962 million (2.4-times higher than in 1997). After the subtraction of tax on profits (in the amount of SIT 24,426 million), the difference between total net profit and total net loss was positive, amounting to SIT 36,536 million (see Table 12).

The net profit for the financial year increased by 18.1% over 1997 and its share in total revenue went up from 2.7% to 3.0%; while the net loss for the financial year fell by 4.6% and its share in total revenue went down from 2.8% to 2.4%.

Net profit for the financial year amounted to SIT 209,269 million and was

[14] The business results analysis for the period 1995-1998 is based on the statistical data from balance sheet and profit and loss statements of those commercial companies, which submitted their statements to the Agency for Payments by February 28 for the previous calendar year. The data of companies under bankruptcy proceedings and liquidation are not included, as well as those of banks, insurance companies, certain funds and authorised investment companies.

[15] Since 1994 commercial companies have kept accounting records in accordance with the Commercial Companies Law and with the Slovenian accounting standards, so the data are comparable.

Table 12: Net profit or loss of commercial companies

	In SIT million				As % of revenue			
	1995	1996	1997	1998	1995	1996	1997	1998
NET PROFIT / LOSS								
- from operating activity	-15,673	-8,463	50,517	66,321	-0.3	-0.1	0.8	0.9
- from financing activity	-54,150	-81,676	-102,099	-79,456	-1.1	-1.4	-1.6	-1.1
- from extraordinary activity	59,892	48,003	69,443	74,097	1.2	0.8	1.1	1.0
TOTAL	-9,931	-42,136	17,861	60,962	-0.2	-0.7	0.3	0.9
Tax on profit	15,006	18,281	21,729	24,426	0.3	0.3	0.3	0.3
NET PROFIT / LOSS OF THE FINANCIAL YEAR	-24,937	-60,417	-3,868	36,536	-0.5	-1.1	-0.1	0.5

Source: AP - statistical data from the profit and loss statements of commercial companies for 1995, 1996, 1997 and 1998.

higher by 8.7% over 1997 in real terms. A net profit was recorded by 22,940 (61.0%) commercial companies. The largest share of the amount came from the manufacturing sector (38.3%), mainly from the sub-sectors food, beverages and tobacco (6.6%), chemicals and man-made fibres (6.5%), and basic metals and metal products (5.2%).

The net loss for the financial year amounted to SIT 172,733 million and was 12.2% lower than in 1997 in real terms. A net loss was recorded by 11,520 (30.7%) commercial companies. Again, the largest share of the amount came from the manufacturing sector (29.8%), mainly from the sub-sectors of basic metals and metal products (3.7%), transport equipment (3.6%), and paper, publishing and printing (3.2%).

In 1998, the difference between net profit and net loss was positive in 8 sectors (the difference was positive only in 4 sectors in 1997) (see Table 13). Positive business results were recorded in 3 sectors which also recorded positive results in 1997, (manufacturing; transport, storage and communications; wholesale, retail and certain repair), and in 5 sectors which in 1997 showed a negative difference between net profit and net loss (other community and personal services; health services and social care; agriculture, hunting and forestry; education; fishing). In all other sectors, net losses exceeded net profits. Like in 1997, in 1998 the negative difference was the highest in the electricity, gas and water supply sector. It amounted to SIT 18,593 million.

In 1998, 29.2% of all commercial companies had no employees. Despite the great number of these companies, their shares in total revenue (1.3%) and total assets (4.1%) were modest, and their business results were negative (a negative difference between net profit and net loss in the amount of SIT 19,329 million). Despite their small number (0.3%), companies with more than 500 employees had a 31% share in total revenue, while their share in

Table 13: Net profit or loss for the financial year of commercial companies by sectors (in SIT million)

Sector	Net profit for the financial year			Net loss for the financial year			Net profit+ Net loss -		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
A Agriculture, hunting, forestry	1348	1904	1660	2711	2014	1540	-1363	-110	120
B Fishing	13	17	21	27	70	5	-14	-53	16
C Mining	314	345	660	5428	3474	2097	-5114	-3129	-1437
D Manufacturing	41742	67251	80196	87462	65198	51508	-45720	2053	28688
E Electricity, gas and water supply	2231	2184	2640	21830	24522	21233	-19599	-22338	-18593
F Construction	4891	8228	7504	5430	4803	7822	-539	3425	-318
G Wholesale, retail trade, certain repair	34172	44958	51337	21405	22922	28508	12767	22036	22829
H Hotels and restaurants	1667	3094	2688	4735	3788	5680	-3068	-694	-2992
I Transport, storage and communications	11624	20026	28381	8482	8913	2882	3142	11113	25499
J Financial intermediation	6650	2042	3511	1294	8903	12068	5356	-6861	-8557
K Real estate, renting, business services	13619	21708	24845	18868	29744	35201	-5249	-8036	-10356
L Public administration and defence	87	0	1	118	160	73	-31	-160	-72
M Education	134	256	308	146	562	212	-12	-306	96
N Health services and social care	1301	2016	2411	1414	2690	1923	-113	-674	488
O Other community and personal services	1971	3229	3106	2831	3363	1981	-860	-134	1125
TOTAL COMMERCIAL COMPANIES	121764	177258	209269	182181	181126	172733	-60417	-3868	36536

Source: AP - statistical data from the profit and loss statements of commercial companies for 1996, 1997 and 1998.

total assets came to 31.2%. The business results of these companies were positive (a positive difference between net profit and net loss of SIT 29,578 million).

The classification of companies according to size[16] shows that in 1998 the largest number of companies were small enterprises (93.7%), followed by medium-sized enterprises (4.2%), and large companies (2.1%). Due to changed criteria for the classifying of commercial companies, comparisons between years would not be relevant. In 1998, the most important contribution to total business results was made by large companies, which employed 57.4% of all workers, while making 61.4% of total revenue and using 68.5% of the total assets of commercial companies. Small enterprises employed 24.9% of all workers, while making 23.1% of total revenue and using 18% of total assets. The smallest contribution was made by medium-sized enterprises, which employed 17.7% of all workers, made 15.5% of total revenue, and used 13.5% of total assets. In 1998, the final business results of large companies were better than those of small and medium-sized enterprises. The net profit of the financial year was shown by 74.2% of large companies, 75.6% of medium-sized enterprises and 60.1% of small enterprises. The net loss of the

[16] According to Article 51 of the Commercial Companies Act, commercial companies are classified into small, medium-sized and large enterprises following the criteria which apart from the number of employees include total revenue and the average value of assets recorded in the annual financial statements for the last financial year.

financial year was shown by 25.3% of large companies, 22.2% of medium-sized enterprises and 31.1% of small enterprises. The largest positive difference between net profit and net loss in the amount of SIT 48,615 million was shown by large companies. A positive difference in the amount of SIT 1,246 million was recorded by small enterprises. Medium-sized enterprises recorded a negative difference between net profit and net loss in the amount of SIT 13,325 million.

At the close of 1998, commercial companies recorded a total of SIT 8,166,775 million in assets or liabilities and capital. Compared to the statistical data from the balance sheets dated December 31, 1997, they recorded growth of 2.9% in real terms. During this period, the structure of assets, and liabilities and capital did not change considerably. In the assets structure, the share of fixed assets fell from 65.5% to 65.2% (mostly because of a fall in the share of tangible capital assets), at the same time the share of current assets rose from 34.5% to 34.8% (mostly because of a rise in the share of short-term investments). In the liabilities and capital structure, the share of equity capital fell from 54.6% to 54.4%, while the share of liabilities rose from 44% to 44.2%. The share of long-term liabilities rose from 15.1% to 15.8%, while the share of short-term liabilities dropped from 28.9% to 28.4%, which indicates a slightly improved structure of liabilities.

In 1998, the solvency of commercial companies was even lower than in 1997, as seen from the records of legal entities with giro accounts blocked for over 5 days per month. (The records are kept by the Agency for Payments.) In 1998, there were 8,537 such legal entities on average per month, which was 840 entities more (10.9%) than in 1997. The average monthly amount of their outstanding debts amounted to SIT 87,573 million, up by 15% over 1997. These companies employed 30.7% fewer workers than in 1997, which indicates that liquidity problems have moved to small enterprises or maybe even to enterprises with no employees.

4.7.2. PERFORMANCES OF BANKS, SAVINGS BANKS AND SAVINGS CO-OPERATIVES IN 1998 - Bank profits higher, yet savings banks' and savings co-operatives' profits lower than in 1997

In December 1998, the Slovenian banking system consisted of twenty-four banks (and two non-operating banks, established by a constitutional law), six savings banks and seventy savings co-operatives. Seven representative offices of foreign banks also operated. In 1998, the number of banks fell by four (due to three acquisitions and one liquidation). By the close of 1998, among the operating banks, eleven banks were wholly owned by domestic capital, ten banks were joint ventures with a majority of domestic capital, while in three banks the majority or entire controlling interest was owned by foreign capital. In 1998, the market share of banks amounted up to 97.8% (measured in balance sheet total), the share of savings co-operatives amounted to 1.8%, and the share of savings banks to 0.4%.

By the close of December 1998, **the balance sheet total** of Slovenian banks amounted to SIT 2,351 billion and **increased by 9.2% in real terms** over 1997. The three largest banks accounted for 51.7% of the balance sheet total (in December 1997 50.7%), the next four banks in size accounted for 21.3%, while the other seventeen banks represented 27% of the balance sheet total. The consolidation process of the banking system is proceeding only slowly; banks look for friendly strategic partners and owners. Lately, capital integrations have been taking place (i. e. acquisitions of a certain percentage of capital or of voting rights). Out of 28 banks at the end of 1997, 18 banks are now on the market independently, which means that the consolidation has finally begun.

In the average bank's asset structure, loans to the non-banking sector increased (these represented a 44.2% share of all assets); the commercial sector accounted for the largest share of these loans. Loans and advances to the banking sector went down (a 9.3% share). The share of securities went up to 33.5% of assets, and was dominated by deposit certificates of the central bank and government bonds. The most important source of bank liabilities was deposits of the non-banking sector (a 70% share), with household deposits accounting for the largest share. The second most important item within bank liabilities was capital with a 10.7% share in 1998.

The banks' pre-tax **profit total** amounted to SIT 25.9 billion (of which there was SIT 23.5 billion of positive revaluation balance); **increasing by 15.3% in real terms** over 1997. 1998 was marked by a nominal increase in net revenue from interest (the share of revenue from interest in total revenue amounted to 80%) and a real increase in net revenue from commission (mostly from domestic payment operations, from administrative services rendered, and credit transactions). Due to the reducing of the general level of interest rates, the fall in interest expenses exceeded the fall in interest revenues. In December 1998, the net interest margin amounted to 4.5%, down by 0.4 of a percentage point over December 1997. In 1998, the **return on assets** (1.2%) and the **return on equity** (11.2%) **increased**, while labour costs on average assets dropped to 1.7%.

In 1998, the total **profit** of **savings co-operatives and savings banks dropped over 1997**. The profit of savings co-operatives amounted to SIT 360 million (SIT 405 million in 1997), and that of savings banks to SIT 40 million (SIT 67 million in 1997).

4.8. THE SECURITIES MARKET - Despite easier regulations on portfolio investments the outflow of foreign capital continues

In 1998, the SBI share index experienced substantial fluctuations. At the beginning of 1998, the value of the SBI index was 1,405 points; by the end of March, it went up to 1,707 points; and in July, after a few months of stagnation, it began to rise rapidly boosted mainly by the purchases of local institutional investors. The more active local demand was caused by the reduction of deposit interest rates in banks and the slowing down of inflation. On August 10, the value of the SBI index peaked (2,026 points). Despite the fact that the Slovenian capital market is closed, the outbreak of the Russian financial crisis did cause a fall in securities' prices; however, the existing regulations of portfolio investments lessened the impact of the crisis on the movements on the Ljubljana Stock Exchange. The fall in securities' prices on the Ljubljana Stock Exchange was considerably less pronounced than that on stock exchanges in Central and Eastern Europe. After August, the inflow of foreign capital almost came to a stop, while capital outflows increased considerably (in August, net foreign purchases stood at DEM -19 million, in September at DEM -22 million, and in October at DEM -13 million). In autumn, local demand slowed down as well. At the end of 1998, the value of the SBI index was considerably below the summer peak and amounted to 1,706 points; nevertheless, it gained 301 points (21.4%) over the beginning of 1998.

In 1998, turnover in shares accounted for 77.2% of total turnover (80.8% in 1997). Foreign investors' turnover amounted to SIT 14,333 million, which was a 10% share of the total turnover of shares, a significantly lower share than in 1997 (27.5%) and over 1996 (14.5%). In 1998, the share of bond trading was 12.7% of total turnover (10.6% in 1997), while the share of short-term securities was 4.3%, down 4.2 percentage points over 1997. In 1998, trading in the shares of authorised investment companies was introduced on the free market of the Ljubljana Stock Exchange for the first time (by the close of 1998, 30 shares of authorised investment companies were traded on the Stock Exchange), trading in these shares accounted for 5.8% of total turnover.

In 1998, the **rapid growth of market capitalisation** of all securities on the Stock Exchange continued. By the close of December 1998, it amounted to SIT 628.14 billion, up by 57.3% over December 1997 (excluding shares of authorised investment companies). Compared to the gross domestic product (GDP), the market capitalisation total increased from 13.7% at the close of 1997 to 19.3% at the close of 1998. By the close of 1998, the market capitalisation of shares on the Stock Exchange accounted for 14.8% of the estimated GDP (in December 1997, the market capitalisation of shares on the Stock Exchange accounted for 10.9% of GDP in 1997). The above-mentioned indicators suggest deepening of the capital market. At the end of 1998, foreign investors' share in the total market capitalisation of shares on the Stock Exchange amounted to 8.9%, while by the close of 1997 it amounted to 10.3%.

In the first quarter of 1999, turnover on the Stock Exchange amounted to SIT 70,627 million, up by 142.2% over the first quarter of 1998. In the first quarter of 1999, the turnover of shares amounted to SIT 53,276 million, the turnover of bonds to SIT 7,657 million, the turnover of short-term securities to SIT 1,212 million, while the turnover of the shares of authorised investment companies was SIT 8,482 million. In January and February, the value of the SBI index went up (by 13.4%), while in March and April it dropped (in March by 6.8%, in April by 1%) due to poor liquidity. By the end of April, the value of the SBI index was 1,786 points, up by 4.7% over the close of 1998.

Table 14: Turnover on the Ljubljana Stock Exchange (growth rate in %)

	Year		
	1996	1997	1998
Total turnover	-1.2	24.5	60.1
Turnover of long-term securities on official A and B markets			
Total	4.8	-2.7	115.1
Shares	31.1	1.0	117.5
Bonds	-44.9	-19.6	101.6
Turnover of long-term securities on the organised open C market			
Total	150.0	131.9	-43.4
Shares	194.3	141.7	-48.9
Bonds	3.6	40.5	46.2
Turnover of short-term securities	-66.7	37.5	-18.5
Turnover of shares of authorised investment	-	-	-

Vir: LBo, izračuni ZMAR.

When the Europe Agreement on Association between Slovenia and the EU came into effect (February 1, 1999), the Bank of Slovenia shortened the time period in which a foreign portfolio investment need to incur the additional cost of a custody account from seven to up to four years; it also lowered the limit for direct investments from 50% to 10% of ownership of a company, and introduced a variable, administratively set, obligatory premium for the purchase of foreign currency purchase rights in the amount of the custody account (2.5% for the first quarter and 10.38% for a year). In the four-year period after enforcement of the Agreement on Association, Slovenia also has to provide the free movement of capital in the area of portfolio investments. Despite easier regulations on portfolio investments, the outflow of foreign capital on the Ljubljana Stock Exchange, particularly notable at the outbreak of the Russian financial crisis, continued during the first months of 1999. In February, the net outflow of foreign portfolio investments amounted to DEM 4.2 million, in March to DEM 2 million, and in April to DEM 2.7 million.

4.9. HOUSEHOLD AND COMPANY BORROWINGS AND SAVINGS - In 1998 companies take out loans mostly in Slovenia

In 1998, the volume of loans increased by 18.7% in real terms (by 10.5% in real terms in 1997), the volume of household loans increased by 24.2% in real terms (by 17.9% in 1997), while the volume of loans to the business sector increased by 15.4% in real terms (by 6.4% in 1997). In 1998, companies financed more than three-quarters of their borrowing requirements through the Slovenian banking sector. By the close of December 1998, loans to the business sector had a 60.2% share in the total loan structure, down by 1.8 structural points over December 1997. In 1998, long-term loans increased by 21% in real terms (by 12.7% in 1997), while short-term loans increased by 15.2% (by 7.3% in 1997). The share of long-term loans in the total loan structure rose to 61.0% over the end of December 1998 (59.8% in December 1997).

Household and company borrowings continue to grow in 1999. **At the close of April 1999, outstanding loans were up by 6.1% in nominal value (by 3.9% in real terms) over December 1998. Especially in March and April, there was a marked increase in household borrowings.**

Average real interest rates above the revaluation part of the interest rate allowing for inflation (TOM) on short-term and long-term loans to the business sector went down considerably in 1998. In December 1998, average real interest rates for short-term loans were 5.9%, down by 3.7 percentage points over December 1997; while the rates for long-term loans were 7.2%, down by 3.5 percentage points over December 1997. At the beginning of 1999, real interest rates dropped again and by the close of March they were down by 0.4 of a percentage point over December 1998.

Relative liquidity of the business sector (measured by the share of funds of the business sector in the total amount of funds held in giro accounts) was 43.7% by the end of December 1998, down by 1.5 percentage points over December 1997. By the close of December 1998, funds of the business sector held in giro accounts amounted to SIT 101,344 million, up by 19.2% in nominal value over December 1997. At the end of December 1998, relative household liquidity (38.4%) was up by 3.7 percentage points over December 1997. In the first quarter of 1999, business sector liquidity dropped, as indicated by the higher number of legal entities with giro accounts blocked for more than five days per month, and by the rising amounts in blocked accounts.

In 1998, **household savings in banks** increased by 14.3% in real terms, up by 0.8 percentage point over 1997. Household tolar savings in banks increased by 24.8% in real terms (by 21.4% in 1997), while foreign exchange savings increased by 5.3% in real terms (by 2.2% in 1997). In the first few months of 1999, household savings increased: in April, it was up by 3.2% in real terms over the close of 1998 (in real terms, tolar savings increased by 5.4%, foreign exchange savings by 1%). Increased household spending and borrowing led to reduced saving in April (down by 0.2% in real terms over March).

In December 1998, in the structure of tolar deposits (excluding savings in current and giro accounts) long-term deposits accounted for 17.2 % of total tolar deposits (in December 1997 15.5%). By the end of December 1998, in the structure of foreign exchange deposits long-term deposits accounted for 9.7% of total foreign exchange deposits, up by 0.6 of a structural point over December 1997.

On March 1, 1999, the validity of the inter-bank agreement on the highest deposit interest rates expired. The Association of Banks of Slovenia recommended that banks lower their deposit interest rates. Banks did lower their interest rates on 30-day time deposits and on time deposits exceeding one year and two years, which did not affect the volume of household bank savings in March, while the decline in April was most probably not only caused by the lowered interest rates, but also by increased household spending.

5. FACTORS OF DEVELOPMENT

5.1. ENVIRONMENT - Reducing environmental pressure is one of the main tasks in the process of accession to the EU

The two objectives of faster economic growth and catching up with the developed European countries set in the mid-nineties by the Strategy of Economic Development of Slovenia up to 2000 (SEDS; IMAD, 1995) may be achieved in several ways, one of which is detrimental to the environment. Despite the strategy being aimed at sustainable development. A look at the environmentally relevant orientations of the SEDS reveals that deleterious deviations from the set course appear in several sectors. In transport NO_x, CO_2 emissions and use of energy is increaseing; owing to restrictions in public finance the planned changes of the environmental aspects of the agricultural policy are being carried out more slowly than predicted; the growth in environmental protection expenditure is not as fast as expected. At the same time, certain environmentally relevant orientations of the SEDS are nevertheless being realised: environmental protection expenditure is on the increase (see table 16 in the Statistical Appendix); there is an upward trend in the relative price of energy products and electrical energy; the tax on CO_2 emissions was introduced; in terms of pollutant content and the structure of primary energy sources, energy fuels are more environmentally-friendly; the consumption of domestically extracted coal with high SO_2 content is on the decrease; railways are increasingly being used for freight transport – however, the main reason is not that it is being introduced as an alternative to road transport as envisaged by the SEDS (Slovenian Economic Mirror, 2/99, p.23) but because new freight business is being directed to railways; the share of more environmentally-friendly production of food is rising.

At the end of 1998, the **National Environmental Action Plan (NEAP)** covering the period up to 2008 was drafted, defining Slovenia's activities and goals aimed at protecting the environment. Completion of the NEAP coincided with finalisation of large environmental rehabilitation projects as well as the completion of the transition period, both creating new chalenges for environmental policy.

In the last decade, the environmental protection policy focused on reducing SO_2 emissions. These have been substantially reduced owing to switching to cleaner fuels and installing purifying plants in domestic coal burned power plants. So, Slovenia already now complies with the EU directives for 2000 (provided that by then emissions do not increase), but not with some other requirements to be fulfilled by 2005 and thereafter (Ministry of Environment and Spatial Planning, 1998a, p. 49).

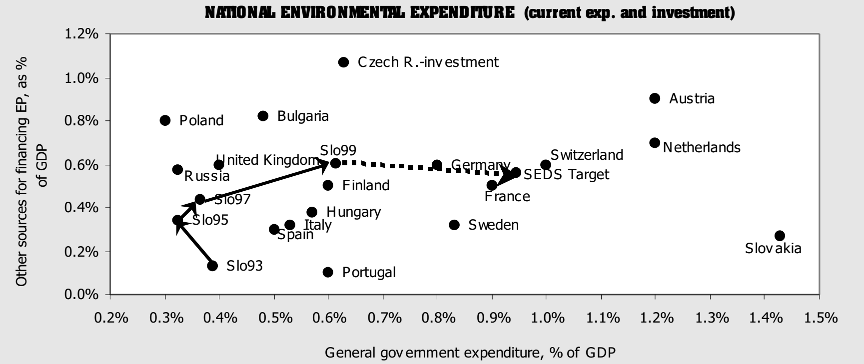
The NEAP defines the **priority areas** of the environmental protection policy as follows: protection of ground waters, solid waste management, preserving biodiversity and institutional streghthening of environmental protection policy. Among the most sensitive areas in Slovenia which will be fully protected against degradation of the environment also in terms of economic pressures are the Littoral, rural and mountainous areas and the karst. The largest share of funds for implementation of the NEAP will be invested to support traditional environmental protection solutions: firstly, to limit hot spot problems and health damaging pollution, to be followed by “end-of-pipe” solutions at existing plants, whilst increasing attention will be focused on prevention.

