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Introductory remarks

The Development Report 2007 is a document that monitors the realisation of Slovenia's Development Strategy that was adopted by the Slovenian government in June 2005. SDS set out the vision and objectives of Slovenia's development until 2013 and five development priorities with action plans. The 2006 Report presented the starting point of Slovenia's development since the data included in last year's report mostly spanned the period until 2004. This year, when most data are available for 2005 and some for 2006, the Report proffers the first findings regarding the realisation of the adopted strategic objectives in the initial period of SDS' implementation.

The Development Report 2007 is divided into two parts: Part I presents an overview of SDS' implementation in the five development areas; Part II documents the progress in detail by means of indicators of Slovenia's development. Due to the lack of relevant indicators within the fifth development priority we do not analyse the progress in the area of culture separately this year. For the same reason, it has also not been possible to assess the realisation of the development objective regarding Slovenia's international distinctiveness. The findings in the Report are mostly based on the results obtained through the set of indicators that were designed to monitor development. We have also consulted other sources (national and international research, reports on the implementation of sectoral strategies and programmes), particularly in areas where no relevant indicators were available due to data shortage. The set of indicators largely corresponds to the set applied in 2006, although it has been extended in some areas that were less well covered last year (entrepreneurship, competitiveness of services, health care) and reduced in areas where several indicators previously covered similar topics (e.g. regional development, trust, satisfaction) or where databases are no longer adequate (investment in knowledge, number of researchers, innovation activity, changes in municipal spatial plans). Last year we first attempted to assess Slovenia's development by means of a mathematical model based on selected indicators. This year, we have improved the model by including significantly more indicators and extending the analysed time period. Results of the model-based estimate of development are presented in the Appendix.

The analysis in the Report is based on the official statistical data of domestic and foreign institutions that were available by the end of January 2007. In some indicators, we have also used more recent data for Slovenia that were released by 30 March 2007 (gross domestic product, general government deficit, labour market, balance of payments, entrepreneurship), which allowed us to extend the Report in these areas to data for 2006. In the analyses, Slovenia is mostly compared with other countries of the EU-25. In some rare cases where data were available sufficiently early we have also added Bulgaria and Romania. The terms 'European average' or 'EU average' thus refer to the group of the EU-25 countries; the term 'old member states' refers to the EU-15 group, whereas the EU-10 countries that joined the European Union in 2004 are referred to as the new member states.

Summary

Over the last few years, Slovenia has prospered economically and kept up the quality of life and the welfare of its people, but it has been too slow in reducing the pressures on its environment.

In 2004-2006, Slovenia's GDP growth accelerated and exceeded the average growth in the EU by much more than in the preceding three-year period. Slovenia also fulfilled the Maastricht convergence criteria for euro adoption in 2006; however, it still needs to reduce the structural deficit in order to make its fiscal policy more flexible.

The competitiveness of the business sector measured by the growth of market shares in export markets continued to improve, whereas the developments in certain factors that have a more long-term impact on competitiveness and are primarily linked to the innovation of the corporate sector were less favourable. Development determinants of the knowledge-based society show a relatively favourable situation and trends as regards human capital; however, insufficient progress was made in the quality and effectiveness of tertiary education and in R&D and innovation.

General government expenditure and the tax burden on labour are being reduced in accordance with the adopted strategy for a more efficient and economical government. Positive shifts have also been achieved regarding the regulations and efficiency of the judiciary. However, progress has been sluggish in privatisation and in the attempts to make public finance more development-oriented.

Living conditions are gradually improving amid the relatively fast economic expansion, and the risk of poverty in Slovenia remains one of the lowest in the EU. Nevertheless, the social risks associated with certain population groups (especially the young, the old and the less educated) have not declined in any significant way. On the whole, trends in the labour market are also positive despite some structural problems that persist (long-term unemployment, rising youth unemployment). Regional disparities have begun to gradually narrow lately. In many areas of environmental development, the principles of sustainability are not being applied. Trends in transport are most critical in this respect.

Main findings

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

In the initial period of implementing SDS, the improvement in the development of Slovenia's economy was satisfactory in terms of achieving the central ***economic objective*** *of Slovenia's Development Strategy.* Gross domestic product per capita in purchasing power parity totalled 82% of the EU-25 average in 2005. In the first period of pursuing SDS' economic objective (2004-2006), when a slight acceleration of both components of GDP per capita was projected, both productivity growth and employment growth did in fact pick up. Economic growth thus exceeded the average growth in the EU-25 by almost one percentage point more than in 2001-2003 and was slightly above the growth projected in SDS scenarios for 2004-2006. The acceleration of the economy was primarily linked to macroeconomic determinants (external economic conditions, stabilisation of the economy ahead of euro adoption, public investment), where progress in this period was most notable. While individual structural reforms also contributed to the positive outcome, some indicators that primarily measure the economy's long-term competitiveness show sluggish progress or even a reversal (technological intensity of exports, inward foreign direct investment, sophistication of business and financial services, innovation activity rate, level of investment in