Integration into the EU is **one of the main challenges of environmental protection.** Joining the EU generally does not require any adaptations in environmental protection issues in addition to those already required by the NEAP. Owing to the growth of environment protective investment enforced by accession schedule and demanding administrative procedures for obtaining EU investment support, the accomplishment of the NEAP goals will be mostly exhibited as fulfilling the requirements imposed by the EU. All of this is reflected in the Environmental Accession Strategy of Slovenia (EASS) and the National Programme for Adoption of the *Acquis* in those parts dealing with environmental issues. This programme primarily specifies the activities and the timetable for approximation to the EU in the area of environmental protection. In the first stage of implementation, it is geared towards the normative adjustment of the Slovenian environmental protection policy.

At the beginning of 1999, the level of harmonisation of Slovenian legislation with environmental *acquis* was screened. Negotiating positions are being prepared on the basis of those findings. Slovenia will apply for a transition period for enforcing the directive requiring that urban settlements with more than 2000 inhabitants be equipped with a wastewater network and secondary treatment of collected water. Transition periods will be necessary for integrated industrial pollution prevention (IPPC Directive); quality of fuels,packaging waste directive. Additionally, Slovenia will request in negotiations with EU to maintain national regulation regarding protection of country specific flora, fauna and habitats.

Funding for the implementation of the development programmes listed in the SEDS, NEAP and EASS **has already been partly provided** (see Table 16 in Statistical Appendix):

1) environmental liabilities in privatised firms amounting to SIT 68.8 billion have been registered (calculated at 1998 prices, for the period of at least 10 years);
2) wastewater tax, which in 1998 triggered investment of approximately SIT 3.5 billion. Tthis amount will increase in the future because the tax rate will rise, but will decrease as the tax basis will be reduced owing to environmental improvements arising from investments into waste water treatment plants and sewerage systems. In the following years, the first effect will prevail, whilst later on, when the first wave of investments, in full swing last year and this year, is completed, the second effect will predominate;
3) in 1998, the tax on CO_2 emissions was thoroughly changed in order to at least partially encourage investment so as to earmark part of CO_2 tax revenues. This change has increased the level of environmental protection expenditure in Slovenia by SIT 4.5 billion already in the first year since the change has been in force.



Sources of data: OECD, 1998; COWI, 1997; AP, SORS.

Soft loans for environmental protection investment will become even more attractive. Therefore in 1999 the interest rate on loans from funds of the **Environmental Development Fund** (EDF) will drop to 2%, and the period from floating a loan to its disbursement is expected to shorten. This should lead to the EDF gradually investing less of its funds financially (which was the case with almost a quarter of available funds in 1997-1998 and 17% in 1996). In 1999 and 2000, the EDF anticipates a substantial drop in financial investments – greater certainty about the future dynamics and volume of capital financing of the Fund would significantly contribute to this. In the future, the channels of EDF financing will undergo radical changes: capital inflows are falling, proceeds from privatisation are shrinking as privatisation is being completed and, in 1999, the disbursement of the World Bank loan will be completed. Slower growth of the EDF's assets (36% in 1996, 15% in 1999 and 11% in 2000), which was nevertheless expected as the Fund grew, may in changing circumstances (repayment of the World Bank loan is due) reduce the EDF's volume of funds available for soft loans (Poročevalec DZ no. 59/98, p. 3643, see Table 16 in Statistical Appendix).

A number of **measures** are being prepared in order to support carrying out the goals set in the NEAP. A landfill tax will be introduced and those revenues will be directed mainly at stimulating investment.

The **EU's investment support** is one of the most important additional sources of financing environmental protection investments that are considered as the nation's priorities. In the 1992-1998 period, less than SIT 900 million was disbursed annually[17] . In the 1999-2002 period, the financial aid intended for environmental protection projects should increase considerably: the average annual amount should reach somewhat less than SIT 6 billion (both expressed in 1998 prices). The actual role of this financial source in the future depends on the success of accession activities.

So far, two cost assessments of accession to the EU in the environmental area have been made: one in the NEAP and the other in the framework of the DISAE SLO-101 project. In the former project, the investment projections are focused on the 1999-2003 period, while in the latter they are spread throughout the period up to 2020, and after preliminary tests using aggregated environmental protection expenditure evidence (see Table 16 in Statistical Appendix) they have proved to be a lot more feasible.

In projecting **aggregate environmental protective expenditure**, the SEDS served as a framework for the NEAP, which means that the NEAP is based on the scenarios set out in the SEDS and that it takes into account the SEDS projections regarding the level of environmental protection expenditure (1.5% of GDP). However, in the first stage of the NEAP's implementation (1999-2003), around 1.44% of GDP should be invested in environmental protection each year in order to achieve the set goals. If this level of expenditure is

[17] Unevenly distributed over the years - it should also be kept in mind that the records of financial aid received have not yet been uniformly kept, which is why the assessed figure may only illustrate the developments.

compared to the existing one (0.8% to 1.2% of GDP in 1997-2000), the NEAP targets seem to be easily attainable by 2003.

However, it should be noted that the notion of environmental protection expenditure is understood in a narrower sense in the NEAP than it is in the SEDS, which will result in the fact that environmental protection expenditure as defined by the SEDS will have to reach around 2% of GDP during implementation of the NEAP (covering the period up to 2008). In other words, the NEAP indicates that the targeted level of environmental protection expenditure set by the SEDS will have to be increased in the following period. It will be very difficult to reduce the investments planned by the NEAP since, from the financial standpoint, around 89% of their total is related to Slovenia joining the EU (DISAE SLO-101, 1998).

Investors' own funds alone will not suffice in either of the envisaged investment schedules (NEPP or DISAE SLO-101), but the government may exert quite a strong impact on investment potential by increasing the earmarked revenues from environmental taxes. The strongest investment incentives have so far been the wastewater tax and the CO_2 emissions tax, soon to be joined by the landfill tax. According to estimates, all three taxes are expected to contribute around 60% of the funds necessary for national environmental protection investments in the 1998-2000 period. Therefore, it will be of crucial importance for implementation of NEAP and accession to EU to keep increasing the rates of special environmental protection taxes in the long run.

Environmental protection expenditure in many Central and Eastern European countries (CEECs) is higher than that in Slovenia at present: Bulgaria (2.1% of GDP), the Czech Republic (environmental protection investments alone account for 1.7% of GDP), Slovakia (1.7% of GDP). Higher spending for environmental protection is more characteristic of the C EECs than it is of the EU member-states. In countries where environmental protection is practiced at a higher level, the respective expenditure primarily arises from using and maintaining environmental protection capacities, whilst the CEECs, after having neglected these matters for many years, are spending most for constuction of infrastructure (utilities) and buying equipment for environmental protection. Given that the situation in environmental protection in Slovenia is more comparable to circumstances in other CEECs, Slovenian environmental protection expenditure should be primarily evaluated by comparing it to the expenditure incurred by the abovementioned countries.

5.2. SOCIAL DIMENSIONS OF DEVELOPMENT - Human Development Index places Slovenia higher than some more advanced economies

In 1998, the Human Development Report was for the first time prepared for Slovenia and it reviewed the development of Slovenia from the standpoint of the human development concept which encompasses all of the most important areas contributing to human welfare. This concept is not only limited to the growing importance of the human factor, but also relates to widening people's freedom to act and combines the interests of the individual with those of the community, which are based on the hierarchy of values. Predominant values serve as a basis for setting the development objectives of a society and the activity of individuals, varying considerably between individuals and societies. The quality of life of an individual and a community depends strongly on society's economic growth, nevertheless, this is not the only factor. It is also important to know what kind of growth it is and who will benefit from it. Therefore, in order to ensure quality of human development it is most significant that the growth offers the possibility of choosing between different ways of satisfying material and non-material needs as well as making full use of their potential. It is a matter of developing human potentials and productively exploiting all of the existing resources as well as active human participation in social processes. Providing for the balanced development of society with as few problems as possible requires that the following directions be taken into account: growth has to be based on the culture and values of the society and individuals, it has to allow the participation of all people and freedom of choice, it has to be sustainable and create new jobs.

The aim of social development is not only to maximise wealth, but also to maximise the quality of human life where other elements, apart from economic performance, are considered: health, education, knowledge, culture, values, etc. Economic growth thus no longer represents the aim of social development, but merely becomes its means.

The concept of human development requires a different measuring of development. The **Human Development Index (HDI)** is used for the purpose of international comparisons. The HDI is a composite index encompassing indices of economic development, health and education of population. According to the HDI, Slovenia was in 26th place among 174 countries in 1995, which is 11 places above its ranking measured by GDP in terms of the purchasing power indicator. Since the HDI comprises three areas, it is possible to make comparisons of development for each of these areas. Quite balanced development compared to other countries is characteristic of Slovenia. The only negative aspect perceived is the enrolment ratio in education, which puts Slovenia in only 54th place, as 73.4% of its population are involved in primary, secondary, college or university education. Since the education structure of the population is relatively poor already now, and also represents one of the most important causes of unemployment, focusing on increasing the involvement of young people as well as adults in education is urgent.

As it is important for society that all of the population participates in social life, the Gender Development Index (GDI) shows the level of development of an individual country, taking into account the differences in the participation rates of men and women. The GDI consists of the same indices as the HDI, only that the latter also takes into account the differences between genders. The GDI is lower in countries with greater differences, whilst it is higher in those with minor differences. As shown by the GDI, Slovenia ranks higher by up to 12 places, namely it is in 14th place among 174 countries. The higher rate of employment of women and the smaller wage differentials between men and women contribute most to this fact since, in Slovenia, the average woman's wage is 85% of a man's wage, whilst the world average is 75% of a man's wage.

The Gender Development Index shows the distribution of basic human resources by gender, whilst the **Gender Empowerment Measure (GEM)** shows the use of these resources by the level of **active participation of women** in politics and the economy as well as the possibility of their participation in decision-making. The higher the value of this measure, the higher the participation of women in public life. Slovenia's performance in this field is poor (its GEM is 0.496). In most countries, the GEM is below both indices (HDI and GDI), and only in seven countries is the GEM above 0.7, which represents the limit of high development achieved by the Scandinavian countries, Canada, New Zealand and Iceland. Slovenia, with a very low GEM index (0.496), is no exception to this. Even though its employment, education of women and share of income generated by women are outstanding, the percentage of women participating in public life (particularly in politics) is very low.

With a view to comparing poverty levels in developed countries, the Hu**man Poverty Index II** (HPI II) was devised in 1998. The HPI II is comprised of four types of deprivation: health deprivation (the share of the population who will not reach 60 years of age), education deprivation (the share of the functionally illiterate population), material deprivation (the share of the population below the poverty line) and social exclusion (the share of those remaining unemployed for over 12 months). The Human Development Report for 1998 (UNDP, 1998) includes the results of calculations of this index comprising 17 developed countries in the mid-nineties. The highest poverty rate is in the USA (16.5% of the population) which, at the same time, has the highest GDP per capita, whilst the lowest poverty rate is recorded in Sweden (6.8%), which occupies no more than 13th place measured in terms of GDP. On the basis of 1995 data, a separate calculation was made for Slovenia (14.7%), according to which it ranks ahead of the UK, Ireland and the USA.

The Human Development Index shows the contribution of the economic development of a society to the welfare of its people, whilst the poverty level indicates the undesired side effects of this development. The Human Poverty Index II measures social exclusion solely by means of long-term unemployment, whereas the **Social Exclusion Index** measures three types of deficit: deprivation (shortage of material resources), isolation (shortage of social contacts), and anomy (shortages of power and sense of purpose).

The undesired side effects of development are not only manifest in the shortage of material goods, but also in the marginalisation of people, reduction of possibilities of their participation in economic, social, political and cultural life of the society. All of this is covered by the notion of social exclusion which is more complex than that of poverty. The social exclusion concept is incorporated in the human development concept, focusing on human beings and their quality of life.

In Slovenia, the **Social Exclusion Index** was calculated for the first time for the purpose of Human Development Report 1999 on the basis of data acquired by using a special questionnaire[18] and it was included in the study "Slovenian Public Opinion Research" (October 1998). Measuring social exclusion involves measuring the abovementioned three dimensions of welfare deficits. The more these types of deficit accumulate, the greater the risk of social exclusion. On the basis of these data (IMAD calculations), it was established that the most frequent feeling in the Slovenian population is that of isolation (50.2% of respondents felt a severe deficit in this respect). This feeling of isolation is

[18] In 1994, a special questionnaire was compiled and a method devised for calculating the social exclusion index (NORBALT Project) by the Estonian Ministry of Social Affairs together with the Norwegian International Institute for Applied Social Research.

primarily influenced by lost contact with the labour market, fear of violence and the fact that almost 30% of the respondents live alone or are the only adult person in the family. As many as 44.3% of respondents feel a high level of autonomy, which above all indicates a lack of political participation as well as feelings of helplessness and powerlessness. In the Slovenian population, the feeling of deprivation is at the lowest level (17.7%), meaning that the feeling of shortage of material goods is the weakest. All these shortages are comprised in the Social Exclusion Index which shows that 46.6% of Slovenians are subject to a low social exclusion risk, 15.4% to a high social exclusion risk and that women feel more socially excluded than men. To enable comparisons, Table 14 shows data for Baltic countries at the beginning of the period of transition (1994).

Table 15: Social Exclusion Risk

Country	Low	Medium	High
Slovenia	46.6	38.0	15.4
Estonia	29.1	55.8	15.1
Latvia	23.6	51.6	24.7
Lithuania	30.1	53.8	16.1

Source: A. Asland, K. Knudsen, D. Kutsar, I. Trapenciere, The Norbalt Living Conditions Project, Oslo, December, 1997 and SJM, Ljubljana, October, 1998, calculations by IMAD .

5.3. REGIONAL DEVELOPMENT - Even though they are rising, regional disparities in Slovenia are smaller than in other EU candidate-countries

At the end of 1998, the White Paper on the Regional Development of Slovenia was prepared, showing among other things that in the period following independence regional disparities had increased. Traditionally, regional disparities are primarily understood as “economic” inequality or differences in the level of economic development between individual regions. However, regional disparities are multidimensional as they also include a “social” and “spatial” dimension. Social inequality, often closely related to economic inequality, firstly manifests itself through unemployment, which in turn depends on the structure and availability of jobs. Social inequality also reveals itself in the level of income, education structure and quality of life. The “spatial” dimension of regional disparities is shown in infrastructural conditions (e.g. accessibility of working places and schools), environmental and housing circumstances etc. In recent years, the entire Slovenian population has been rapidly ageing, mainly because of a low birth rate, longer life expectancy and weak inflows of people from other areas. Nevertheless, there are differences between individual regions in the growth rates of their populations, intensity of ageing as well as life expectancy. The registered unemployment rate varies by regions. In the region of Podravje, where unemployment remains the most pressing problem, the unemployment rate is almost 2.5 times higher than in the region of Goriška, which has the lowest unemployment rate. Over the last three years, the unemployment rate by regions has been more or less stagnating and in many places persisting at relatively high levels, but the structure of unemployed persons has been deteriorating. Apart from unemployed persons with a low education structure and young people, among job-seekers there are increasingly more women above the age of 40 and long-term unemployed. On the other hand, there is a big gap between supply and demand which is aggravating the situation in the labour market even further. There are relatively large disparities in the level of transport infrastructure. The distribution of business infrastructure is uneven. Also in environmental pollution (mainly water, air and soil) there are differences between individual regions. The analyses of environmental conditions reveal that the most polluted regions are Zasavje, Savinjska, Central and Koroška.

Last year's **better business results** posted by companies may be observed **in most regions.** Only three regions concluded the 1998 business year in the red – the regions of Podravje (more than 50% of the total net loss), Posavje (a good 40%) and Zasavje (slightly less than 6%). In other regions, net profits exceeded the incurred net losses. The highest percentage of the national net profit was earned in the Central region of Slovenia (43.8%), followed by the regions of Dolenjska (16.8%), the Littoral and Karst (15.9%) and Goriška (12.8%).

In previous years, substitutional indices were used for measuring the level of economic development. This year, the **Statistical Office of the Republic of Slovenia published for the first time GDP per capita at the level of statistical regions for 1996** and according to internationally comparable methodology. The results show that the disparities in the levels of economic development are not as large as those shown by data on value added per capita calculated by only applying financial statement data, which is understandable and expected owing to differences in methodology. The highest GDP per capita was recorded in the Central region of Slovenia representing one-third of Slovenian GDP and exceeding the national average by more than 28%. At the same time, GDP in the Central region is 1.7 times higher than that in Pomurje, which occupies the last place as shown by this index and reaching just slightly less than 78% of the national average. Above-average GDP per capita was recorded in the region of Littoral-Karst, whilst those in the regions of Goriška and Dolenjska are close to the average

Table 16: Registered unemployment rate and gross domestic product

REGIONS	Registered unemployment rate 1998		GDP per capita 1996	
	%	Index SLO=100	In SIT 000, (current prices)	Index SLO=100
Central	11.0	75.8	1,647	128.5
Littoral and Karst	10.6	73.2	1,311	102.3
Gorenjska	12.6	86.9	1,185	92.4
Goriška	9.2	63.6	1,264	98.6
Savinjska	16.7	115.3	1,212	94.5
Dolenjska	10.4	71.6	1,255	97.9
Pomurska	18.7	129.4	998	77.8
Karst	12.5	86.5	1,087	84.8
Podravska	22.0	152.1	1,052	82.0
Koroška	13.0	89.9	1,106	86.3
Posavska	15.9	110.2	1,162	90.6
Zasavska	19.2	132.8	1,083	84.5
Slovenia	**14.5**	**100.0**	**1,282**	**100.0**

Source: SORS

(indices 98.6 and 97.9, respectively). Somewhat lower, but still above 90% of the national average, are the regions of Savinjska, Gorenjska and Posavje. GDP per capita in the regions of Podravje, Zasavje, Notranjska and Karst as well as Koroška range somewhere between 82% and 86.3% of the national average. Compared to the EU average, GDP in the regions of Pomurje and the Central region of Slovenia represent 52% and 87%, respectively. In 1996, Slovenia (as a whole) reached 67% of the EU average GDP per capita in terms of purchasing power and is the most developed country among the candidates for accession to the EU. The disparities between the regions in Slovenia are smaller than in other candidate-countries.

In spite of the fact that the differences in levels of economic development are not as pressing as for example in other candidate-countries, regional differences do exist and are important. Unfortunately, the regional development policy has been somewhat neglected since Slovenia's independence. Owing to the new role that the newly formed state assumed and the transition to a market and social-economic system, regional development was put on the back burner as reflected in the centralisation of funds and decision-making at the state level and in the reduction of funds earmarked for the promotion of regional development. According to the 1998 estimates, the funds of the Ministry of Economic Relations and Development allocated exclusively for the promotion of regional development amounted to 0.05% of GDP. The funds of the Regional Development and Preservation of Slovenian Rural Population Fund reached 0.06% of GDP and were thus more than halved compared to 1991, when around 0.25% of GDP was spent for regional development promotion.

It is absolutely necessary to redefine the regional development policy. The White Paper on the Regional Development of Slovenia pointed out two basic regional problems in Slovenia: unfavourable demographic conditions and a high unemployment rate. The most unfavourable demographic conditions were observed in the regions of Pomurje, Posavje, Karst and Goriška, whilst the unemployment problem is most acute in the regions of Pomurje, Podravje and Zasavje.

The need to redefine regional policy is also appearing as a result of Slovenia's integration into the EU. Accession will impact on various regions differently, depending on their economic structure. Those regions which succeed in exploiting their development potential and their own comparative advantages may expect positive effects. On the other hand, analyses so far have shown that the regions lagging behind in development will be those most exposed to market forces also when they find themselves in the large single European market. Owing to its smallness, Slovenia as a whole expects to get the status of a less-developed area but, on the other hand, it may not succeed in this attempt. If several candidate countries enter the EU at the same time, it may happen that Slovenia as a whole (as a NUTS-2 region) exceeds 75% of the EU member-states' average measured by the criterion of GDP per capita in terms of purchasing power – which represents the threshold value in acquiring the objective 1 status – in which case getting the objective 2 status (NUTS-3 regions) would become relevant, however this status is substantially less favourable.

In the future, one of the preconditions for the regional policy will be its redefinition and training of the administration necessary for absorption of assets available from structural funds. The first steps in this direction have already been taken. The White Paper on Regional Development has been completed, representing the technical basis for drafting the Strategy of Regional Development of Slovenia. The latter, being a strategic document, should lay the foundations for regional and structural policies. The draft act on development promotion in demographically endangered areas is in its second reading in the Parliament, laying out the organisation of balanced regional development, regional structural policy, distribution of development incentives, and criteria for defining areas with specific development problems.

6. MAIN ORIENTATIONS OF THE ECONOMIC POLICY IN 1999-2001

6.1. FISCAL POLICY

In the 1992-1996 period, balanced public finance played a positive role in stabilisation of the economy, since it did not put any additional pressures on interest and exchange rates through international borrowings. The equilibrium of general government finances was preserved up until 1997 when the revenue side was affected by contribution rates for social security half those in 1996 and a real drop in customs revenues not entirely compensated for by the new tax sources. General government expenditure increased because of higher expenditure on wages (growth in wages and employment in the public sector) and higher social transfers arising from the existing social security system.

6.1.1. PUBLIC FINANCE IN 1998 - Shrinking general government deficit

The modifications to the existing fiscal instruments influenced the volume and structure of general government revenues. In 1998, tax rates on sales of petroleum products were increased, two special sales taxes on cigarettes and beer were introduced and the tax rate on services in the first tariff group rose from 5% to 6.5%. The social security contributions rate did not change (remaining at 38%), but the amendment to the Social Security Contributions Act, enforced on 1 January 1998, imposed paying contributions also from other types of earned income. At the beginning of 1998, the tax on CO_2 emissions together with court and registration fees was increased.

The tax on the balance sheet totals of banks and savings banks and the special tax on the reconstruction of Posočje were introduced as new central budget revenue sources. Owing to the liberalisation of foreign trade, and as required by the Europe Agreement, the customs duties tariffs also decreased in 1998 (at the beginning of the year).

In 1998, **total general government revenues rose by 6% in real terms**, compared to 1997. Last year, general government revenues increased owing to revenues from sales taxes on goods and services, which in 1998 grew by 7.9% in real terms compared to 1997. Revenues from sales taxes paid in

January 1999 on sales realised in 1998 are included in this increase. In 1998, general government revenue growth was further boosted by a higher CO_2 emission tax, court and registration fees (by 119.7%, 11.5%, 46.2% in real terms, respectively). The tax on the balance sheet totals of banks and savings banks as a new source of the central budget yielded around SIT 4.3 billion to the state treasury. Last year, SIT 4.4 billion was levied from the special tax on the reconstruction of Posočje.

In 1998, revenues from personal income tax increased by a mere 1.9% in real terms, compared to the year before. Of all revenues within personal income tax, tax on wages and salaries, representing about 90% of the personal income tax total, rose by 1.5% in real terms. Revenues from tax on entrepreneurial profit, tax on capital gains, and tax on income from copyrights, patents and trademarks grew faster than total revenues from personal income tax. In 1998, revenues from social security contributions grew by 4.1% in real terms over 1997, i.e. faster than wages, which resulted from the fact that contributions were also imposed on other types of earned income. Owing to

Table 17: General government revenue and expenditure as a share of GDP1 in 1995-1998

	1995	1996	1997	1998
General govern. revenues	43.1	42.7	42.0	43.0
Gen. govern. expenditure	43.1	42.4	43.2	43.8
Surplus/deficit	0.0	0.3	-1.2	-0.8

Source: Ministry of Finance, April 1999. **Note**: [1]IMF methodology was used in consolidation (Government Finance Statistics)

the progressive taxation scale, revenues from payroll tax rose by 14.7% in real terms in 1998 over 1997. Similar to previous years, customs revenues in 1998 experienced a real-term decrease (by 25%).

In 1998, total general government expenditure grew by 5.2% in real terms. The state budget for 1998 was passed only in April, amounting to SIT 870 billion (together with granted loans and increased shareholdings). Central government expenditure in 1998 was actually lower by a solid SIT 13 billion. In spite of that, central government expenditure went up by 7.2% in real terms and reached 26.4% of GDP. Once again in 1998, transfers from the central budget to the pension fund accounted for a substantial share of central government expenditure (15.3%). In 1998, these transfers grew by 10.6% in real terms over 1997, thus reaching 4.1% of GDP. Central budget transfers to municipal budgets were also higher than those in 1997 (real growth of 4.4%). Growth of 6.4% in real terms was registered in central government expenditure (excluding transfers to other general government funds). Both a restrictive incomes policy in the state sector and the indexation of wages in 1998 (carried out no sooner than January 1999) substantially slowed down real growth in the central government's expenditure on wages, only increasing by 1.7% in real terms in 1998. The central government expenditure on social transfers also saw more moderate growth than in previous years. Material and service expenses, and other operational expenditure of the central government rose by 8.6% in real terms, while even higher growth was recorded in subsidies and other transfers to the corporate sector (by 12.9% in real terms), and government's capital expenditure (by 10.9% in real terms).

In 1998, **local government expenditures** increased by 6.4% in real terms, which is more than planned in the budget memorandum (anticipated real growth of 3.2%). In the framework of local government expenditure, municipalities' expenditure on payments for public institutions services (around 8% in real terms) increased the most. Rapid growth was also recorded in municipalities' expenditure on wages, material and service expenses (by 7.4% in real terms). Local government expenditure reached 4.9% of GDP, which is 0.1 of a structural point more than in 1997.

In 1998, **compulsory health insurance** expenditure increased by 4.8% in real terms, of which expenditure on public institutions experienced a real growth of 3.3%. They rose as a result of the higher wages for medical staff, who stuck to the requests made during the strike of doctors, but the fact that the volume of services stipulated by agreements for 1998 was not achieved had a reducing effect. Because more medical products were prescribed and since they became more expensive, expenditure on medicines nominally increased by as much as 21.3%. Sickness benefits dropped by 0.6% in real terms compared to 1997, as both the number of cases and the period of absences decreased. In 1998, 6.7% of GDP was earmarked for compulsory health insurance, which is 0.1 of a percentage point more than in 1997.

In 1998, expenditures on pension and disability insurance climbed by 3.2% in real terms. After the level was set at the beginning of the year, pensions and other cash benefits provided for by the law and other pension and disability insurance regulations were increased in line with the movements in the average gross wage per employee paid in Slovenia. In the middle of 1998, the method of adjusting pensions was changed, defining the threshold of growth in wages after which the adjustment is carried out. In 1998, the number of beneficiaries of cash benefits from pension and disability insurance augmented by slightly less than 1%. Expenditure arising from pension and disability insurance (excluding health insurance contributions for retired people) reached 13.3% of GDP, similar to 1997.

After the consolidation in accordance with the new methodology had been carried out, the total general government finance balance for 1998 showed that general government revenues and expenditures reached 43% and 43.8% of GDP, respectively. The general government deficit accounted for 0.8% of GDP, which is 0.3 of a percentage point less than in 1997.

6.1.2. PUBLIC FINANCE IN 1999 - Tax reform – the determining factor

In July 1999, the existing sales tax system was substituted by the system of value-added tax and excise duties. The Value Added Tax Act introduces two tax rates (standard 19% and reduced 8%). Since the value-added tax does not cover financial services, the Act on Insurance Services Tax was passed in July. The amendment to the Act on Special Tax on the Balance Sheet Totals of Banks and Savings Banks has brought about an increase in the rate of this tax from 2% to 3%. The Real Property Sales Tax Act and the Act on Tax on Lottery Gains and Gambling were also passed, substituting the existing sales taxes, since real property sales and gambling are not covered by the value-added tax system. Owing to the expected loss of revenues of the central budget during transition to VAT, the financing of the central budget in 1999 (pursuant to the provision of the Budget Implementation Act) will be extended as regards the collection of value-added tax that will be paid in January 2000 on sales made in 1999. The administrative fees act is also in the parliamentary procedure and, if adopted, administrative fees will be raised.

Taking into account the expected slower growth in wages, it is estimated that the growth in wage-related general government revenues will also slow down in 1999. Social security contributions are estimated to increase by 2.6% in real terms, with personal income tax rising by 2.8%. According to estimates, revenues from payroll tax are forecast to grow by 5.9% in real terms this year, provided that the amendment to the tax proposed already in 1998 is not passed in 1999. If the amendment stipulating a higher minimum limit of payroll taxation is passed already this year, the revenue from this tax will be slightly lower.

In 1999, further decreases in general government revenues from customs and import duties are anticipated. Because of signed trade agreements, revenues from customs and import duties are estimated to drop by an additional 14% in real terms.

In the value-added tax system it is impossible to foresee all relations between payments and obligations of taxpayers, which is why the **tax yield estimate is very uncertain.** It is based on model calculations (Bole, 1997) and expert estimates which can be confirmed (or denied) by the system itself only after it has been in operation for a few months. More reliable estimates will not be made before autumn. It is assessed that the inflows from sales tax and value-added tax will reach around 15.9% of GDP, together with the extended tax period up to January 1999 and inflows from excise duties. Assuming this, total general government revenues will increase by 4.9% in real terms this year and, following their consolidation in accordance with the new methodology, they will reach 43.5% of GDP, which is 0.5 of a percentage point more than in 1998.

The state budget for 1999 was **passed in December 1998** providing for expenditure (together with granted loans and increased shareholdings) in the amount of SIT 970 billion. The planned central government expenditures are 5.9% higher in real terms than in 1998, accounting for around 27% of GDP. Transfers from the central budget to the pension fund are predicted to grow by 4.9% in real terms on 1998, thereby representing 15.4% of total central government expenditure and reaching 4.2% of estimated GDP.

According to the adopted budget, it is foreseen that wages and contributions for state administration will grow by 6.9% in real terms, state administration's material and service expenses by around 12% in real terms, social transfers by 3.6%, subsidies by 8.8%, whilst planned expenditure on wages and material and service expenses of public institutions and other public service contractors are expected to remain at about the same level as in 1998 in real terms. Even higher real growth is anticipated in capital expenditure (14.1%) and investment transfers (18.7%).

After the state budget was adopted, the government assumed new obligations arising from the Family Benefits Act already at the beginning of the year. At the same time, the 1999 fiscal year is very specific also regarding the central government revenues, owing to the introduction of value-added tax. In view of new obligations relating to additional expenditure and uncertain estimates of revenues, it would be reasonable not only to reassess central government revenues and expenditures in autumn, when the first results of the new tax system become evident, but also to propose measures for maintaining the deficit within sustainable limits.

It is forecast that in 1999 local government expenditure will rise by around 5% in real terms. Its share in GDP is estimated to reach about 5% or 0.1 of a percentage point above the 1998 figure.

Pension and disability insurance expenditure (excluding health insurance contributions for retired people) will increase by 4.7% in real terms this year. Its share in GDP will be 13.4% (0.1 of a percentage point more than in 1998). The number of beneficiaries is estimated to grow by 1.1%, and pensions together with other payments arising from pension and disability insurance will be adjusted in line with rises in average wages in Slovenia, taking into account the threshold rise in the average wage after which adjustments may be carried out as stipulated by law. In May, an additional adjustment took place pursuant to Article 159 of the law setting the minimum ratio between the average old-age pension (calculated as if the retired person had a full pension contributions period) and the average wage. Pensioners' recreational grants will be raised as agreed and paid in two instalments.

In 1999, **compulsory health insurance** expenditure will climb by 1.5% in real terms. Approximately the same level of rights will be ensured as in 1998, but it is expected that the beneficiaries' access to health services will be slightly impeded. Already in 1998, many activities were undertaken in order to bridle compulsory health insurance expenditure, particularly with a view to controlling expenses for medicinal products, limiting sickness leave and rationalising the implementation of health programmes. Compulsory health insurance expenditure is forecast to represent around 6.5% of GDP, thus falling below the 1998 level by 0.2 of a percentage point.

According to estimates, consolidated total general government finance balance will show 5.2% real growth in total general government expenditures. Their share in GDP will be 44.5% or 0.7 of a percentage point more than in 1998. It is estimated that the general government **deficit** will stand at 1% of GDP, which is 0.2 of a percentage point above the 1998 level and 0.3 of a percentage point more than predicted in the Autumn Report.

6.1.3. PUBLIC FINANCE IN 2000 and 2001 - Without changes the situation will worsen

The general government revenues and expenditure **projections** for **2000 and 2001 indicate that** in the area of public finance **the situation will be aggravated**. It is expected that the estimated tax capacity, given a moderate general government deficit, will not cover for total general government expenditure, arising from the government's existing legal obligations and all other already agreed planned programmes[17].

It is estimated that, should the fiscal policy instruments remain unchanged, the rise in general government revenues would lag behind the gross domestic product growth over the next two years. Their share is expected to fall from 43.5% this year to approximately 42% in 2000 or even 41.6% in 2001.

Therefore, in 2000 certain **measures** will have to be **taken that are favourable for increasing tax capacity.** The main problem is the value-added tax yield, which represents an important share in general government revenues. At the present standard 19% and reduced 8% VAT rates, it will be impossible to abolish payroll tax in 2000. If the first results following the introduction of VAT are below expectations, investigation of possibilities and accurate analyses will have to be carried out on how to enhance fiscal revenue.

Social security contributions, which will follow wage movements, will not be sufficient to fully finance obligations arising from pension and disability insurance and compulsory health insurance over the next two years. Consequently, pressures for providing additional finance to cover the shortage of funds for pension and disability insurance on central budget transfers will remain strong. Already this year, pressures to raise compulsory health insurance contributions rates have been notable. In 2000, revenues arising from duty tariffs will continue to decrease.

As regards taxes, it would be necessary to examine whether tax relief and exemptions, which have so far been numerous, are justified, and to ensure that taxes and contributions are more consistently collected. At the same time, the inflow from the management of the state's financial assets would have to increase.

Preventing **the growth in general government expenditure exceeding the increase in gross domestic product** (i.e. general government expenditure not increasing in relation to gross domestic product) should be one of the goals of economic policy in the next two years.
The central budget will provide funds for performing the state's legal obligations, which will have to be restructured in accordance with the reforms projected for the public sector. Real growth in expenditure on subsidies, capital expenditure and investment transfers should be lower or even negative in real terms over the next two years, and in line with clearly defined

government priorities, with projected and already introduced reforms and the state aid programme.

In pension and disability insurance, a new draft law on pension and disability insurance is in its final stage. Its implementation, planned for the beginning of the following year, is expected to gradually slow down the rate of expenditure. The effect on pension and disability insurance expenditure in 2000 is not forecast to be significant. It will become stronger only in 2001 as a result of the full effects of the changed valorisation of pensions and other benefits as well as the system of reducing accrual rates due to accrual base adjustments. Over the following two years, the number of pension and disability insurance beneficiaries will rise by a solid one percent annually.

The goal of compulsory health insurance system should be maintaining the currently guaranteed level of public health protection in the future. If the same rights are provided, and austerity measures are introduced, dictated by limited funds, it will be possible to maintain the equal accessibility to medical services only by expanding voluntary health insurance and increasing direct payments. The shares of both will rise in the future.

The described public finance trends provide a framework within which the fiscal policy will have to come up with a suitable combination of measures for increasing revenues and reducing general government expenditures in all areas and, if necessary, supplement them as the fiscal effects of value-added tax become known. In preparing the budget for 2000 and 2001, moderate general government deficit should be set as a clear goal: in the following two years it should not exceed this year's figure and it should stabilise at approximately 0.5% of gross domestic product.

6.2. MONETARY POLICY - The M3 monetary aggregate remains the intermediate monetary policy goal

The primary focus of monetary policy was and will remain further **gradual curbing of inflation and ensuring the stability of domestic currency**.

[17] The macrofiscal scenario which the Ministry of Finance prepared by applying financial programming method taking into account most of the assumed trends in the macroeconomic indicators, as presented in the Spring Report, shows that in 2000 the budget deficit will grow dramatically compared to 1999, unless appropriate measures are taken to increase budgetary revenues and cut budgetary expenditure.

In the system of the managed floating exchange rate, the Bank of Slovenia intervenes on the foreign exchange market within the framework of the possibilities permitted by the situation in the money market.

The intermediate **monetary policy goal was reached in 1998.** The M3 monetary aggregate rose by 20.2%, which is at the lower end of the target range. The goal for 1998 was to keep the M3 monetary aggregate fluctuations between 18% and 26%. Last year, because the government deposited more foreign exchange with the Bank of Slovenia, the amount of M3 issued was SIT 49.3 billion owing to the increase in net foreign assets, SIT 3.7 billion less than in 1997. Monetisation from foreign exchange transactions amounted to SIT 45.8 billion, of which SIT 40.2 billion was through exchange offices and the foreign exchange market. Issuing of money through domestic investments amounted to SIT 246.1 billion, with corporate lending accounting for SIT 159.9 billion, household lending for SIT 58.8 billion, and lending to the state for SIT 27.4 billion. The growth of the aggregate (M1-M2), which mainly includes tolar deposits other than M1, contributed most to the total growth of the M3 monetary aggregate. In the last quarter of 1998, the M1-M2 aggregate was 26.8% higher than in the same period of 1997. Tolar time deposits over one year increased by as much as 40.9%. Sight deposits with the Bank of Slovenia as well as in other banks also rose considerably (by 24%) and households' foreign exchange deposits in banks grew by 6.1%.

The Bank of Slovenia has been using the M3 broad monetary aggregate since 1997 as an explicit monetary policy goal. This year, the Bank of Slovenia is pursuing the same policy since the basic policy orientation is dictated by its intermediate goal, whereas for making current decisions the Bank of Slovenia follows other important indicators of the money market and continues to assess the demand for money (M1 and base money). The intermediate monetary policy goal of the Bank of Slovenia for 1999 is the growth of the M3 monetary aggregate ranging from 16% to 24% annually. When setting this goal, the Bank of Slovenia proceeded from the assumptions that in 1999 Slovenia would achieve 3.5% to 4% economic growth, that the general government deficit would not exceed 0.7% of GDP, and that the volume of net financial inflows would not rise considerably in spite of the financial flows restrictions being relaxed. In the first quarter of the year, the M3 monetary aggregate was within the set limits –having grown on average by 20% over the same period of 1998.

As the Europe Agreement between Slovenia and the EU took effect (1 February, 1999), the Bank of Slovenia lifted restrictions as regards international credit operations as well as direct and portfolio foreign investments. Owing to changes in the field of credit operations, banks: (i) are allowed to borrow short-term funds abroad, (ii) are no longer required to balance net increase in international liabilities against their international claims, and (iii) are no longer required to make tolar deposits against loans raised abroad. Changes in the field of direct and portfolio foreign investments are as follows: (i) the criterion according to which purchases of shares have the nature of direct investment was lowered to 10% of capital or voting rights (previously 50%); (ii) a direct investment is also considered to be an investment by a foreign person in securities for a period of over 4 years (previously 7 years), with the foreign person waiving the right to disposal during this period; (iii) for portfolio investments in securities foreign persons must have custody accounts with authorised banks. These banks must purchase the rights to buy foreign exchange to the amount of the funds kept in the custody accounts at a premium which stood at 2.5% in the first quarter of 1999. According to the previous regulations, fees charged on custody accounts were significantly higher.

At the beginning of the year, the Bank of Slovenia reduced the annual discount interest rate from 10% to 8%, thus lowering not only the annual interest rate on lombard loans from 11% to 9% but also the general legal penal rate.

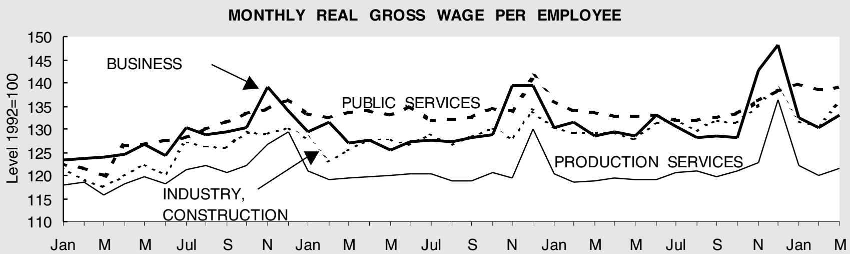
In February 1999, the new **Banking Act** was enforced. It has been harmonised with the European banking directives and basic principles of effective banking supervision, which were adopted by the Basle Committee of International Banking Supervisors in 1997. The Act regulates the establishment and status of banks and savings banks, their operation and supervision, deposit guarantee scheme, bank bankruptcy and liquidation. As the Banking Act was passed, banks have entered into a period of adjustment to new operating conditions. It is expected that the gradual opening up of the banking system to foreign banks, as introduced by the Act, will help streamline the business of existing banks and increase competitiveness in the banking market.

6.3. INCOMES POLICY - Moderate wage growth since 1997 and a new agreement of the social partners on incomes policy for the 1999-2001 period

The social partners as wages policy-makers are fully aware that a lag in the growth of wages behind that of labour productivity contributes to the Slovenian economy's greater competitiveness . Thus, moderate wage growth, one of the orientations of the incomes policy in the EU, also remains the main objective of the incomes policy pursued by Slovenia.

In 1998, wages were regulated by the Minimum Wage and Wage Adjustment Mechanism Act and by the existing collective agreements. The Act stipulated the adjustment of base wages by 85% of the annual price rises once a year (in January 1999) and, in the event of prices rising more quickly than projected, an earlier adjustment should be made. There was no early adjustment in 1998, as prices grew as projected, which is why wages were adjusted only in January 1999. This was the first time so far that wages have been adjusted only once a year.

Given the somewhat slower growth in prices, **wage movements in the private sector depended** mainly **on the number of working days per month**. The more rapid wage growth in the last few months of 1998 was mainly the result of **payments based on business results.** In September 1998, the real average gross wage per employee in the private sector was still about 4% below that in December 1997, but then it rose by 9% by the end of 1998. 1997 saw similar trends, but they were slightly less pronounced (a real drop of 4% until September followed by a 6% increase until the end of the year). In December 1998, the real gross wage per employee in the private sector was about 4.6% up on the year before; the annual average in 1998 went up by about 2.2% over 1997.



Source of data: SORS, calculations IMAD. Note: index of real gross wage per employee (1992=100), deflated by consumer price index (December 1998=100).

In the public sector, the rise in the gross wage per employee depends on the adjustment mechanism stipulated by the Minimum Wage and Wage Adjustment Mechanism Act and partly on the rules on promotion based on the Act on Wage Ratios in Public Institutions, Government Bodies and Local Community Bodies (a significant number of promotions will occur in March

2000). Due to the rigidity of the base wage in the public sector, which is totally independent of general economic growth, the wage system in the public sector is facing many problems. This leads to a constant demand for higher wages, as requests for wage supplements in branch collective agreements. In December 1998, the gross wage per employee in public services (include a little more than the public sector) declined by 2.3% in real terms compared to December 1997. Only in health care services, where wage supplements were introduced according to the respective branch collective agreement at the end of the year, did the gross wage per employee rise by about 1%. In other services, the majority of which are profit making and not financed from general government funds, it went up by around 4%. **The average gross wage per employee in public services in 1998 maintained the level in real terms of 1997.** Those employed in the public services represent a solid one-quarter of all employees. **Zero real growth in their wages contributed to the very moderate overall growth in the gross wage per employee in 1998.**

The Slovenian gross wage per employee in 1998 compared to 1997 went up by 9.6% in nominal terms or 1.6% in real terms, thus lagging behind labour productivity by more than 2 percentage points.

The 1997 Minimum Wage and Wage Adjustment Mechanism Act regulated wages in 1999 until the Act on the Minimum Wage, Wage Adjustment Mechanism and Holiday Allowance for the 1999-2001 Period was adopted in May 1999. The new Act preserves the wage adjustment mechanism pursuant to the previous act. This adjustment mechanism was partly adjusted only for 1999, due to the introduction of VAT. The adjustment this year is planned to take place in August's wages being indexed by 85% of the average inflation in the first half of the year. This is to ease the negative effect of VAT on consumers' purchasing power. Moreover, extra wage supplements are envisaged for wages below the Slovenian average as a measure geared at protecting social security. In January 2000, wages will again be adjusted by price rises occurring since their last adjustment in August. However, this will be done by applying an agreed method excluding any price growth triggered by the introduction of VAT. Early adjustment, functioning as a »safety valve« is also planned for 1999 (in the event prices grow by more than 6.8%). If prices go up by more than 6.8% excluding price growth triggered by VAT, the established difference in the price growth will be fully accounted for (100%) at the next regular wage adjustment planned for January 2000. For the year 2000, only one wage adjustment is planned, namely, in January 2001. Naturally, there is a »safety valve« in the event prices go up by more than 4%. Should they increase by more than 5% in the year 2000, then the total difference (100%) in price growth from 5% upwards will have to be taken into account when adjusting wages during the regular January wage adjustment (2001).

The 1999 movements of the gross wage per employee have stayed within the planned limits. In the first two months of the year, the gross wage per employee declined in nominal terms as a consequence of substantial seasonal wage rises at the end of 1998. The 2.5% March increase in wages, mainly in the private sector, resulted from a higher number of working days per month. Based on the projected wage movements shaped by an extraordinary adjustment, and taking into account the wage rise at the end of the year due to the performance related payments in the private sector, it is estimated that **the gross wage per employee** in the private sector and public services will **go up by around 2% in real terms,** thereby lagging behind the estimated 3% growth in labour productivity by about one percentage point. The gross wage per employee will increase at approximately the same rate in both the private sector and public services. The January adjustment in line with the 1998 inflation as well as the extraordinary mid-year adjustment will be reflected in the public sector, which is why this year there will be no real drop in wages in activities of this sector.

In the year 2000, relatively moderate wage growth is expected in the private sector; the trends largely depending on the number of working days per month during the year as well as on payments based on business results made at the end of the year. Wages per employee in the public sector will experience more pronounced growth. The stagnation of real wages in this sector in 1998 led to individual requests to increase wage supplements set in branch collective agreements. The first such requests were made in the health care sector, where the supplement increased at the end of 1998 and will do so again at the end of 1999. Education followed – supplements will be increased at the end of 1999 and in the first half of 2000. Similar increases might also be triggered in other activities of the public sector to maintain the parity between individual activities. Higher supplements will of course affect gross wage growth per employee in the public sector. The Annex to Collective Agreement for Non-Market Sector, covering those public sector activities financed from general government sources, stipulates that the base wage in these activities will go up by 1% in December 2000. It is thus estimated that gross wages per employee in the private sector will increase by about 2% in real terms, whereas those in the public services by some 4%. **The aggregate growth in gross wage per employee will thus be approximately 2.5% in real terms** compared to 1998. Since the anticipated growth of labour productivity is 3.4%, growth in the gross wage per employee will lag behind by about one percentage point.

In **2001**, wage movements will also calm down in the public sector, therefore the gross wage per employee in both sectors is expected to go up by **around 2.3%** in real terms and will lag behind labour productivity growth by more than one percentage point. In 2001, wage ratios between individual activities of the public sector will be roughly adjusted, which would be an appropriate time for introducing a suitable wage system. First and foremost, it would be necessary to include in wages the entire complex system of wage supplements, introduced in response to the gap between base wages in the state sector and average wage growth, in order to find out what actual ratios are. The performance-related pay system should be somewhat upgraded together with the regular promotion system. Supplements, actually resulting from the specific nature of activities, should continue to be regulated by branch collective agreements. When negotiating changes to collective agreements, the government, having assumed the role of employer, must act harmoniously and as one, at the same time considering the existing budgetary restrictions. A single wage system should include all budget-financed activities, this being the only way to control that part of general government expenditure concerning wages.

According to the Minimum Wage and Wage Adjustment Mechanism Act, the **minimum wage** was adjusted in the same way as other wages, with an additional once-a-year adjustment to the estimated real growth of GDP. The Minimum Wage, Wage Adjustment Mechanism and Holiday Allowance Act for the 1999-2001 Period, adopted in May 1999, limited this once-a-year adjustment to increases in the gross domestic product to be applied only till the minimum wage reaches up to 58% of the average gross wage per employee as defined in collective agreements. In case this level is exceeded, the once-a-year adjustment to GDP growth will not be carried out until it is established that the minimum wage has dropped under the determined level. The purpose of limiting further adjustments to GDP growth is a result of the fear that too high a minimum wage could have an excessive influence on the ratios within the lower tariff brackets and thereby on the internal remuneration policies of companies, or that such a minimum wage may have negative effects on employment itself.

The slow real growth in **work-related allowances, other remuneration, and payments based on work contracts and service agreements** characteristic of recent years started even falling in nominal terms in 1998.

The above mentioned incomes started to decrease, compared to the total wage bill. Although their share dropped only by a good percentage point (from 44% to slightly less than 43%), this is a considerable achievement – especially as this tendency is continuing at the same rate in 1999. In 1998, two laws were adopted: the Act Amending and Supplementing the Social Security Contributions Act (which imposed the paying of contributions also from other types of work-related payments) and the Act on Work-related Allowances and Other Types of Remuneration, reducing previously higher payments of this type in the public sector to the private sector level. These two acts have largely contributed to the substantially different dynamism of such payments. Nevertheless, it would be difficult to estimate how much this has contributed to a reduction in labour costs, but it has in any event made the structure of such expenses more transparent.

6.4. LABOUR MARKET POLICY - Aimed at following EU's guidelines

The persistent high unemployment rate in Europe in the nineties has pushed high employment as an explicit objective of EU. With the Amsterdam Treaty, promoting employment has become a matter of common concern and co-ordination. The objective – a high employment rate – is to be taken into consideration in the formulation and implementation of Community policies and activities. In 1997, the first common guidelines for member-states' employment policies were drafted, determining four major »pillars« of the policy: I. Promoting employability of the population, II. Promotion entrepreneurship, III. Promotion and stimulation of the adaptability in bussiness and their employees, IV. Equal opportunities between men and women.

An integral approach to solving the unemployment problem is based not only on traditional active employment programmes, but also considers the employment policy to be a policy mix intended to increase labour market flexibility, offer fiscal incentives, promote entrepreneurship, improve the qualification of the labour force along with better formal education and measures making employment equally accessible to different social groups.

However, an increase in traditional active labour market measures (more active employment programmes, including public works programmes) alone will not be sufficient to ensure growth in the employment rate and a drop in unemployment figures in Slovenia. This objective will only be realised if we manage to create an environment giving incentives for the establishment and development of new small and medium-sized companies and for the growth of existing ones, quicker corporate investment growth (domestic and foreign direct investment), faster technological development and increased investments in human resources. With such an approach, the problem of unemployment and employment policy are no longer completely within the domain of the Ministry of Labour, Family and Social Affairs. Moreover, the government has to consider them in formulation and implementation of other measures and activities. At the same time, the government will no longer be the only one responsible for solving the problem of unemployment, but this will become the responsibility of all social partners at both national and regional levels.

Although **in terms of international comparisons the unemployment rate in Slovenia is lower than in the EU,** unemployment remains a relatively serious economic and social problem in Slovenia. In 1998, the Ministry of Labour, Family and Social Affairs started preparing the Labour Market Survey and Long-term Labour Market Development Strategy up to 2006. Furthermore, the National Action Employment Programme for 2000 and 2001 is also under way, addressing the problem of unemployment not only by means of traditional active employment policies, but tries to introduce a more integral approach to solving unemployment in Slovenia that would **follow guidelines for member-states' employment policies,** as already attempted by the **Active Employment Policy Measures Programme for 1999.** This Programme includes measures for increasing the employability of the population (preparing the unemployed for taking up new jobs, public works schemes etc.), measures for the promotion of entrepreneurship (assistance in self-employment and co-financing of local projects), measures aimed at improving the adaptability of individuals and companies (re-training of the employed, incentives for creating new jobs, government aid projects for revitalising companies etc.) as well as measures geared towards equalising employment opportunities (for women, disabled, the Roma, and those experiencing difficulty in finding employment). More than 114,000 people are to be included in all of these programmes.

Some changes to the labour market policy were introduced already in 1998 when amendments to the Employment and Insurance against Unemployment Act were adopted, redefining the status of the unemployed and the obligations of registered unemployed persons, changing the criteria for those eligible for unemployment benefits as well as the periods during which certain categories of unemployed are eligible for such benefits. A more active approach to seeking employment (making an employment plan for each unemployed person) is expected to reduce the practice of people staying unemployed until they are no longer eligible for the unemployment benefit. Since pursuant to the new Act those involved in public works programmes are no longer considered unemployed, but are granted the status of employed, in the first months of 1999 the employment rate has been increasing and the unemployment rate has been falling accordingly.

7. PROJECTIONS OF MAIN MACROECONOMIC CATEGORIES UP TO THE YEAR 2003

7.1. ASSUMPTIONS

Following its successful transition from a regional to a national economy at the beginning of the 1990s, Slovenia has taken the path of catching up with other developed market economies. The 1987 level of gross domestic product, when economic growth began to decline, was again achieved in 1998. Owing to the economic and political "collapse" of the former Yugoslavia, Slovenia lost around 20% of GDP level by 1993, only to gradually recover it later on in the transformation period. Many structural changes took place in the Slovenian economy during that period, basic macroeconomic stabilisation was achieved and the main elements of the social-market economy were carried into effect. Economic development largely depended on the economic trends in the important trading partners. International developments were principally characterised by the EU's readiness to co-operate at the economic level, its integration efforts, and the instability and continuation of military conflicts in the countries of the former Yugoslavia. The economic and political environment in Europe should continue to play a decisive role in the future. The enlargement of the EU is a new opportunity as well as a new development challenge for all candidate-countries for accession to the EU, especially for those already in the process of accession negotiations. They are already being given political and financial support and are being pressured to harmonise their legislation with the *acquis* in force within the single European market in the shortest time possible. Slovenia is also receiving assistance for adoption of the *acquis* within the framework of Accession Partnership. The transition to the new economic system has yet to be completed as well as the restructuring of the corporate sector and macroeconomic stabilisation. This process cannot be carried out without accompanying costs, however, they would have to have been fully shouldered by the Slovenian economy alone if any other choices had been made. The EU has established three financial programmes to assist those countries preparing for membership (SAPARD, ISPA and the new PHARE), all of which will become operational in the year 2000. They will support the development efforts of the candidate-countries until they become full members. What is even more valuable than the financial assistance itself is economic and cultural connections and Slovenia's participation in joint development programmes.

Slovenia's development strategy for the period prior to accession is very clear. The ways and tasks necessary for achieving the set goals are described in detail in the National Programme for Adoption of the *Acquis* by the Year 2002, whereas the economic policy of the Slovenian Government is defined in the Joint Assessment of Medium-term Economic Policy Priorities of Slovenia (EC; 1998a). Moreover, the new Strategy of Economic Development of Slovenia (SEDS II), which Slovenia is expected to pursue when it becomes a full member of the EU, is already under way. In its draft stage, SEDS II has laid down two development scenarios. The scenario which foresees the joining of social forces for the successful breakthrough of Slovenia's development to a higher level of excellence and international competitiveness would make accession to the EU possible by the year 2003. With such a developmental concept, Slovenia would take up the path of catching up with the most developed European countries. On the other hand, the alternative development scenario is to prolong the present state of slow and uncertain movements towards creating a modern market economy. Although macroeconomic indicators are bad (moderate economic growth, continuation of the slow downward trend in the inflation rate and stagnation of the unemployment rate), technological modernisation as well as new developmental impetus at the micro level would continue to be hampered by obstacles arising from the slow and insufficient restructuring of the public sector and state administration. Such a development would be in line with Slovenia's postponed accession to the EU towards the end of the decade. Which of the two summarised scenarios will actually be carried out also depends on the EU's readiness to enlarge. Without a consensus of EU member-states on further deepening of the single market and implementation of the necessary reforms, a quick enlargement of the EU will not be possible.

This report sums up the premises for realisation of the more favourable scenario, i.e. the one which assumes the economic policy at the turn of the millennium will be able to carry out the tasks set out in the adopted strategic documents, despite the election year. This year's budget discussion will be especially critical, as it is expected that central government expenditure will be restructured in favour of developmental tasks. Slovenia is to submit its three-year Preliminary National Plan 2000-2002 to the European Commission by the end of October 1999, where long-term development priorities will be set, and the budget discussion should put these priorities into practice.

Increased complexity of passing the budget for the year 2000 is not likely to contribute to any easier overcoming of problems faced by the economic policy in achieving and co-ordinating key macroeconomic goals (lower inflation rate, rapid economic growth and a higher employment rate). It is still unknown how the newly introduced VAT will actually affect the fiscal and pricing policies. In order to end this long period of economic growth without increasing employment, a different approach will be needed to solve the problem of unemployment and to boost new employment. Economic growth will depend on international economic trends and the success of economic and political decisions. More attention and funding will have to be dedicated to stimulating those who are successful and to restructuring those who are losing competitiveness. Companies which are already having difficulties will thus get less assistance. This will require a lean, competent, and motivated state administration that is free of political influence. Furthermore, greater co-ordination in the activity of economic policy makers will also be required. The social partners have already supported such a concept by reaching a mutual agreement. Finally, it will be necessary to stimulate development potential locally and regionally, which remains largely unexploited. A new act on development promotion in demographically endangered areas will establish appropriate infrastructure, whereas the economic policy will have to focus more on solving the development problems where they arise – in the regions of Slovenia. Regional development partnerships, i.e. co-operation of all those involved in a certain development issue will play a crucial role here. Development interventionism of the state will thus become different and more in line with EU orientations.

In the following years, the structure of primary and final distribution of gross domestic product is expected to improve further. The percentage of wages and expenditure on state costs should be reduced, whereas that of national savings and retained earnings in companies earmarked for development should increase. This should ensure a sufficient level of national savings and contribute to preserving the general government finance and balance of payments equilibrium. Slovenia needs the EU's development assistance to finance transition costs as well as to stimulate domestic development incentives and financial resources (mainly in the private sector). It is, however, essential that long-term economic stability is firmly based on the competitiveness of the domestic economy, which must also include an adequate level of domestic savings. In 1998, the Slovenian economy as a whole managed to come out of the red, whereby one of the basic requirements needed to boost investment in manufacturing has been created. The state's role in investing could thus gradually diminish. If structural reforms are realised and the state assumes a partner role (acting to provide stimulus), both envisaged in existing strategic documents, investments and technological development of enterprises will create an environment for further labour productivity growth and more rapid economic growth in the following years.

7.2. ECONOMIC GROWTH AND INVESTMENT - Accelerated economic growth depends on efficient investment and progress in reforms

Slovenia needs quick and stable economic growth in order to complete its transition to a market economy and join the single European market. However, achieving dynamic economic growth will depend on the pace of domestic institutional changes, developments in international financial markets, future economic trends in Slovenia's important trading partners and re-establishment and upgrading of economic flows with the countries emerging from the former Yugoslavia. In the following years, private and government consumption will contribute somewhat less to economic growth. By limiting both types of consumption, incomes and fiscal policies will actively try to increase the economy's export competitiveness.

Table 18: Final domestic demand

1999 constant prices	Structure in %			Real growth rate in %	
	1999	2000	2003	2000	Average 2001-2003
Final consumption	76.2	76.1	75.0	3.6	4.1
- private consumption	55.5	55.4	54.7	3.6	4.2
- government consumption	20.7	20.7	20.3	3.6	4.0
Gross fixed capital formation	24.9	25.6	27.2	6.6	6.8

Source: IMAD target development scenario.

The dynamics of economic growth over the next few years will largely depend on the gross fixed capital formation structure. The state's presently prevailing role as a direct investor will have to diminish in the following years. At the same time, the state will have to support penetrating development projects of companies and regions which are in the nation's interest. Only in this way will economic growth be more directly connected to new business investments. In order for exports and production to grow, completely new product ranges and new products are needed. The possibilities of increasing production by expanding present capacities and product lines have practically been fully exploited. In a few years' time, gross fixed capital formation is expected to exceed the appropriate long-term level (about 25% of the gross domestic product) and, in order to ensure its further contribution to economic growth, it is necessary to increase its efficiency.

Concluding the process of privatisation of the former social property has brought about new owners, not all of whom are taking progress-oriented action. A negative development paradigm is still found in companies mainly owned by the Development Corporation of Slovenia. If Slovenia is to continue its development, it is urgently required to deal as quickly as possible with the negative burdens imposed by the inappropriate economic structure of the past.

Macroeconomic policy will have to provide an even more stable and investment-friendly economic environment. Lowering the inflation and interest rates to levels comparable to those in EU countries, maintaining the external balance by achieving a macroeconomically sustainable deficit in the current account of the balance of payments, keeping the internal general government balance, further internationalisation of the domestic economy and opening of the market to foreign competition and foreign investors should be the main orientations of the current economic policy. These combined with the realisation of structural reforms and progress in adopting the *acquis* could lead to an even better credit rating for Slovenia and a lower country risk. Some countries negotiating for accession to the EU have experienced that the proximity of full membership in the EU potentially has a positive effect on foreign direct investment inflows.

The industrial development pattern, based only on the expansion of existing production which can be sold on foreign markets, is also unsuitable from the environmental protection point of view. What is urgently needed is an active strategy of reducing the intensity of pollution (by technical modernisation, use of economic instruments for more efficient use of energy and raw materials, and by setting up purifying plants). The pricing of energy products, technological policy and tax policy adjustments can be major factors to this end. Slovenia ratified the Kyoto Agreement and pledged to lower the emission of its greenhouse gases to the agreed level. Realisation of the Kyoto Protocol provisions is one of the key issues in the development of the energy and transport sectors of Slovenia. At the same time, this is also a major economic and political issue because only by combining appropriate measures in different fields (prices, tax, foreign trade, etc.) will it be possible to realise the assumed obligations.

The target development scenario anticipates a moderate increase in economic growth from 4% to 5.5% in the 2001-2003 period. Those estimates have been prepared cautiously as Slovenia has already achieved a level of economic development which surpasses that of other countries in transition. In such circumstances, every percentage point of economic growth is a success, especially if the state faces the necessity for further stabilisation, restructuring of production and great changes to its institutional system. One of the obstacles in achieving greater economic growth is the urgently required acceleration of the rehabilitation programme in companies owned by the Development Corporation of Slovenia. On the other hand, this could of course spell a fall in production of those companies which significantly contribute to the production and exports volume. The targeted economic growth rates will ensure Slovenia catches up in its development with the advanced EU member-states.

7.3. PRODUCTION STRUCTURE OF GROSS DOMESTIC PRODUCT - Increase in the service sector combined with industrial production growth

The target scenario envisages a further increase in the share of services in the structure of value added which directly boosts growth in industrial production. The main factor contributing to this increase is above all the quicker development of market services. Agriculture is expected to adjust its production structure to natural conditions of production, i.e. increasing crop and animal production based on locally produced fodder (cattle, sheep, goat and pig farming). The state will encourage this policy by adjusting its agricultural policy instruments to European practices and by increasing its intervention in the prioritised areas of agriculture.

The share of industry and construction is expected to stabilise at 37% of total value added. Over the next few years, value added in manufacturing should rise at about 4%, accompanied by moderate improvements in the gas, electricity and water supply sector. Construction is expected to grow more quickly than the targeted gross domestic product growth. The proportion of the state or non-market services in the gross domestic product is anticipated to drop gradually, whereas the share of market services is to go up. Apart from tourism, transport, trade, and health and education services traded on the market, it is financial services, an area in which Slovenia considerably lags behind its developed neighbouring countries, which are expected to experience a full swing. The percentage of services in total value added is anticipated to exceed 61% by the year 2003.

Table 19: GDP and value added structure by sectors NACE - Rev.1

	Structure in %				
	1999	2000	2001	2002	2003
	1999 constant prices				
1. Value added	85.5	85.5	85.4	85.3	85.1
Value added	100.0	100.0	100.0	100.0	100.0
- Agriculture, fisheries (A+B)	4.4	4.4	4.3	4.1	4.0
- Industry and construction (C+D+E+F)	37.1	37.0	36.9	36.6	36.2
- Services (G...O)	60.7	60.9	61.0	61.4	61.9
- Input banking services	-2.3	-2.2	-2.2	-2.1	-2.0
2. Net tax on products and services	14.5	14.5	14.6	14.7	14.9
3. Gross domestic product (3=1+2)	100.0	100.0	100.0	100.0	100.0

Source: IMAD target development scenario

7.4. DEMOGRAPHIC TRENDS, EMPLOYMENT AND UNEMPLOYMENT

Owing to the low birth rate, which we are also witnessing in the late 1990s, and low immigration, the population of Slovenia will remain stagnant in the following years. The population is ageing: the percentage of children is falling, whilst the percentage of the population aged over 65 is rising. The size of the working age population (from 15 to 64) will continue to grow slowly until 2003, after which it will start declining. It can be expected that the present low labour force participation, resulting from excessive labour market outflows in the past owing to retirement and increased enrolment in universities will, as has been seen in the past two years, slowly rise in the next few years. Thus, it is estimated that supply in the labour market will grow accordingly. In the following years, an increased inflow of graduates can be expected, whilst the inflow of younger workers with incomplete secondary school or vocational qualifications is falling. The current age structure of persons in employment does not show any significant growth in the number of new retirees per annum, the number of pensioners is therefore expected to slowly rise during this period. The percentage of persons in employment in relation to the total population is expected to grow in the following years.

To a great extent, further developments in employment and unemployment will depend on the success of economic policy as regards promoting economic growth, investment in knowledge and increasing efficiency in production. Demographic trends and the necessary growth in labour productivity will not result in a rapid decline in unemployment. The projected increase in employment can only be achieved by implementing an active incomes policy, ensuring that wage increases do not exceed labour productivity growth, and

Table 20: Labour force, employment and unemployment in Slovenia (in '000)

	1999	2000	Average 2001-2003
Total population	1979.2	1979.2	1977.3
- population aged 15-64	1385.5	1386.5	1387.6
Labour force	872.3	876.4	888.5
- population aged 15-64, in %	63.0	63.2	64.0
Employment	749.3	754.9	773.6
- annual changes, in %	0.6	0.7	1.0
Registered unemployed	122.9	121.5	115.0
Unemployed job-seekers (according to ILO methodology) - rate in %	8.0	8.0	7.5

Source: IMAD assessments and target development scenario.

by enforcing a well conceived and directed employment policy. A new integral approach to resolving the problem of unemployment, which Slovenia will attempt to introduce in the next few years after the EU model, is not based on traditional active employment programmes alone, but involves employment policy being a web of measures which also extend to the field of regulations governing the establishment of companies, encouraging continuing education and improving the education level, along with measures covering the flexibility of doing business and recruitments.

7.5. INTERNATIONAL ECONOMIC RELATIONS - Increase in balance of payments deficit with real goods and services flows rising

The target development scenario anticipates average growth in exports of around 7% in real terms during the 2001-2003 period, resulting from the manufacturing sector's improved international competitiveness. In the long run, the domestic market is much too small to provide sufficient domestic demand. In addition, domestic demand is expected to be limited by the anticipated incomes policy, which will guarantee that labour costs grow more slowly than labour productivity. Slightly faster growth in imports is anticipated to cover the import requirements of domestic production (imports of intermediate goods) and growing investment (imports of equipment and technology).

A real increase in the volume of exports can only be achieved (also because of environmental restrictions) by raising the share of value added per unit of exported goods. Strengthened investment activity combined with a better supply of high-quality imported materials is expected to lead to the production of new products that will be more competitive on international markets. Only an extensive (quantitative) increase in exports within the framework of

Table 21: Current account of balance of payments

	in USD million			as a % of GDP			real growth rate in %	
	1999	2000	2003	1999	2000	2003	2000	average 2001-2003
Exports of goods and services	11,340	11,850	14,410	55.9	56.3	59.7	4.5	6.7
- exports of goods	9,290	9,755	11,530	45.8	46.3	47.8	5.0	6.9
- exports of services	2,050	2,095	2,880	10.1	10.0	11.9	2.0	6.2
Imports of goods and services	11,750	12,320	15,070	57.9	58.5	62.4	4.9	7.0
- imports of goods	10,190	10,730	12,960	50.2	51.0	53.7	5.3	7.1
- imports of services	1,560	1,590	2,110	7.7	7.6	8.7	2.6	6.7
External balance of goods and services	-410	-470	-660	-2.0	-2.2	-2.7		
- goods	-900	-975	-1,430	-4.4	-4.6	-5.9		
- services	490	505	770	2.4	2.4	3.2		
Current account balance	-145	-190	-360	-0.7	-0.9	-1.5		

Source: Target development scenario. **Note**: Current prices and current USD exchange rate in 1999; 1999 prices and USD exchange rate in 2000 and 2003.

the existing product ranges is subject to restrictions of space and environmental protection measures, as well as to limitations arising from demand – a development orientation unsuitable for Slovenia.

More accelerated growth in the domestic services sector in the 2001-2003 period is expected to be reflected in increased international trade in services, which is likely to grow rapidly in both imports and exports. A slight surplus is again anticipated in trade in services. The foreign trade deficit is estimated to increase gradually, reaching approximately USD 1.2 billion by 2002. The surplus in services trade, unrequited transfers and trading in factor services is unlikely to cover the entire deficit. The deficit in the current account of the balance of payments, though increasing, is expected to stay within sustainable limits (approximately 1.5% of GDP). The net inflow of foreign accumulation will increase disposable domestic investment funds and facilitate and accelerate restructuring. It would be advantageous if financing came through direct capital flows as much as possible, thus guaranteeing that the inflows would be predominantly used for development.

The target development scenario envisages a greater regional spread of goods trade by 2003. The share of exports to the EU member-states is expected to fall (although exports to the EU market should increase in real terms) because of increased exports to other countries, especially CEFTA and those of the former Yugoslavia.

The gradual liberalisation of capital flows will increase Slovenia's participation in international capital flows. The target development scenario anticipates the augmentation of capital outflows from the private sector (e.g. establishing companies abroad or crediting purchases of Slovenian exports). In addition to international loans for infrastructure and greater assistance from the European Union through the PHARE, ISPA and SAPARD programmes, inflows are also expected to rise owing to increased foreign direct investment. The latter would be assisted primarily by completion of privatisation and restructuring, the consolidation of the legal order, further macroeconomic stabilisation, a favourable credit rating for Slovenia, lower country risk, and associate membership in the European Union. Successful implementation of the programme for the promotion of foreign direct investment in Slovenia should increase the inflow of foreign capital through foreign direct investment over the next few years.

7.6. INCOMES AND FISCAL POLICIES - Key goals remain moderate wage growth and roughly balanced public finance

The target development scenario anticipates that the incomes policy for 1999 and 2000 will be able to maintain the positive trend from 1997 and 1998, when the average gross wage per employee grew more slowly than labour productivity. The social partners' agreement on wages policy in the 1999-2001 period is expected to ensure that wages increase at a moderate rate. The key orientation of the incomes policy should remain within the same lines also in the period after 2001. Such a policy involves a conscious choice in favour of slower growth in purchasing power of wages. Nevertheless, this is urgent in order to improve competitiveness, thus assuring survival in the environment of increasing globalisation and relatively slow growth in unit labour costs in developed countries.

Wages in the corporate sector are defined by collective agreements as negotiated between employers and employees. Through the process of ownership concentration, the role of owners in defining the level of wages will increase. In the sectors of public administration, education, health care and social security, growth in the gross wage per employee and employment policy will have to consider public finance capacities.

Over the next few years, the pension system reform will alleviate the pressure to increase general government expenditure on pensions or at least maintain it at the present level. If voluntary pension saving expands, it can be expected that the pension reform would have a positive impact on saving.

Thrift in spending public finance resources and restructuring of general government expenditure will also be dictated by the new tasks arising from Slovenia's integration into the EU. New expenditure relating to the implementation of structural reforms and harmonisation with rules and regulations effective in the EU will have to be included in the budget without further burdening the corporate sector or increasing general government expenditure (in relation to gross domestic product). The general government deficit will have to be maintained within sustainable limits, i.e. a more or less balanced general government account will have to be re-established.

7.7. INFLATION - Primary goal: a further fall approaching EU levels

While Slovenia meets the fiscal criteria for integration into the European Monetary System, it does not fulfil the monetary criteria (average annual inflation and interest rate levels). Fulfilment of these criteria is important because of internal stability of the economy. Further curbing of inflation to a rate comparable to EU levels therefore remains one of the key goals of economic policy.

The success of further inflation cuts does not depend on monetary policy alone, which played a key role in reducing inflation in the 1992-1996 period, but also on successful incomes and controlled prices policies, further liberalisation, deregulation, opening of the market, encouraging competition, trends in import prices (especially of crucial strategic raw materials) and foreign exchange fluctuations. Given the successful and balanced effect of all economic policy components, which directly or indirectly influence price movements, it is estimated that average annual inflation rate could fall to between 3% and 4% by 2003.

Table 22: Main Macroeconomic Indicators

Real Growth Rates in %

1999 constant prices and exchange rate	1999	2000	2001-2003 Average
GDP	3.5	3 $^{3}/_{4}$	4.7
Employment	0.3	0.4	1.0
Unemployment rate (ILO)	8.0	8.0	7.5
Productivity	3.2	3.4	3.7
Gross wage per employee	2.0	2.5	2.3
Exports of goods and services	3.4	4.5	6.7
- as % of GDP	55.9	56.3	
Imports of goods and service	4.7	4.9	7.0
- as % of GDP	57.9	58.5	
Current account balance in USD million	-145.0	-190.0	
Final consumption (private and government)	3.3	3.6	4.1
- as % of GDP	76.2	76.1	
Gross fixed capital formation	8.0	6.6	6.8
- as % of GDP	24.9	25.6	

Source: IMAD target development scenario.

Table 23: Target development scenario for the main categories of national accounts system

	Current prices	1999 constant prices and exchange rate				GDP structure in %			
	1999	2000	2001	2002	2003	2000	2001	2002	2003
1 GROSS DOMESTIC PRODUCT	3,592,000	3,726,701	3,875,769	4,050,178	4,272,938	100.0	100.0	100.0	100.0
2 Primary income (revenues)	84,075	87,615	91,155	91,155	92,040	2.4	2.4	2.3	2.2
3 Primary income (expenditure)	57,525	58,410	60,180	61,065	61,065	1.6	1.6	1.5	.1.4
4 GROSS NATIONAL INCOME (4=1+2-3)	3,618,550	3,755,906	3,906,744	4,080,268	4,303,913	100.8	100.8	100.7	100.7
5 Current transfers from the rest of the world	49,560	51,330	53,985	55,755	56,640	1.4	1.4	1.4	1.3
6 Current transfers to the rest of the world	29,205	30,975	31,860	33,630	34,515	0.8	0.8	0.8	0.8
7 GROSS NATIONAL DISPOSABLE INCOME (7=4+5-6)	3,638,905	3,776,261	3,928,869	4,102,393	4,326,038	101.3	101.4	101.3	101.2
8 Final private and government consumption	2,736,489	2,836,171	2,938,279	3,049,706	3,203,620	76.1	75.8	75.3	75.0
- Private consumption	1,992,125	2,064,772	2,140,068	2,220,889	2,336,320	55.4	55.2	54.8	54.7
- Government consumption	744,364	771,399	798,211	828,817	867,300	20.7	20.6	20.5	20.3
9 GROSS NATIONAL SAVINGS (9=7-8)	902,416	940,091	990,590	1,052,687	1,122,418	25.2	25.6	26.0	26.3
10 Current account balance	-25,665	-33,555	-42,747	-53,390	-63,405	-0.9	-1.1	-1.3	.-1.5
11 GROSS CAPITAL FORMATION (11=9-10)	928,081	973,646	1,033,337	1,106,077	1,185,823	26.1	26.7	27.3	27.8
COST STRUCTURE OF GDP									
12 COMPENSATION OF EMPLOYEES	1,862,472	1,914,621	1,970,146	2,033,190	2,116,551	51.4	50.8	50.2	49.5
13 TAXES ON PRODUCTION AND IMPORTS	633,770	656,572	683,173	714,389	753,805	17.6	17.6	17.6	17.6
14 SUBSIDIES	75,323	75,323	75,323	74,461	58,763	2.0	1.9	1.8	1.4
15 GROSS OPERATING SURPLUS AND GROSS MIXED INCOME	1,171,081	1,230,831	1,297,773	1,377,060	1,461,345	33.0	33.5	34.0	34.2
EXPENDITURE STRUCTURE OF GDP									
16 EXPORTS OF GOODS AND SERVICES	2,007,180	2,097,503	2,201,434	2,367,533	2,550,898	56.3	56.8	58.5	59.7
17 IMPORTS OF GOODS AND SERVICES	2,079,750	2,180,618	2,297,281	2,473,138	2,667,403	58.5	59.3	61.1	62.4
18 EXTERNAL TRADE BALANCE (exports-imports) (18=16-17)	-72,570	-83,115	-95,847	-105,605	-116,505	-2.2	-2.5	-2.6	-2.7
19 FINAL CONSUMPTION (19=20+21)	2,736,489	2,836,171	2,938,279	3,049,706	3,203,620	76.1	75.8	75.3	75.0
20 PRIVATE CONSUMPTION	1,992,125	2,064,772	2,140,068	2,220,889	2,336,320	55.4	55.2	54.8	54.7
21 GOVERNEMNT CONSUMPTION	744,364	771,399	798,211	828,817	867,300	20.7	20.6	20.5	20.3
22 GROSS CAPITAL FORMATION (22=23+24)	928,081	973,646	1,033,337	1,106,077	1,185,823	26.1	26.7	27.3	27.8
23 GROSS FIXED CAPITAL FORMATION	894,741	953,561	1,014,939	1,085,885	1,161,797	25.6	26.2	26.8	27.2
24 CHANGES IN INVENTORIES	33,340	20,085	18,398	20,192	24,026	0.5	0.5	0.5	0.6

Source: IMAD target development scenario.

STATISTICAL APPENDIX

LIST OF TABLES

Table 1: Main macroeconomic indicators of Slovenia

real growth rates in %

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
GROSS DOMESTIC PRODUCT	**4.1**	**3.5**	**4.6**	**3.9**	**3.5**	**3 $^{3}/_{4}$**	**4.0**
Structure in value added in % 1)							
Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.5	4.4	4.4	4.3
Industry and construction (C+D+E+F)	38.5	38.5	38.2	37.5	37.1	37.0	36.9
- Industry (C+D+E)	33.4	32.8	32.5	32.0	31.6	31.4	31.2
- Construction F	5.1	5.7	5.7	5.5	5.5	5.6	5.7
Services (G...O)	59.2	59.5	59.8	60.3	60.7	60.9	61.0
FISIM	-2.3	-2.5	-2.3	-2.3	-2.3	-2.2	-2.2
GDP in mil. SIT (current prices)	2,221,459	2,555,369	2,907,277	3,249,120	3,592,000	3,958,000	4,269,000
GDP in mil. US$	18,744	18,878	18,206	19,557	20,294	22,112	24,051
GDP per capita in US$	9,431	9,481	9,163	9,864	10,248	11,126	12,101
GDP per capita purchasing power in US$	12,600	13,200	14,000				
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS							
Exports of goods and services- real[2]	6.9	3.5	10.0	6.8	3.4	4.5	5.0
- Exports of goods	8.1	3.3	11.4	8.4	4.1	5.0	5.4
- Exports of services	1.7	4.4	4.3	0.0	0.5	2.0	3.2
Imports of goods and services- real[2]	15.1	1.6	9.9	9.7	4.7	4.9	5.4
- Imports of goods	15.6	1.5	9.9	10.4	5.1	5.3	5.6
- Imports of services	11.6	2.5	10.0	5.1	2.0	2.6	4.0
Exports of goods and serv. in mil. US$	10,373	10,497	10,450	11,142	11,340	12,150	12,945
As a % of GDP	55.3	55.6	57.4	57.0	55.9	54.9	53.8
Imports of goods and serv. in mil. US$	10,696	10,675	10,632	11,404	11,750	12,600	13,455
As a % of GDP	57.1	56.5	58.4	58.3	57.9	57.0	55.9
Trade balance in mil. US$[2]	-954.3	-881.7	-771.6	-774.9	-900.0	-950.0	-1030.0
As a % of GDP	-5.1	-4.7	-4.2	-4.0	-4.4	-4.3	-4.3
Current account balance in mil. US$	-22.8	39.0	36.6	-3.8	-145.0	-170.0	-210.0
As a % of GDP	-0.1	0.2	0.2	0.0	-0.7	-0.8	-0.9
Foreign exchange reserves in mil. US$	3,426	4,124	4,377	4,767			
As a % of GDP	18.3	21.8	24.0	24.4			
External debt in mil. US$	2,970	4,010	4,176	4,959			
As a % of GDP	15.8	21.2	22.9	25.4			

(cont. on the next page)

Table 1: Main macroeconomic indicators of Slovenia (continue)

real growth rates in %

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
EMPLOYMENT, WAGES AND PRODUCTIVITY							
Economically active population	-0.3	-0.6	0.3	0.2	0.6	0.7	0.9
Registered unemployed (annual average, in thousand)	121.5	119.8	125.2	126.1	122.9	121.5	118.6
Rate of registered unemployment in %	14.0	13.9	14.4	14.5	14.1	13.9	13.5
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9	8.0	8.0	8.0
Gross wage per employee	5.1	5.1	2.4	1.6	2.0	2.5	2.3
Labour productivity	3.3	4.4	4.6	3.8	3.2	3.4	3.5
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS							
Final consumption		2.7	3.6	3.0	3.3	3.6	3.6
As a % of GDP	78.3	77.5	76.9	76.3	76.2	76.0	75.6
in which:							
- Private consumption	58.1	57.3	56.4	55.6	55.5	55.3	55.0
- Government consumption	20.2	20.2	20.5	20.7	20.7	20.7	20.6
Gross fixed capital formation	16.8	9.2	11.3	11.3	8.0	6.6	6.4
As a % of GDP	21.4	22.6	23.5	23.9	24.9	25.5	26.1
PUBLIC FINANCE[3]							
General government revenue	6.1	3.6	2.9	6.5			
As a % of GDP	45.7	45.2	44.6	45.6			
General government expenditure	5.7	2.9	6.1	5.2			
As a % of GDP	45.7	44.9	45.7	46.2			
in which:							
- pension fund	13.6	13.4	13.3	13.2			
- health care fund	6.9	6.8	6.8	6.6			
- central and local governments	25.2	24.8	25.6	26.4			
Surplus/deficit (as a % of GDP)	0.0	0.3	-1.1	-0.6			

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Table 1: Main macroeconomic indicators of Slovenia (continue)

real growth rates in %

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY[3]							
General government revenue as a % of GDP	43.1	42.7	42.0	43.0	43.5		
General government expenditure as a % of GDP	43.1	42.4	43.2	43.8	44.5		
Surplus/deficit as a % of GDP	0.0	0.3	-1.2	-0.8	-1.0		
EXCHANGE RATE AND PRICES							
Average exchange rate SIT/US$	118.5	135.4	159.7	166.1	177.0	179.0	177.5
Inflation (annual average)[4]	12.6	9.7	9.1	7.9	6.8	6.2	3.7

Note:
[1] Letters in brackets refer to NACE Rev. 1, Classification of Economic Activities
[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] Public finance data are also presented by the old methodology used before 1998. As public finance forecasts for 2000 and 2001 to a large extent depend on the impacts of value-added tax introduction, which are difficult to predict, and public finance policy measures, which are still being evolved, forecasts in the form of figures have not been presented in the table.
[4] Retail prices as a measure of inflation until 1998, after 1998 consumer price index
Source of data: SORS, BS, Ministry of Finance, IMAD estimates.

Table 2a : Value added at factor cost* by NACE Rev. 1 activities and gross domestic product

current prices, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
A Agriculture, hunting, forestry	87,072	98,260	107,700	124,375	135,679	147,037	154,944
B Fishing	386	439	484	383	422	448	465
C Mining and quarrying	26,006	30,683	33,908	35,836	36,795	39,875	41,378
D Manufacturing	545,730	616,410	706,266	760,560	835,379	914,176	982,312
E Electricity, gas and water supply	56,693	65,032	73,492	96,129	99,728	109,135	114,438
F Construction	96,588	123,827	143,158	152,066	169,138	188,685	207,643
G Wholesale, retail, trade, repair	232,286	257,269	294,293	318,168	350,487	383,547	412,134
H Hotels and restaurants	57,165	68,467	77,314	81,305	86,913	95,111	101,707
I Transport, storage, communications	148,746	169,275	204,827	235,135	262,790	293,159	321,094
J Financial intermediation	77,067	93,185	108,916	129,867	145,141	161,144	175,662
K Real estate, renting and business activities	226,191	263,568	291,572	329,971	367,017	405,533	437,863
L Public administration and com. soc. sec.	102,937	121,447	149,612	164,285	181,851	200,935	215,912
M Education	108,178	123,881	146,689	166,616	184,431	203,565	218,737
N Health and social work	99,385	118,454	134,589	155,228	172,987	192,060	207,718
O Other community and personal activities	63,829	77,431	88,243	100,652	113,141	125,615	135,630
FISIM	-43,947	-55,127	-58,554	-63,482	-69,184	-74,902	-79,280
1 TOTAL VALUE ADDED (basic prices)	1,884,312	2,172,501	2,502,509	2,787,094	3,072,717	3,385,124	3,648,355
2 CORRECTIONS	337,147	382,868	404,768	462,026	519,284	572,875	620,645
3 GROSS DOMESTIC PRODUCT (3=1+2)	**2,221,459**	**2,555,369**	**2,907,277**	**3,249,120**	**3,592,000**	**3,958,000**	**4,269,000**
TOTAL VALUE ADDED (basic prices)	1,884,312	2,172,501	2,502,509	2,787,094	3,072,717	3,385,124	3,648,355
in which:	1,884,312	2,172,501	2,502,509	2,787,094	3,072,717	3,385,124	3,648,355
1 Agriculture, forestry, fishing (A+B)	87,458	98,699	108,184	124,758	136,101	147,485	155,409
2 Industry and construction (C+D+E+F)	725,017	835,952	956,824	1,044,591	1,141,040	1,251,870	1,345,770
Industry (C+D+E)	628,429	712,125	813,666	892,525	971,901	1,063,186	1,138,127
Construction F	96,588	123,827	143,158	152,066	169,138	188,685	207,643
3 Services (G...O)	1,115,784	1,292,977	1,496,055	1,681,227	1,864,760	2,060,671	2,226,456
4 FISIM	-43,947	-55,127	-58,554	-63,482	-69,184	-74,902	-79,280

Source of data: SORS, IMAD's estimates.
Note: *at factor cost until 1993, in basic prices in 1994 and 1995

Table 2b : Value added at factor cost* by NACE Rev. 1 activities and gross domestic product

shares in GDP in %, current prices

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
A Agriculture, hunting, forestry	3.9	3.8	3.7	3.8	3.8	3.7	3.6
B Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C Mining and quarrying	1.2	1.2	1.2	1.1	1.0	1.0	1.0
D Manufacturing	24.6	24.1	24.3	23.4	23.3	23.1	23.0
E Electricity, gas and water supply	2.6	2.5	2.5	3.0	2.8	2.8	2.7
F Construction	4.3	4.8	4.9	4.7	4.7	4.8	4.9
G Wholesale, retail, trade, repair	10.5	10.1	10.1	9.8	9.8	9.7	9.7
H Hotels and restaurants	2.6	2.7	2.7	2.5	2.4	2.4	2.4
I Transport, storage, communications	6.7	6.6	7.0	7.2	7.3	7.4	7.5
J Financial intermediation	3.5	3.6	3.7	4.0	4.0	4.1	4.1
K Real estate, renting and business activities	10.2	10.3	10.0	10.2	10.2	10.2	10.3
L Public administration and com. soc. sec.	4.6	4.8	5.1	5.1	5.1	5.1	5.1
M Education	4.9	4.8	5.0	5.1	5.1	5.1	5.1
N Health and social work	4.5	4.6	4.6	4.8	4.8	4.9	4.9
O Other community and personal activities	2.9	3.0	3.0	3.1	3.1	3.2	3.2
FISIM	-2.0	-2.2	-2.0	-2.0	-1.9	-1.9	-1.9
1 TOTAL VALUE ADDED (basic prices)	84.8	85.0	86.1	85.8	85.5	85.5	85.5
2 CORRECTIONS	15.2	15.0	13.9	14.2	14.5	14.5	14.5
3 GROSS DOMESTIC PRODUCT (3=1+2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(cont. on next page)

Table 2b : Value added at factor cost* by NACE Rev. 1 activities and gross domestic product

shares in GDP in %, current prices

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:							
1. Agriculture, forestry,fishing (A+B)	3.9	3.9	3.7	3.8	3.8	3.7	3.6
2. Industry and construction (C+D+E+F)	32.6	32.7	32.9	32.1	31.8	31.6	31.5
Industry (C+D+E)	28.3	27.9	28.0	27.5	27.1	26.9	26.7
Construction (F)	4.3	4.8	4.9	4.7	4.7	4.8	4.9
3. Services (G...O)	50.2	50.6	51.5	51.7	51.9	52.1	52.2
4. FISIM	-2.0	-2.2	-2.0	-2.0	-1.9	-1.9	-1.9
5. CORRECTIONS	15.2	15.0	13.9	14.2	14.5	14.5	14.5
SHARES IN VALUE ADDED %							
TOTAL VALUE ADDED (basic prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:							
1 Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.5	4.4	4.4	4.3
2 Industry and construction (C+D+E+F)	38.5	38.5	38.2	37.5	37.1	37.0	36.9
Industry (C+D+E)	33.4	32.8	32.5	32.0	31.6	31.4	31.2
Construction (F)	5.1	5.7	5.7	5.5	5.5	5.6	5.7
3 Services (G...O)	59.2	59.5	59.8	60.3	60.7	60.9	61.0
4 FISIM	-2.3	-2.5	-2.3	-2.3	-2.3	-2.2	-2.2

Source of data: SORS, IMAD's estimates.
Note: * at factor cost until 1993, in basic prices in 1994 and 1995.

Table 3a: Value added at factor cost by NACE Rev. 1 activities and gross domestic product

prices 1995, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
A Agriculture, hunting, forestry	87,072	87,956	85,362	87,242	89,030	90,856	92,264
B Fishing	386	423	430	420	433	433	433
C Mining and quarrying	26,006	26,495	27,328	27,700	26,606	27,151	27,151
D Manufacturing	545,730	554,260	590,671	620,744	637,814	657,268	680,601
E Electricity, gas and water supply	56,693	57,365	59,750	61,300	59,492	61,306	61,950
F Construction	96,588	109,382	117,792	122,392	127,349	133,780	141,874
G Wholesale, retail, trade, repair	232,286	239,175	245,870	255,983	263,790	271,836	281,486
H Hotels and restaurants	57,165	59,680	61,826	63,382	63,382	65,315	67,307
I Transport, storage, communications	148,746	152,612	159,052	167,657	175,285	184,137	194,357
J Financial intermediation	77,067	85,509	85,555	87,850	91,847	96,026	100,876
K Real estate, renting and business activities	226,191	234,121	240,033	246,752	256,807	267,213	278,035
L Public administration and com. sec. sec.	102,937	108,438	119,592	122,147	126,483	131,606	136,278
M Education	108,178	109,175	114,476	117,670	121,847	126,644	131,140
N Health and social work	99,385	107,685	111,035	115,277	120,176	125,644	130,948
O Other community and personal activities	63,829	66,671	69,373	72,297	76,024	79,483	82,703
FISIM	-43,947	-50,253	-48,924	-49,336	-50,298	-51,279	-52,304
1. TOTAL VALUE ADDED,(basic prices)	1,884,312	1,948,694	2,039,221	2,119,477	2,186,069	2,267,420	2,355,098
2. CORRECTIONS	337,147	351,206	365,543	380,148	399,918	415,540	433,972
3. GROSS DOMESTIC PRODUCT (3=1+2)	**2,221,459**	**2,299,900**	**2,404,764**	**2,499,625**	**2,585,987**	**2,682,960**	**2,789,070**
TOTAL VALUE ADDED, (basic prices)	**1,884,312**	**1,948,694**	**2,039,221**	**2,119,477**	**2,186,069**	**2,267,420**	**2,355,098**
in which:							
1. Agriculture, forestry, fishing (A+B)	87,458	88,379	85,792	87,662	89,463	91,288	92,697
2. Industry and construction (C+D+E+F)	725,017	747,502	795,541	832,136	851,261	879,505	911,576
Industry (C+D+E)	628,429	638,120	677,749	709,744	723,912	745,725	769,702
Construction (F)	96,588	109,382	117,792	122,392	127,349	133,780	141,874
3. Services (G...O)	1,115,784	1,163,066	1,206,812	1,249,015	1,295,643	1,347,905	1,403,130
4. FISIM	-43,947	-50,253	-48,924	-49,336	-50,298	-51,279	-52,304

Sources of data: SORS, IMAD's estimates.

Table 3b: Value added at factor cost by NACE Rev. 1 activities and gross domestic product

real growth rates in %

	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
A Agriculture, hunting, forestry	1.0	-2.9	2.2	2.0	2.0	1.5
B Fishing	9.6	1.7	-2.3	3.0	0.0	0.0
C Mining and quarrying	1.9	3.1	1.4	-4.0	2.0	0.0
D Manufacturing	1.6	6.6	5.1	2.7	3.0	3.5
E Electricity, gas and water supply	1.2	4.2	2.6	-3.0	3.0	1.0
F Construction	13.2	7.7	3.9	4.0	5.0	6.0
G Wholesale, retail, trade, repair	3.0	2.8	4.1	3.0	3.0	3.5
H Hotels and restaurants	4.4	3.6	2.5	0.0	3.0	3.0
I Transport, storage, communications	2.6	4.2	5.4	4.5	5.0	5.5
J Financial intermediation	11.0	0.1	2.7	4.5	4.5	5.0
K Real estate, renting and business activities	3.5	2.5	2.8	4.0	4.0	4.0
L Public administration and com. sec. sec.	5.3	10.3	2.1	3.5	4.0	3.5
M Education	0.9	4.9	2.8	3.5	3.9	3.5
N Health and social work	8.4	3.1	3.8	4.2	4.5	4.2
O Other community and personal activities	4.5	4.1	4.2	5.2	4.5	4.0
FISIM	14.3	-2.6	0.8	2.0	2.0	2.0
1. TOTAL VALUE ADDED, (basic prices)	3.4	4.6	3.9	3.1	3.7	3.9
2. CORRECTIONS	4.2	4.1	4.0	5.2	3.9	4.4
3. GROSS DOMESTIC PRODUCT (3=1+2)	**3.5**	**4.6**	**3.9**	**3.5**	**3 $^3/_4$**	**4.0**
TOTAL VALUE ADDED, (basic prices)	**3.4**	**4.6**	**3.9**	**3.1**	**3.7**	**3.9**
in which:						
1. Agriculture, forestry, fishing (A+B)	1.1	-2.9	2.2	2.1	2.0	1.5
2. Industry and construction (C+D+E+F)	3.1	6.4	4.6	2.3	3.3	3.6
Industry (C+D+E)	1.5	6.2	4.7	2.0	3.0	3.2
Construction (F)	13.2	7.7	3.9	4.0	5.0	6.0
3. Services (G...O)	4.2	3.8	3.5	3.7	4.0	4.1
4. FISIM	14.3	-2.6	0.8	2.0	2.0	2.0

Sources of data: SORS, IMAD's estimates.

Table 3c: Value added at factor cost by NACE Rev. 1 activities and gross domestic product

shares in GDP in %, prices 1995

	1995	1996	1997	1998	1999 estimate	2000 estimate	2001 estimate
A Agriculture, hunting, forestry	3.9	3.8	3.5	3.5	3.4	3.4	3.3
B Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C Mining and quarrying	1.2	1.2	1.1	1.1	1.0	1.0	1.0
D Manufacturing	24.6	24.1	24.6	24.8	24.7	24.5	24.4
E Electricity, gas and water supply	2.6	2.5	2.5	2.5	2.3	2.3	2.2
F Construction	4.3	4.8	4.9	4.9	4.9	5.0	5.1
G Wholesale, retail, trade, repair	10.5	10.4	10.2	10.2	10.2	10.1	10.1
H Hotels and restaurants	2.6	2.6	2.6	2.5	2.5	2.4	2.4
I Transport, storage, communications	6.7	6.6	6.6	6.7	6.8	6.9	7.0
J Financial intermediation	3.5	3.7	3.6	3.5	3.6	3.6	3.6
K Real estate, renting and business activities	10.2	10.2	10.0	9.9	9.9	10.0	10.0
L Public administration and com. sec. sec.	4.6	4.7	5.0	4.9	4.9	4.9	4.9
M Education	4.9	4.7	4.8	4.7	4.7	4.7	4.7
N Health and social work	4.5	4.7	4.6	4.6	4.6	4.7	4.7
O Other community and personal activities	2.9	2.9	2.9	2.9	2.9	3.0	3.0
FISIM	-2.0	-2.2	-2.0	-2.0	-1.9	-1.9	-1.9
1. TOTAL VALUE ADDED,(basic prices)	84.8	84.7	84.8	84.8	84.5	84.5	84.4
2. CORRECTIONS	15.2	15.3	15.2	15.2	15.5	15.5	15.6
3. GROSS DOMESTIC PRODUCT (3=1+2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
TOTAL VALUE ADDED, (basic prices)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:							
1. Agriculture, forestry, fishing (A+B)	4.6	4.5	4.2	4.1	4.1	4.0	3.9
2. Industry and construction (C+D+E+F)	38.5	38.4	39.0	39.3	38.9	38.8	38.7
Industry (C+D+E)	33.4	32.7	33.2	33.5	33.1	32.9	32.7
Construction (F)	5.1	5.6	5.8	5.8	5.8	5.9	6.0
3. Services (G...O)	59.2	59.7	59.2	58.9	59.3	59.4	59.6
4. FISIM	-2.3	-2.6	-2.4	-2.3	-2.3	-2.3	-2.2

Sources of data: SORS, IMAD's estimates.

Table 4 : Cost structure of GDP

current prices, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
1 GROSS DOMESTIC PRODUCT (1=2+3-4+5)	2,221,459	2,555,369	2,907,277	3,249,120	3,592,000	3,958,000	4,269,000
2 Compensation of employees	1,271,699	1,400,005	1,554,734	1,704,463	1,862,472	2,033,928	2,169,556
Gross wages and salaries	1,070,010	1,213,825	1,360,110	1,497,384	1,635,783	1,785,721	1,904,187
Employees' actual soc. cont.	201,689	186,180	194,624	207,079	226,689	248,207	265,369
3 Taxes on production and imports	377,964	444,708	493,398	566,129	633,770	697,279	752,375
Taxes on products	290,463	341,798	385,850	458,407	523,143	584,239	630,131
Import duties	78,371	76,779	58,425	47,352	44,109	39,578	43,340
Other taxes on production	9,130	26,131	49,123	60,370	66,518	73,462	78,904
4 Subsidies	48,001	52,873	59,867	68,691	75,323	79,993	82,953
5 Gross operating surplus and gross mixed income (5=6+7)	619,797	763,529	919,012	1,047,219	1,171,081	1,306,786	1,430,022
in which:							
6 Gross operating surplus	380,932	488,300	611,359	710,526	796,456	892,378	982,032
Consumption of fixed capital	352,315	417,938	468,585	522,929	579,027	638,039	688,208
Net operating surplus	28,617	70,362	142,774	187,597	217,429	254,339	293,824
7 Gross mixed income	238,865	275,229	307,653	336,693	374,625	414,408	447,990
Consumption of fixed capital	38,576	45,528	49,685	57,322	65,137	71,244	76,842
Net mixed income	200,289	229,701	257,968	279,371	309,488	343,164	371,148

(cont. on next page)

Table 4 : Cost structure of GDP (continue)

current prices, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
As share in GDP in %							
1 GROSS DOMESTIC PRODUCT (1=2+3-4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Compensation of employees	57.2	54.8	53.5	52.5	51.9	51.4	50.8
Gross wages and salaries	48.2	47.5	46.8	46.1	45.5	45.1	44.6
Employees' actual soc. cont.	9.1	7.3	6.7	6.4	6.3	6.3	6.2
3 Taxes on production and imports	17.0	17.4	17.0	17.4	17.6	17.6	17.6
Taxes on products	13.1	13.4	13.3	14.1	14.6	14.8	14.8
Import duties	3.5	3.0	2.0	1.5	1.2	1.0	1.0
Other taxes on production	0.4	1.0	1.7	1.9	1.9	1.9	1.8
4 Subsidies	2.2	2.1	2.1	2.1	2.1	2.0	1.9
5 Gross operating surplus and Gross mixed income (5=6+7)	27.9	29.9	31.6	32.2	32.6	33.0	33.5
in which:							
6 Gross operating surplus	17.1	19.1	21.0	21.9	22.2	22.5	23.0
Consumption of fixed capital	15.9	16.4	16.1	16.1	16.1	16.1	16.1
Net operating surplus	1.3	2.8	4.9	5.8	6.1	6.4	6.9
7 Gross mixed income	10.8	10.8	10.6	10.4	10.4	10.5	10.5
Consumption of fixed capital	1.7	1.8	1.7	1.8	1.8	1.8	1.8
Net mixed income	9.0	9.0	8.9	8.6	8.6	8.7	8.7

Sources of data: SORS, IMAD's estimates.

Table 5a : Expenditure on gross domestic product

current prices, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)	**2,221,459**	**2,555,369**	**2,907,277**	**3,249,120**	**3,592,000**	**3,958,000**	**4,269,000**
2 EXPORTS OF GOODS AND SERVICES	1,225,659	1,419,884	1,660,733	1,851,205	2,007,180	2,174,850	2,297,738
3 IMPORT OF GOODS AND SERVICES	1,262,128	1,445,023	1,694,631	1,894,583	2,079,750	2,255,400	2,388,263
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2 - 3)	-36,469	-25,139	-33,898	-43,378	-72,570	-80,550	-90,525
5 FINAL CONSUMPTION (5 = 6 + 7)	1,738,979	1,980,106	2,236,556	2,480,195	2,736,489	3,007,870	3,229,039
6 PRIVATE FINAL CONSUMPTION	1,290,411	1,463,249	1,641,449	1,808,012	1,992,125	2,188,644	2,349,974
- households	1,266,058	1,437,756	1,612,434	1,776,602	1,957,909	2,152,306	2,312,291
- non-profit institutions	24,353	25,493	29,015	31,410	34,216	36,338	37,683
7 GOVERNMENT CONSUMPTION (individual and collective)	448,568	516,857	595,107	672,183	744,364	819,226	879,065
8 GROSS CAPITAL FORMATION (8 = 9 + 10)	518,949	600,402	704,619	812,303	928,081	1,030,680	1,130,486
9 GROSS FIXED CAPITAL FORMATION	474,973	576,680	684,114	775,620	894,741	1,009,053	1,112,386
10 CHANGES IN INVENTORIES	43,976	23,722	20,505	36,683	33,340	21,627	18,100
STRUCTURE IN %							
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 EXPORTS OF GOODS AND SERVICES	55.2	55.6	57.1	57.0	55.9	54.9	53.8
3 IMPORT OF GOODS AND SERVICES	56.8	56.5	58.3	58.3	57.9	57.0	55.9
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4 = 2 - 3)	-1.6	-1.0	-1.2	-1.3	-2.0	-2.0	-2.1
5 FINAL CONSUMPTION (5 = 6 + 7)	78.3	77.5	76.9	76.3	76.2	76.0	75.6
6 PRIVATE FINAL CONSUMPTION	58.1	57.3	56.5	55.6	55.5	55.3	55.0
- households	57.0	56.3	55.5	54.7	54.5	54.4	54.2
- non-profit institutions	1.1	1.0	1.0	1.0	1.0	0.9	0.9
7 GOVERNMENT CONSUMPTION (individual and collective)	20.2	20.2	20.5	20.7	20.7	20.7	20.6
8 GROSS CAPITAL FORMATION (8 = 9 + 10)	23.4	23.5	24.2	25.0	25.8	26.0	26.5
9 GROSS FIXED CAPITAL FORMATION	21.4	22.6	23.5	23.9	24.9	25.5	26.1
10 CHANGES IN INVENTORIES	2.0	0.9	0.7	1.1	0.9	0.5	0.4

Sources of data: SORS, BS, IMAD's estimates.

Table 5b : Expenditure on gross domestic product

prices 1995, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)	2,221,459	2,299,900	2,404,764	2,499,625	2,585,987	2,682,960	2,789,070
2 EXPORTS OF GOODS AND SERVICES	1,225,659	1,265,691	1,409,093	1,505,616	1,557,484	1,627,571	1,708,217
3 IMPORT OF GOODS AND SERVICES	1,262,128	1,292,328	1,449,825	1,589,733	1,663,735	1,744,426	1,837,753
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2 - 3)	-36,469	-26,637	-40,732	-84,117	-106,251	-116,855	-129,536
5 FINAL CONSUMPTION (5 = 6 + 7)	1,738,979	1,785,835	1,849,985	1,906,372	1,968,814	2,040,532	2,114,010
6 PRIVATE FINAL CONSUMPTION	1,290,411	1,321,186	1,365,134	1,398,031	1,441,728	1,494,302	1,548,795
- households	1,266,058	1,298,226	1,341,504	1,374,304	1,417,526	1,469,194	1,522,746
- non-profit institutions	24,353	22,960	23,630	23,727	24,202	25,108	26,049
7 GOVERNMENT CONSUMPTION (individual and collective)	448,568	464,649	484,851	508,341	527,086	546,230	565,215
8 GROSS CAPITAL FORMATION (8 = 9 + 10)	518,949	540,702	595,511	677,370	723,424	759,283	804,596
9 GROSS FIXED CAPITAL FORMATION	474,973	518,638	577,465	642,719	693,936	739,555	787,158
10 CHANGES IN INVENTORIES	43,976	22,064	18,046	34,651	29,488	19,728	17,438
REAL GROWTH RATES IN %							
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)		3.5	4.6	3.9	3.5	3 $^{3}/_{4}$	4.0
2 EXPORTS OF GOODS AND SERVICES		3.3	11.3	6.8	3.4	4.5	4.9
3 IMPORT OF GOODS AND SERVICES		2.4	12.2	9.7	4.7	4.9	5.4
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2 - 3)							
5 FINAL CONSUMPTION (5 = 6 + 7)		2.7	3.6	3.0	3.3	3.6	3.6
6 PRIVATE FINAL CONSUMPTION		2.4	3.3	2.4	3.1	3.6	3.6
- households		2.5	3.3	2.4	3.1	3.6	3.6
- non-profit institutions		-5.7	2.9	0.4	2.0	3.7	3.7
7 GOVERNMENT CONSUMPTION (individual and collective)		3.6	4.3	4.8	3.7	3.6	3.5
8 GROSS CAPITAL FORMATION (8 = 9 + 10)		4.2	10.1	13.7	6.8	5.0	6.0
9 GROSS FIXED CAPITAL FORMATION		9.2	11.3	11.3	8.0	6.6	6.4
10 CHANGES IN INVENTORIES		-49.8	-18.2	92.0	-14.9	-33.1	-11.6

Sources of data: SORS, BS, IMAD's estimates.

Table 6: Supply and use of resources (estimates)

current prices, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
1 GROSS DOMESTIC PRODUCT	2,221,459	2,555,369	2,907,277	3,249,120	3,592,000	3,958,000	4,269,000
2 Primary income from the rest of the world	24,698	20,716	20,766	24,173	26,550	29,535	31,063
3 GROSS NATIONAL INCOME (3 = 1 + 2)	2,246,157	2,576,085	2,928,043	3,273,293	3,618,550	3,987,535	4,300,062
4 Net current transfers from the rest of the world	10,937	8,878	16,034	18,590	20,355	20,585	22,188
5 GROSS NATIONAL DISPOSABLE INCOME (5 = 3 + 4)	2,257,094	2,584,963	2,944,077	3,291,883	3,638,905	4,008,120	4,322,250
6 FINAL NATIONAL CONSUMPTION	1,738,979	1,980,106	2,236,556	2,480,195	2,736,489	3,007,870	3,229,039
- private consumption	1,290,411	1,463,249	1,641,449	1,808,012	1,992,125	2,188,644	2,349,974
- government consumption	448,568	516,857	595,107	672,183	744,364	819,226	879,065
7 GROSS NATIONAL SAVING (7 = 5 - 6)	518,115	604,857	707,521	811,688	902,416	1,000,250	1,093,211
8 SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-834	4,455	2,902	-615	-25,665	-30,430	-37,275
9 GROSS CAPITAL FORMATION (9 = 7 - 8)	518,949	600,402	704,619	812,303	928,081	1,030,680	1,130,486
in which:							
- gross fixed capital investment	474,973	576,680	684,114	775,620	894,741	1,009,053	1,112,386
- change in stocks	43,976	23,722	20,505	36,683	33,340	21,627	18,100
10 CONSUMPTION OF FIXED CAPITAL	390,891	463,466	518,270	580,251	644,164	709,283	765,050
11 NET CAPITAL FORMATION (11 = 9 - 10)	128,058	136,936	186,349	232,052	283,917	321,397	365,436

(cont. on next page)

Table 6 : Supply and use of resources (estimates) - continue

current prices, SIT million

	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate	2001 estimate
As share in GDP in %							
1 GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Primary income from the rest of the world	1.1	0.8	0.7	0.7	0.7	0.7	0.7
3 GROSS NATIONAL INCOME (3 = 1 + 2)	101.1	100.8	100.7	100.7	100.7	100.7	100.7
4 Net current transfers from the rest of the world	0.5	0.3	0.6	0.6	0.6	0.5	0.5
5 GROSS NATIONAL DISPOSABLE INCOME (5 = 3 + 4)	101.6	101.2	101.3	101.3	101.3	101.3	101.2
6 FINAL NATIONAL CONSUMPTION	78.3	77.5	76.9	76.3	76.2	76.0	75.6
- private consumption	58.1	57.3	56.5	55.6	55.5	55.3	55.0
- government consumption	20.2	20.2	20.5	20.7	20.7	20.7	20.6
7 GROSS NATIONAL SAVING (7 = 5 - 6)	23.3	23.7	24.3	25.0	25.1	25.3	25.6
8 SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	0.0	0.2	0.1	0.0	-0.7	-0.8	-0.9
9 GROSS CAPITAL FORMATION (9 = 7 - 8)	23.4	23.5	24.2	25.0	25.8	26.0	26.5
in which:							
- gross fixed capital investment	21.4	22.6	23.5	23.9	24.9	25.5	26.1
- change in stocks	2.0	0.9	0.7	1.1	0.9	0.5	0.4
10 CONSUMPTION OF FIXED CAPITAL	17.6	18.1	17.8	17.9	17.9	17.9	17.9
11 NET CAPITAL FORMATION (11 = 9 - 10)	5.8	5.4	6.4	7.1	7.9	8.1	8.6

Sources of data: SORS, BS, IMAD's estimates.

Table 7 : Balance of payments

US$ million

	1992	1993	1994	1995	1996	1997	1998	1999 estimate	2000 estimate
I. CURRENT ACCOUNT	**926**	**192**	**600**	**-23**	**39**	**37**	**-4**	**-145**	**-170**
1. TRADE BALANCE	791	-154	-338	-954	-882	-772	-775	-900	-950
1.1. Exports FOB	6,683	6,083	6,830	8,350	8,370	8,407	9,095	9,290	10,030
1.2. Imports FOB	5,892	6,237	7,168	9,304	9,252	9,179	9,870	10,190	10,980
2. SERVICES	180	376	676	631	704	590	514	490	500
2.1. Receipts	1,219	1,393	1,804	2,023	2,127	2,043	2,047	2,050	2,120
Transport	276	446	486	505	480	465	537	555	565
Travel	671	734	911	1,082	1,230	1,188	1,117	1,090	1,145
Other	273	213	407	436	417	390	393	405	410
2.2. Expenditure	1,039	1,017	1,128	1,392	1,423	1,453	1,534	1,560	1,620
Transport	439	390	418	435	405	365	404	410	420
Travel	282	305	374	524	543	544	574	585	625
Other	318	322	336	433	475	544	556	565	575
1., 2. GOODS AND SERVICES	971	222	338	-323	-178	-182	-262	-410	-450
Exports	7,902	7,476	8,634	10,373	10,497	10,450	11,142	11,340	12,150
Imports	6,931	7,254	8,296	10,696	10,675	10,632	11,404	11,750	12,600
3. FACTOR SERVICES	-91	-51	170	210	155	131	145	150	165
3.1. Receipts	70	115	334	439	420	417	460	475	495
Labour income	0	8	217	235	234	234	235	245	255
Investment income	70	107	117	204	186	183	225	230	240
3.2. Expenditure	161	166	165	229	265	286	315	325	330
Profits from direct investment	1	16	16	25	24	26	27	25	25
Interest	160	150	149	204	241	260	288	300	305
4. UNREQUITED TRANSFERS	46	22	92	91	62	88	112	115	115
4.1. Receipts	93	155	238	250	207	217	269	280	290
4.2. Expenditure	47	133	146	159	145	129	157	165	175

(cont. on next page)

Table 7: Balance of payments (continue)

US$ million

	1992	1993	1994	1995	1996	1997	1998	1999 estimate	2000 estimate
II. CAPITAL AND FINANCIAL ACCOUNT	**-646**	**-202**	**-524**	**168**	**-47**	**-103**	**-167**		
A CAPITAL ACCOUNT		4	-5	-18	-5	-4	-4		
1. Capital transfers		5	-3	-16	-2	-3	-3		
2. Non-produced non-financial assets		-1	-2	-2	-3	-1	-1		
B FINANCIAL ACCOUNT	-646	-206	-519	186	-42	-99	-163		
1. Direct investment	113	111	131	170	178	295	154		
1.1. Foreign in Slovenia	111	112	128	176	186	321	165		
1.2. Domestic abroad	2	-1	3	-6	-8	-26	-11		
2. Portfolio investment	-9	3	-33	-13	637	236	90		
3. Other long-term capital	-117	-209	27	264	-270	657	-249		
3.1. Assets	-158	-313	-306	-351	-426	288	-592		
3.2. Liabilities	41	104	333	615	156	369	342		
4. International reserves	-633	-111	-645	-235	-587	-1,287	-158		
III. STATISTICAL ERRORS	**-280**	**10**	**-76**	**-145**	**8**	**66**	**171**		

Note: Exports & imports of goods by f.o.b. parity.
Source of data: SORS, BS, IMAD's estimates.

Table 8: Exports and imports of goods and services by end-use of products

million US $; current exchange rates

	1995	1996	1997	1998	1999 estimate	2000 estimate
1 Exports of goods	8,350	8,370	8,407	9,095	9,290	10,030
investment goods	944	1,004	1,068	1,174	1,210	1,335
intermediate goods	3,941	3,775	3,825	4,125	4,235	4,615
consumer goods	3,465	3,591	3,514	3,796	3,845	4,080
2 Exports of services	2,023	2,127	2,043	2,047	2,050	2,120
3 EXPORTS TOTAL	**10,373**	**10,497**	**10,450**	**11,142**	**11,340**	**12,150**
4 Imports of goods	9,304	9,252	9,179	9,870	10,190	10,980
investment goods	1,573	1,490	1,479	1,762	1,830	2,030
intermediate goods	5,627	5,301	5,351	5,637	5,840	6,365
consumer goods	2,104	2,461	2,349	2,471	2,520	2,585
5 Imports of services	1,392	1,423	1,453	1,534	1,560	1,620
6 IMPORTS TOTAL	**10,696**	**10,675**	**10,632**	**11,404**	**11,750**	**12,600**
7 BALANCE	-323	-178	-182	-262	-410	-450
Services	631	704	590	514	490	500
Goods	-954	-882	-772	-775	-900	-950
8 Exports to imports ratio (in %)	90	90	92	92	91	91
PERCENTAGE CHANGE AT ANNUAL RATE (IN %)						
1 Exports of goods	22.3	0.2	0.4	8.2	2.1	8.0
investment goods	23.2	6.4	6.4	9.9	3.1	10.3
intermediate goods	29.0	-4.2	1.3	7.8	2.7	9.0
consumer goods	15.1	3.6	-2.1	8.0	1.3	6.1
2 Exports of services	12.1	5.1	-3.9	0.2	0.1	3.4
3 EXPORTS TOTAL	**20.1**	**1.2**	**-0.4**	**6.6**	**1.8**	**7.1**
4 Imports of goods	29.8	-0.6	-0.8	7.5	3.2	7.8
investment goods	37.5	-5.3	-0.7	19.1	3.9	10.9
intermediate goods	27.7	-5.8	0.9	5.3	3.6	9.0
consumer goods	30.0	17.0	-4.6	5.2	2.0	2.6
5 Imports of services	23.4	2.2	2.1	5.6	1.7	3.8
6 IMPORTS TOTAL	**28.9**	**-0.2**	**-0.4**	**7.3**	**3.0**	**7.2**

Note: Exports and imports of goods based on f.o.b. parity.
Source of data: SORS, BS, IMAD's estimates.

Table 9a: Foreign trade by geographical area

	EXPORTS (f.o.b.) in US$ million				IMPORTS (c.i.f.) in US$ million			
	1995	1996	1997	1998	1995	1996	1997	1998
TOTAL	8,316	8,310	8,369	9,049	9,492	9,421	9,366	10,098
DEVELOPED INDUSTRIAL COUNTRIES	6,086	5,842	5,796	6,451	7,423	7,325	7,205	8,091
EUROPEAN UNION	5,575	5,367	5,320	5,927	6,532	6,360	6,312	7,012
Germany	2,508	2,545	2,460	2,570	2,206	2,044	1,936	2,086
Italy	1,212	1,103	1,248	1,255	1,611	1,593	1,558	1,696
France	682	598	463	747	798	925	980	1,258
United Kingdom	229	162	150	161	190	208	241	233
Netherlands	117	125	123	142	207	194	200	225
Belgium	71	76	85	158	144	145	149	155
Spain	42	44	53	69	225	170	199	233
Denmark	42	47	54	75	46	42	46	54
Greece	32	23	24	23	11	13	15	19
Ireland	17	4	5	5	20	29	26	35
Portugal	9	13	14	12	5	5	11	14
Luxembourg	2	2	1	3	10	8	10	17
Austria	535	551	565	621	919	835	789	801
Finland	18	20	18	19	39	39	41	43
Sweden	58	54	56	65	101	111	110	143
EFTA	87	83	87	98	237	249	194	207
Austria								
Swiss	71	68	70	78	199	178	162	171
Sweden								
Norway	12	12	14	16	34	68	30	36
Liechtenstein	3	3	2	3	4	2	1	1
Finland								
Island	0	0	0	1	0	1	1	0
OTHER OECD	361	340	340	381	549	585	546	736
of which:								
United States of America	261	245	243	252	291	325	287	295
Other countries	100	95	97	129	258	260	259	441
OTHER DEVELOPED COUNTRIES	64	53	50	45	105	132	153	136

(cont. on next page)

Table 9a: Foreign trade by geographical area (continue)

	EXPORTS (f.o.b.) in US$ million				IMPORTS (c.i.f.) in US$ million			
	1995	1996	1997	1998	1995	1996	1997	1998
DEVELOPING COUNTRIES	2,230	2,462	2,568	2,592	2,069	2,095	2,160	2,007
COUNTRIES OF EX-YUGOSLAVIA	1,209	1,385	1,387	1,397	671	709	594	593
Croatia	891	855	837	815	576	590	466	431
Macedonia	189	170	149	161	86	72	56	47
Bosnia and Hercegovina	119	264	288	319	8	15	30	47
FR Yugoslavia	9	96	112	103	2	32	42	68
FORMER USSR COUNTRIES	375	390	432	330	275	236	284	216
of which: Russian Federation	305	298	326	235	241	209	250	178
OTHER EUROPE	445	495	525	614	707	664	723	779
of which:								
Czech Republic *	132	147	147	150	247	237	234	264
Slovakia	52	57	56	73	82	92	103	90
Hungary	115	105	120	141	267	239	293	244
Poland	105	142	155	181	38	48	58	78
Other countries	42	44	45	68	73	48	35	103
OTHER COUNTRIES	201	193	225	251	416	485	559	419
Unclassified	0	6	4	6	0	1	1	0

Note: Exports by country of destination, imports by country of origin. *) for 1992 data refer to Czechoslovakia
Source of data: SORS.

Table 9b: Foreign trade bygeographical area

	EXPORTS (f.o.b.) structure in %				IMPORTS (c.i.f.) structure in %			
	1995	1996	1997	1998	1995	1996	1997	1998
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	73.2	70.3	69.3	71.3	78.2	77.8	76.9	80.1
EUROPEAN UNION	67.0	64.6	63.6	65.5	68.8	67.5	67.4	69.4
Germany	30.2	30.6	29.4	28.4	23.2	21.7	20.7	20.7
Italy	14.6	13.3	14.9	13.9	17.0	16.9	16.6	16.8
France	8.2	7.2	5.5	8.3	8.4	9.8	10.5	12.5
United Kingdom	2.8	1.9	1.8	1.8	2.0	2.2	2.6	2.3
Netherlands	1.4	1.5	1.5	1.6	2.2	2.1	2.1	2.2
Belgium	0.9	0.9	1.0	1.7	1.5	1.5	1.6	1.5
Spain	0.5	0.5	0.6	0.8	2.4	1.8	2.1	2.3
Denmark	0.5	0.6	0.7	0.8	0.5	0.4	0.5	0.5
Greece	0.4	0.3	0.3	0.3	0.1	0.1	0.2	0.2
Ireland	0.2	0.1	0.1	0.1	0.2	0.3	0.3	0.3
Portugal	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Luxembourg	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Austria	6.4	6.6	6.8	6.9	9.7	8.9	8.4	7.9
Finland	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4
Sweden	0.7	0.7	0.7	0.7	1.1	1.2	1.2	1.4
EFTA	1.0	1.0	1.0	1.1	2.5	2.6	2.1	2.1
Austria								
Swiss	0.9	0.8	0.8	0.9	2.1	1.9	1.7	1.7
Sweden								
Norway	0.1	0.1	0.2	0.2	0.4	0.7	0.3	0.4
Liechtenstein	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finland								
Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER OECD	4.3	4.1	4.1	4.2	5.8	6.2	5.8	7.3
of which:								
United States of America	3.1	3.0	2.9	2.8	3.1	3.4	3.0	2.9
Other countries	1.2	1.1	1.2	1.4	2.7	2.8	2.8	4.4
OTHER DEVELOPED COUNTRIES	0.8	0.6	0.6	0.5	1.1	1.4	1.6	1.3

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Table 9b: Foreign trade by geographical area (continue)

	EXPORTS (f.o.b.) structure in %				IMPORTS (c.i.f.) structure in %			
	1995	1996	1997	1998	1995	1996	1997	1998
DEVELOPING COUNTRIES	26.8	29.6	30.7	28.6	21.8	22.2	23.1	19.9
COUNTRIES OF EX-YUGOSLAVIA	14.5	16.7	16.6	15.4	7.1	7.5	6.3	5.9
Croatia	10.7	10.3	10.0	9.0	6.1	6.3	5.0	4.3
Macedonia	2.3	2.1	1.8	1.8	0.9	0.8	0.6	0.5
Bosnia and Hercegovina	1.4	3.2	3.4	3.5	0.1	0.2	0.3	0.5
FR Yugoslavia	0.1	1.2	1.3	1.1	0.0	0.3	0.4	0.7
FORMER USSR COUNTRIES	4.5	4.7	5.2	3.7	2.9	2.5	3.0	2.1
of which: Russian Federation	3.7	3.6	3.9	2.6	2.5	2.2	2.7	1.8
OTHER EUROPE	5.4	5.9	6.3	6.8	7.4	7.0	7.7	7.7
of which:								
Czech Republic *	1.6	1.8	1.8	1.7	2.6	2.5	2.5	2.6
Slovakia	0.6	0.7	0.7	0.8	0.9	1.0	1.1	0.9
Hungary	1.4	1.3	1.4	1.6	2.8	2.5	3.1	2.4
Poland	1.3	1.7	1.9	2.0	0.4	0.5	0.6	0.8
Other countries	0.5	0.4	0.5	0.7	0.8	0.5	0.4	1.0
OTHER COUNTRIES	2.4	2.3	2.7	2.8	4.4	5.1	6.0	4.1
Unclassified	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0

Note: Exports by country of destination, imports by country of origin. *) for 1992 data refer to Czechoslovakia
Source of data: SORS.

Table 10: Consolidated general government revenues; GFS - IMF Methodology

current prices, SIT million

	CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999
		ACTUAL				estimate
I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	958,186	1,091,815	1,222,587	1,397,903	1,564,798
	CURRENT REVENUES (70+71)	955,790	1,089,017	1,217,023	1,390,982	1,560,458
70	TAX REVENUES	916,328	1,032,285	1,156,099	1,302,752	1,478,020
	TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	278,101
	Personal income tax	147,429	174,639	194,062	213,342	233,448
	Corporate income tax	12,941	22,291	33,562	39,593	44,653
	SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	491,297
	Employees contributions	195,413	221,929	247,519	276,805	303,353
	Employer's contributions	151,504	134,112	127,472	142,649	155,139
	Self-employed contributions	13,096	17,167	20,657	25,492	29,126
	Other unallocable social security contributions	2,987	2,976	4,982	3,452	3,679
	TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	51,789
	Payroll tax	809	14,943	33,994	42,058	47,561
	Tax on contracting work	3,020	3,316	3,497	3,847	4,228
	TAXES ON PROPERTY	12,343	14,628	19,589	27,722	31,432
	DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	581,439
	TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	43,487
	OTHER TAXES	451	241	208	787	476
71	NON-TAX REVENUES	39,462	56,732	60,924	88,230	82,438
	ENTERPRENEURIAL AND PROPERTY INCOME	6,628	8,301	9,792	24,186	20,442
	FEES AND CHARGES	8,291	8,813	10,452	11,903	13,344
	FINES AND FORFEITS	2,784	3,690	3,921	5,576	7,540
	SALES OF GOODS AND SERVICES	5,166	4,996	6,800	8,608	8,354
	OTHER NON-TAX REVENUES	16,592	30,932	29,959	37,956	32,758
72	CAPITAL REVENUES	1,824	1,738	3,805	4,471	3,629
73	VOLONTARY DONATIONS	470	940	1,760	2,449	711
74	GRANTS	102	119	0	0	0
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	58,751

(cont. on next page)

Table 10: Consolidated general government revenues; GFS - IMF Methodology (continue)

per cent of GDP

	CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999 estimate
		ACTUAL				
I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	43.1	42.7	42.0	43.0	43.5
	CURRENT REVENUES (70+71)	43.0	42.6	41.9	42.8	43.4
70	TAX REVENUES	41.2	40.4	39.8	40.1	41.1
	TAXES ON INCOME AND PROFIT	7.2	7.7	7.8	7.8	7.7
	Personal income tax	6.6	6.8	6.7	6.6	6.5
	Corporate income tax	0.6	0.9	1.2	1.2	1.2
	SOCIAL SECURITY CONTRIBUTIONS	16.3	14.7	13.8	13.8	13.7
	Employees contributions	8.8	8.7	8.5	8.5	8.4
	Employer's contributions	6.8	5.2	4.4	4.4	4.3
	Self-employed contributions	0.6	0.7	0.7	0.8	0.8
	Other unallocable social security contributions	0.1	0.1	0.2	0.1	0.1
	TAXSES ON PAYROLL AND WORKFORCE	0.2	0.7	1.3	1.4	1.4
	Payroll tax	0.0	0.6	1.2	1.3	1.3
	Tax on contracting work	0.1	0.1	0.1	0.1	0.1
	TAXES ON PROPERTY	0.6	0.6	0.7	0.9	0.9
	DOMESTIC TAXES ON GOODS AND SERVICES	13.4	13.7	14.2	14.8	16.2
	TAXES ON INTERN. TRADE AND TRANSACTIONS	3.5	3.0	2.0	1.5	1.2
	OTHER TAXES	0.0	0.0	0.0	0.0	0.0
71	NON-TAX REVENUES	1.8	2.2	2.1	2.7	2.3
	ENTERPRENEURIAL AND PROPERTY INCOME	0.3	0.3	0.3	0.7	0.6
	FEES AND CHARGES	0.4	0.3	0.4	0.4	0.4
	FINES AND FORFEITS	0.1	0.1	0.1	0.2	0.2
	SALES OF GOODS AND SERVICES	0.2	0.2	0.2	0.3	0.2
	OTHER NON-TAX REVENUES	0.7	1.2	1.0	1.2	0.9
72	CAPITAL REVENUES	0.1	0.1	0.1	0.1	0.1
73	VOLONTARY DONATIONS	0.0	0.0	0.1	0.1	0.0
74	GRANTS	0.0	0.0	0.0	0.0	0.0
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6

Source of data: Ministry of finance, calculations of percentage in GDP by IMAD.

Table 11: Consolidated general government expenditure; GFS - IMF Methodology

current prices, SIT million

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999 estimate
		ACTUAL				
II.	TOTAL EXPENDITURE (40+41+42+43)	957,273	1,083,586	1,256,668	1,423,494	1,599,922
40	CURRENT EXPENDITURE	169,751	192,816	223,184	262,658	304,728
400	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	115,798
402	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	122,674
403	INTEREST PAYMENTS	25,598	31,121	34,686	41,721	55,392
409	RESERVES	1,225	1,783	1,736	10,713	10,864
41	CURRENT TRANSFERS	694,218	783,390	912,303	1,020,473	1,127,621
410	SUBSIDIES	41,747	34,547	39,961	49,239	56,828
411	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	641,223
	of which:					
	Transfers to unemployed	13,498	12,657	18,861	19,875	14,191
	Child allowances	32,322	41,100	49,487	53,151	60,331
	Social allowances	23,777	27,544	31,798	34,294	37,702
	War invalids, war veterans, war victims allowances	7,146	6,085	10,434	14,941	22,167
	Pensions	273,892	310,075	352,534	391,921	438,415
	Wage compensation	7,895	10,338	12,344	14,850	17,885
	Sick leave compensation	15,905	17,239	19,093	20,483	22,823
	Scholarship	9,549	10,884	14,066	13,926	16,333
	Other transfers to individuals	7,802	8,262	10,492	10,380	11,376
412	CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	5,501	5,980	7,368	8,489	9,154
413	OTHER CURRENT DOMESTIC TRANSFERS	252,406	294,851	341,932	383,889	414,883
	Current transfers to extrabudgetary funds	809	719	775	4,569	2,692
	Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	412,191
	- Wages, salaries and other personnel expenditure	126,861	152,469	188,044	208,458	224,022
	- Purchases of goods and services	124,736	141,663	153,113	170,862	188,169
414	CURRENT TRANSFERS	2,780	3,829	3,934	5,035	5,533
42	CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	96,558
43	CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	71,015
II-I.	SURPLUS / DEFICIT (I. - II.)	913	8,230	-34,081	-25,591	-35,124
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	58,751

(cont. on next page)

Table 11: Consolidated general government expenditure; GFS - IMF Methodology (continue)

per cent of GDP

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE		1995	1996	1997	1998	1999
			A C T U A L			estimate
II.	TOTAL EXPENDITURE (40+41+42+43)	43.1	42.4	43.2	43.8	44.5
40	CURRENT EXPENDITURE	7.6	7.5	7.7	8.1	8.5
400	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	3.0	3.2	3.3	3.2	3.2
402	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.4	3.0	3.1	3.3	3.4
403	INTEREST PAYMENTS	1.2	1.2	1.2	1.3	1.5
409	RESERVES	0.1	0.1	0.1	0.3	0.3
41	CURRENT TRANSFERS	31.3	30.7	31.4	31.4	31.4
410	SUBSIDIES	1.9	1.4	1.4	1.5	1.6
411	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.6	17.4	17.9	17.7	17.9
	of which:					
	Transfers to unemployed	0.6	0.5	0.6	0.6	0.4
	Child allowances	1.5	1.6	1.7	1.6	1.7
	Social allowances	1.1	1.1	1.1	1.1	1.0
	War invalids, war veterans, war victims allowances	0.3	0.2	0.4	0.5	0.6
	Pensions	12.3	12.1	12.1	12.1	12.2
	Wage compensation	0.4	0.4	0.4	0.5	0.5
	Sick leave compensation	0.7	0.7	0.7	0.6	0.6
	Scholarship	0.4	0.4	0.5	0.4	0.5
	Other transfers to individuals	0.4	0.3	0.4	0.3	0.3
412	CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	0.2	0.2	0.3	0.3	0.3
413	OTHER CURRENT DOMESTIC TRANSFERS	11.4	11.5	11.8	11.8	11.6
	Current transfers to extrabudgetary funds	0.0	0.0	0.0	0.1	0.1
	Current transfers to public institutions and public utilities	11.3	11.5	11.7	11.7	11.5
	- Wages, salaries and other personnel expenditure	5.7	6.0	6.5	6.4	6.2
	- Purchases of goods and services	5.6	5.5	5.3	5.3	5.2
414	CURRENT TRANSFERS	0.1	0.1	0.1	0.2	0.2
42	CAPITAL EXPENDITURE	2.6	2.5	2.3	2.5	2.7
43	CAPITAL TRANSFERS	1.6	1.7	1.8	1.8	2.0
III.	SURPLUS / DEFICIT (I. - II.)	0.0	0.3	-1.2	-0.8	-1.0
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6

Source of data: Ministry of finance, calculations of percentage in GDP by IMAD.

Table 12: Indicators of overall competitiveness

annual growth in %

	1993	1994	1995	1996	1997	1998	1999 estimate
Effective exchange rate[1]							
Nominal	-21.3	-11.9	-0.5	-9.7	-5.4	-2.6	-4.9
Real[2]	0.8	3.8	10.2	-2.9	0.7	4.0	0.5
Unit labour cost in manufacturing[3]							
In SIT nominal	36.7	14.3	9.8	6.9	7.2	5.9	6.3
In the basket of currencies[4]	7.7	0.7	9.3	-3.5	1.5	3.2	1.1
In the basket of currencies - relative[5]	4.2	3.6	9.6	-4.2	4.9	5.0	1.1
Components[4]:							
Compensation of employees - real[6]	10.3	5.7	4.9	3.9	3.4	3.4	2.5
Net wages and other remunerations	15.8	10.9	6.8	7.7	4.3	3.1	2.3
Tax burden on wages[7]	-3.5	-4.0	-0.6	-2.5	-0.5	0.6	0.3
Labour productivity	7.2	11.9	8.4	6.7	4.5	5.4	3.0
Prices / effective exchange rate	4.6	6.6	12.9	-0.8	2.5	5.1	1.6

[1] Growth in index value denotes drop in the value of tolar and vice versa
[2] Measured by relative inflation
[3] For enterprises and companies with 3 or more employees
[4] Only domestic factors
[5] Relative to growth in unit labour costs in 7 main OECD trading partners
[6] Deflated by consumer prices
[7] The ratio of gross wages and employers' contributions to net wages
Sources of data: APP,BS,SORS,AIECE,OECD, WIFO; calculations IMAD.

Table 13: Labour force, employment and unemployment

in thousand

		1995	1996	1997	1998	1999 estimate	2000 estimate	2001 estimate
A	**POPULATION, 30 June**	**1987.5**	**1991.2**	**1986.8**	**1982.6**	**1979.2**	**1979.2**	**1978.0**
A1	of which: age group 15 - 64	1377.2	1383.9	1385.3	1384.0	1385.5	1386.5	1386.9
B1	**LABOUR FORCE (by current statistics) (C1+D1)**	**870.6**	**864.6**	**868.6**	**871.2**	**872.3**	**876.4**	**880.2**
	- as a % of age group 15 - 64 (B1/A1)	*63.2*	*62.5*	*62.7*	*63.0*	*63.0*	*63.2*	*63.5*
B2	LABOUR FORCE (by LF Survey) (C2+D2)	952.0	947.0	978.0	978.0	976.8	977.5	977.8
	- as a % of age group 16 -64 (B2/A1)	*69.1*	*68.4*	*70.6*	*70.7*	*70.5*	*70.5*	*70.5*
C1	**PERSONS IN EMPLOYMENT (by monthly reports)**	**749.1**	**744.8**	**743.4**	**745.2**	**749.3**	**754.9**	**761.6**
C11	Persons in paid employment **)	641.4	635.2	651.2	652.5	656.3	661.5	667.8
C111	- in enterprises and other organisations **)	593.8	581.7	593.1	591.7	592.7	594.9	598.2
C112	- in small scale sector	47.6	53.5	58.1	60.8	63.6	66.6	69.6
C12	Self-employed persons	107.7	109.6	92.2	92.7	93.1	93.4	93.8
C121	- independent farmers	55.5	55.5	39.7	41.0	41.0	41.0	41.0
C122	- other self-employed persons	52.2	54.1	52.5	51.7	52.0	52.4	52.8
C2	PERSONS IN EMPLOYMENT by LF Survey	882.0	878.0	906.0	901.0	898.6	899.3	899.5
	Of which: regulary employed and self-employed	820.0	820.0	841.0	843.0	843.6	844.3	844.5
	unpaid family workers and other forms of work	62.0	57.0	65.0	58.0	55.0	55.0	55.0
C3	EMPLOYMENT by national accounts statistics *)	829.2	822.0	821.7	822.5	825.0	828.3	832.4
C4	PERSONS IN EMPLOYMENT, not covered by current statistics (C3-C1)	80.1	77.2	78.3	77.4	75.6	73.4	70.8
D1	**REGISTERED UNEMPLOYED**	**121.5**	**119.8**	**125.2**	**126.1**	**122.9**	**121.5**	**118.6**
	Rate of registered unemployment (D1/B1, in %)	*14.0*	*13.9*	*14.4*	*14.5*	*14.1*	*13.9*	*13.5*
	Rate of registered unemployment at the end of year	*14.5*	*14.4*	*14.8*	*14.5*	*14.0*	*13.7*	*13.5*
D2	UNEMPLOYED JOB-SEEKERS (by ILO standards)	70.0	69.0	72.0	77.0	78.1	78.2	78.2
	Standardised unemployment rate (D2/B2, in %)	*7.4*	*7.3*	*7.4*	*7.9*	*8.0*	*8.0*	*8.0*
E	JOB VACANCIES	12.9	13.1	11.2	11.9	12.3	12.4	12.5
	- per 100 unemployed (E/D1, in %)	*10.6*	*10.9*	*8.9*	*9.4*	*10.0*	*10.2*	*10.5*
F	WORK PERMITS, FOREIGNERS	39.1	40.4	40.2	34.8	34.9	35.1	35.2
	- by 100 persons in employment (F/B1, in %)	*4.5*	*4.7*	*4.6*	*4.0*	*4.0*	*4.0*	*4.0*

(cont. on next page)

Table 13: Labour force, employment and unemployment (continue)

in thousand

	1995	1996	1997	1998	1999 estimate	2000 estimate	2001 estimate
ANNUAL GROWTH RATES (in %) *)**							
POPULATION, 30 June (A)	**-0.1**	**0.2**	**-0.2**	**-0.2**	**-0.1**	**0.0**	**0.0**
LABOUR FORCE by current statistics (B1)	*-0.9*	*-0.7*	*0.6*	*0.3*	*0.1*	*0.5*	*0.4*
PERSONS IN EMPLOYMENT (by monthly reports) (C1)	**-0.3**	**-0.6**	**0.3**	**0.2**	**0.6**	**0.7**	**0.9**
Of which: Persons in paid employment (C11)	*-0.9*	*-1.0*	*0.2*	*0.2*	*0.6*	*0.8*	*1.0*
- in enterprises and other organisations (C111)	*-1.9*	*-2.1*	*-0.7*	*-0.2*	*0.2*	*0.4*	*0.6*
Persons in employment in small-scale sector (C112+C122)	*13.7*	*12.6*	*10.3*	*4.6*	*4.6*	*4.6*	*4.6*
Independent farmers (C121)	*3.2*	*1.8*	*0.9*	*0.5*	*0.4*	*0.4*	*0.4*
PERSONS IN EMPLOYMENT by LF Survey (C2)	*3.6*	*-0.5*	*3.2*	*-0.6*	*-0.3*	*0.1*	*0.0*
EMPLOYMENT by national accounts statistics (C3)	*0.8*	*-0.9*	*0.0*	*0.1*	*0.3*	*0.4*	*0.5*
REGISTERED UNEMPLOYED (D1)	**-4.4**	**-1.4**	**4.5**	**0.7**	**-2.5**	**-1.1**	**-2.4**
JOB VACANCIES (E)	*2.9*	*1.3*	*-14.9*	*6.6*	*3.4*	*0.7*	*0.9*
WORK PERMITS, FOREIGNERS (F)	*11.8*	*3.3*	*-0.6*	*-13.3*	*0.2*	*0.5*	*0.4*

Note: *) by 1997 firms with 1-2 employed included; **) year 1998: estimate IMAD; ***) estimated growth rate for 1997 based on comparable data.
Source of data: SORS, IMAD's estimates.

Table 14: Labour force flows during the year

in thousand

	1995	1996	1997	1998	1999 estimate	2000 estimate	2001 estimate
Redundant	55.4	65.4	60.6	58.4	56.2	56.6	57.1
- per 100 persons in employment (in %)	*7.4*	*8.8*	*8.1*	*7.8*	*7.5*	*7.5*	*7.5*
Retired	11.5	14.8	15.1	14.8	16.0	16.5	16.5
- per 100 persons in employment (in %)	*1.3*	*1.7*	*1.7*	*1.7*	*1.8*	*1.9*	*1.9*
Dead	3.6	3.5	3.7	3.4	3.6	3.6	3.6
- per 100 persons in employment (in %)	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*
Reg. unemployed who found employment	60.0	54.6	56.1	55.4	56.8	57.2	58.2
- per 100 persons in employment (in %)	*8.0*	*7.3*	*7.5*	*7.4*	*7.6*	*7.6*	*7.6*
Growth in work permits for foreigners during the year	2.6	0.2	-2.9	-3.3	0.1	0.2	0.1
- per 100 persons in employment (in %)	*0.3*	*0.0*	*-0.4*	*-0.4*	*0.0*	*0.0*	*0.0*
Others who found employment (net)	6.8	22.0	28.3	27.9	23.2	25.0	25.6
- per 100 persons in employment (in %)	*0.9*	*3.0*	*3.8*	*3.7*	*3.1*	*3.3*	*3.4*
First-time job seekers	24.3	21.1	17.9	18.6	18.2	16.6	15.2
- per 100 persons in employment (in %)	*3.2*	*2.8*	*2.4*	*2.5*	*2.4*	*2.2*	*2.0*
Crossed out of register	16.4	34.1	18.3	23.0	22.1	18.2	15.4
- per 100 persons in employment (in %)	*13.5*	*28.5*	*14.6*	*18.2*	*18.0*	*15.0*	*13.0*
LABOUR FORCE at the end of the year	873.6	864.6	870.9	872.3	872.0	875.3	880.7
of which: registered unemployed	126.8	124.5	128.6	126.6	122.1	119.9	118.6
Registered unemployment rate at the end of the year (M1/M, in %)	*14.5*	*14.4*	*14.8*	*14.5*	*14.0*	*13.7*	*13.5*

Source of data: SORS, estimate IMAD.

Table 15: Business results of commercial companies

In SIT million

		1995	1996	1997	1998
1.	TOTAL REVENUES	5,000,198	5,675,134	6,515,716	7,087,515
1.1.	Operating revenues	4,656,188	5,313,406	6,069,739	6,641,894
	in which:				
	-net revenues from sales on thedomestic market	3,462,672	3,960,935	4,433,408	4,824,976
	-net revenues from sales on the foreign market	1,121,167	1,269,740	1,549,827	1,716,478
1.2.	Financial revenues	192,396	197,669	235,546	219,307
1.3.	Extraordinary revenues	151,614	164,059	210,431	226,314
2.	TOTAL EXPENSES	5,010,131	5,717,271	6,497,855	7,026,553
2.1.	Operating expenses	4,671,862	5,321,870	6,019,222	6,575,573
	in which				
	-Costs of goods, materials and ser.	3,526,450	4,026,663	4,560,282	4,986,685
	-Costs of labour	835,872	906,553	1,002,793	1,093,716
	Wages and salaries	582,871	642,920	712,350	776,846
	Social security	131,251	118,816	125,876	139,608
	Other labour costs	121,750	144,817	164,567	177,262
	- Depreciation	229,653	293,875	330,089	378,718
	- Value adjustments of current asset	45,070	52,814	61,742	59,713
	- Differences in value of inventories of products and work-in-progress	23,463	22,918	30,137	24,912
	- Other operating expenses	-21,136	-21,842	-10,732	-19,314
2.2.	Financing expenses	246,547	279,345	337,645	298,763
2.3.	Extraordinary expences	91,722	116,056	140,988	152,217
3.	PROFIT BEFORE TAXATION	127,918	139,976	198,855	233,607
4.	LOSS BEFORE TAXATION	137,850	182,112	180,995	172,644
5.	TAX ON PROFIT	15,006	18,281	21,729	24,426
6.	NET PROFIT	112,956	121,764	177,258	209,269
7.	NET LOSS	137,893	182,181	181,126	172,733
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	-24,937	-60,417	-3,868	36,536
9.	NUMBER OF EMPLOYEES	484,602	467,238	460,376	459,094
10.	NUMBER OF COMMERCIAL COMPANIES	33,609	35,786	36,717	37,585

(cont. on next page)

Table 15: Business results of commercial companies (continue)

		Index in %			Structure in %			
		96/95	97/96	98/97	1995	1996	1997	1998
1.	TOTAL REVENUES	113.5	114.8	108.8	100.0	100.0	100.0	100.0
1.1.	Operating revenues	114.1	114.2	109.4	93.1	93.6	93.2	93.7
	in which:							
	-net revenues from sales on thedomestic market	114.4	111.9	108.8	69.3	69.8	68.0	68.1
	-net revenues from sales on the foreign market	113.3	122.1	110.8	22.4	22.4	23.8	24.2
1.2.	Financial revenues	102.7	119.2	93.1	3.8	3.5	3.6	3.1
1.3.	Extraordinary revenues	108.2	128.3	107.5	3.0	2.9	3.2	3.2
2.	TOTAL EXPENSES	114.1	113.7	108.1	100.2	100.7	99.7	99.1
2.1.	Operating expenses	113.9	113.1	109.2	93.4	93.8	92.4	92.8
	in which							
	-Costs of goods, materials and ser.	114.2	113.3	109.4	70.5	71.0	70.0	70.4
	-Costs of labour	108.5	110.6	109.1	16.7	16.0	15.4	15.4
	Wages and salaries	110.3	110.8	109.1	11.7	11.3	10.9	11.0
	Social security	90.5	105.9	110.9	2.6	2.1	1.9	2.0
	Other labour costs	118.9	113.6	107.7	2.4	2.6	2.5	2.5
	- Depreciation	128.0	112.3	114.7	4.6	5.2	5.1	5.3
	- Value adjustments of current asset	117.2	116.9	96.7	0.9	0.9	0.9	0.8
	- Differences in value of inventories of products and work-in-progress	97.7	131.5	82.7	0.5	0.4	0.5	0.4
	- Other operating expenses	103.3	49.1	180.0	-0.4	-0.4	-0.2	-0.3
2.2.	Financing expenses	113.3	120.9	88.5	4.9	4.9	5.2	4.2
2.3.	Extraordinary expences	126.5	121.5	108.0	1.8	2.0	2.2	2.1
3.	PROFIT BEFORE TAXATION	109.4	142.1	117.5	2.6	2.5	3.1	3.3
4.	LOSS BEFORE TAXATION	132.1	99.4	95.4	2.8	3.2	2.8	2.4
5.	TAX ON PROFIT	121.8	118.9	112.4	0.3	0.3	0.3	0.3
6.	NET PROFIT	107.8	145.6	118.1	2.3	2.1	2.7	3.0
7.	NET LOSS	132.1	99.4	95.4	2.8	3.2	2.8	2.4
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	242.3	6.4	-944.6	-0.5	-1.1	-0.1	0.5
9.	NUMBER OF EMPLOYEES	96.4	98.5	99.7				
10.	NUMBER OF COMMERCIAL COMPANIES	106.5	102.6	102.4				

Source of data: APP Statistical data from profit and loss statements of commercial companies for 1995, 1996, 1997 and 1998.

Table 16: Estimate of financial sources for expenditure on environmental protection

1995 constant prices, SIT million[1]

	1998	1999	2000	2001-2006
I. GENERAL GOVERNMENT REVENUES FROM ENVIRONMENTAL DEGRADATION				
1 Total	26,731	29,032	29,633	n.d.
1.1 Total general government budget	24,585	27,729	28,764	207,658
1.1.1 Central state	21,098	25,871	26,917	196,575
a Waste-water tax	2,836	2,842	2,836	38,388
b CO2 tax	16,533	21,201	21,698	130,187
c Other sources	1,729	1,828	1,977	11,863
d New sources planned in the National Environmental Action Plan[2]	0	0	406	16,137
1.1.2 Municipalities	3,487	1,858	1,847	11,082
1.2 Ecological Development Fund (EDF)	2,146	1,303	869	n.d.
II GENERAL GOVERNMENT EXPENDITURE ON ENVIRONMENTAL PROTECTION				
2 Total	9,546	8,178	7,836	68,501
2.1 Total budgetary expenditure on environmental protection	5,694	5,511	5,343	55,529
2.1.1 From earmarked taxes	5,694	5,511	5,343	55,529
a CO_2 emmissions abatement	3,226	3,021	2,836	17,018
b Communal infrastructure construction	2,468	2,490	2,507	38,511
b1 Waste-water treatment plants, sewage systems	2,468	2,490	2,507	37,388
b2 Landfills	0	0	0	1,124
2.2 Other general government expenditure on environmental protection	3,852	2,667	2,493	12,972
2.2.1For iInvestment	845	1,212	1,151	5,500
2.2.2 For current expenditure	801	750	680	3,500
2.2.3 Not classified by purpose	2,206	705	662	3,972
III GENERAL GOVERNMENT TRANSFERS FOR ENVIRONMENTAL PROTECTION				
3. From the central to municipal budgets	4,982	5,130	4,908	-
3.1 For current expenditure	4,625	4,604	4,398	-
3.2 For investment	357	527	510	-
4 From the central budget to environmental protection funds	150	105	321	-
5 Part of proceeds for the Ecological Development Fund	414	370	451	-
6 Environmental protection transfers to polluters	11,396	12,050	12,429	-
6.1 From the central budget	6,771	7,446	8,031	-
6.2 From municipal budgets	4,625	4,604	4,398	-
IV LOANS OF THE ECOLOGICAL DEVELOPMENT FUND				
Newly granted loans	3,336	3,061	958	-

[1] Estimation is being developed and is subject to changes; an update will be prepared for the Spring Report 2000;
[2] Packaging tax, landfill tax.
Source of data: Reporter of National Assembly 57iii/97, 3/98 and 59 i-xxv/98.

Table 17a: GROSS FIXED CAPITAL FORMATION (enterprises and organizations)

current prices, SIT million

		1990	1991	1992	1993	1994	1995	1996	1997
A,B	Agriculture & fishing	1,577	1,546	3,505	2,847	2,463	2,464	4,319	6,097
C	Mining and quarrying	226	454	841	1,171	1,447	2,028	5,001	4,867
D	Manufacturing	6,575	16,262	39,198	49,578	56,554	90,353	99,402	129,739
E	Electricity, gas and water supply	1,098	2,638	6,709	11,010	29,588	30,061	35,224	40,630
F	Construction	821	841	2,431	3,794	5,573	9,940	9,076	10,376
G	Wholesale, retail, trade, repair	2,314	6,109	11,632	19,528	22,877	46,239	44,649	53,303
H	Hotels and restaurants	219	498	2,113	4,256	6,928	5,413	7,496	7,498
I	Transport, storage, communications	3,211	5,709	13,563	23,156	31,531	38,026	51,720	66,034
J	Financial intermediation	492	1,926	5,142	7,122	8,660	11,391	24,529	17,490
K	Real estate, renting and business services	1,332	2,119	7,495	12,886	21,561	40,208	53,830	18,027
L	Public admin., defence and com. soc. sec.	4,854	6,331	15,391	17,049	17,016	20,685	26,748	75,018
M	Education	823	1,585	2,641	5,415	6,712	10,471	10,685	11,326
N	Health and social work	910	1,544	5,541	11,280	8,976	10,745	13,473	16,155
O	Other community and personal services	648	2,720	8,448	11,393	5,626	8,492	9,447	11,285
	Unclassified	364	200	336	207	3,721	1,307	0	0
	Total	**25,464**	**50,482**	**124,986**	**180,692**	**229,233**	**327,823**	**395,599**	**467,845**
	Structure in %								
A,B	Agriculture & fishing	6.2	3.1	2.8	1.6	1.1	0.8	1.1	1.3
C	Mining and quarrying	0.9	0.9	0.7	0.6	0.6	0.6	1.3	1.0
D	Manufacturing	25.8	32.2	31.4	27.4	24.7	27.6	25.1	27.7
E	Electricity, gas and water supply	4.3	5.2	5.4	6.1	12.9	9.2	8.9	8.7
F	Construction	3.2	1.7	1.9	2.1	2.4	3.0	2.3	2.2
G	Wholesale, retail, trade, repair	9.1	12.1	9.3	10.8	10.0	14.1	11.3	11.4
H	Hotels and restaurants	0.9	1.0	1.7	2.4	3.0	1.7	1.9	1.6
I	Transport, storage, communications	12.6	11.3	10.9	12.8	13.8	11.6	13.1	14.1
J	Financial intermediation	1.9	3.8	4.1	3.9	3.8	3.5	6.2	3.7
K	Real estate, renting and business services	5.2	4.2	6.0	7.1	9.4	12.3	13.6	3.9
L	Public admin., defence and com. soc. sec.	19.1	12.5	12.3	9.4	7.4	6.3	6.8	16.0
M	Education	3.2	3.1	2.1	3.0	2.9	3.2	2.7	2.4
N	Health and social work	3.6	3.1	4.4	6.2	3.9	3.3	3.4	3.5
O	Other community and personal services	2.5	5.4	6.8	6.3	2.5	2.6	2.4	2.4
	Unclassified	1.4	0.4	0.3	0.1	1.6	0.4	0.0	0.0
	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source of data : SORS.

Table 17b: Technical structure of gross fixed capital formation (enterprises and organizations)

Current prices in SIT million - organisation principle

	1990	1991	1992	1993	1994	1995	1996	1997
Construction work	10,736	16,946	45,408	65,453	79,428	125,974	178,523	210,147
Housing construction				1,158	2,487	3,910	7,581	10,005
Other construction work				64,295	76,941	122,064	170,942	200,142
Machinery, equipment	13,561	30,763	74,028	105,170	135,958	182,281	206,213	239,684
Domestic equipment	8,972	20,280		62,829	79,818	107,006		
Imported equipment	4,589	10,483		42,341	56,140	75,275		
Other	1,168	2,773	5,550	10,010	13,861	19,569	17,445	23,702
Total	25,465	50,482	124,986	180,633	229,247	327,824	402,181	473,533
Structure in %								
Construction work	42.2	33.6	36.3	36.2	34.6	38.4	44.4	44.4
Housing construction				0.6	1.1	1.2	1.9	2.1
Other construction work				35.6	33.6	37.2	42.5	42.3
Machinery, equipment	53.3	60.9	59.2	58.2	59.3	55.6	51.3	50.6
Domestic equipment	35.2	40.2		34.8	34.8	32.6		
Imported equipment	18.0	20.8		23.4	24.5	23.0		
Other	4.6	5.5	4.4	5.5	6.0	6.0	4.3	5.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source of data : SORS.

Table 18: Selected indicators of financial results of commmercial companies in 1997 and 1998

	Number of enterprises		Employees (index growth)		Share of export in revenue (in %)		Share of losses in revenue (in %)	
	1997	1998	97/96	98/97	1997	1998	1997	1998
STATISTICAL REGIONS								
CENTRAL SLOVENIA	15,907	16,417	101.1	99.6	15.9	15.9	2.6	2.5
LITTORAL KARST	2,399	2,455	100.9	101.2	23.0	23.2	2.0	2.3
GORENJSKA	3,641	3,738	93.5	95.7	31.1	29.6	2.5	2.7
GORIŠKA	2,175	2,186	98.1	100.1	29.8	28.9	2.8	2.0
SAVINJSKA	3,248	3,300	97.7	101.3	26.2	26.0	2.2	1.8
DOLENJSKA	1,234	1,243	96.8	105.7	55.8	58.4	0.9	0.4
POMURSKA	1,058	1,064	98.1	97.6	20.5	20.3	2.7	2.2
KARST	617	637	92.9	102.2	40.7	40.3	1.2	1.6
PODRAVSKA	4,136	4,202	100.2	99.9	21.1	22.0	4.8	3.6
KOROŠKA	870	871	96.8	97.6	43.9	45.3	5.2	1.6
POSAVSKA	927	959	92.6	102.9	26.2	24.6	3.8	7.2
ZASAVSKA	505	513	95.3	95.8	18.2	18.8	7.0	3.2
SLOVENIA	**36,717**	**37,585**	**98.5**	**99.7**	**23.8**	**24.2**	**2.8**	**2.4**
	Earnings per employee (in SIT, 000)		Net profit per employee (in SIT, 000)		Value added per employee (in SIT, 000)		Net profit / loss (in SIT, 000)	
	1997	1998	1997	1998	1997	1998	1997	1998
STATISTICAL REGIONS								
CENTRAL SLOVENIA	141	155	536	635	3,719	4,124	11,612,788	22,497,101
LITTORAL KARST	138	148	732	757	3,579	3,769	8,914,840	8,173,748
GORENJSKA	121	133	255	369	2,886	3,193	-1,868,314	367,928
GORIŠKA	138	152	440	517	3,356	3,693	2,384,447	6,585,618
SAVINJSKA	120	131	234	282	3,002	3,207	-2,276,756	2,433,820
DOLENJSKA	136	147	423	441	3,529	3,999	6,271,404	8,645,411
POMURSKA	113	121	244	250	2,434	2,646	-623,823	596,467
KARST	119	128	245	272	2,759	2,845	1,040,158	906,494
PODRAVSKA	118	129	267	326	2,729	3,008	-18,187,035	-7,790,996
KOROŠKA	113	123	197	263	2,337	2,715	-4,766,709	1,143,408
POSAVSKA	111	115	208	234	2,677	3,101	-2,053,670	-6,191,686
ZASAVSKA	125	141	178	225	2,866	3,353	-4,315,763	-831,030
SLOVENIA	**129**	**141**	**385**	**456**	**3,205**	**3,536**	**-3,868,433**	**36,536,283**

Source of data: Agency of the Republic of Slovenia for Payments.

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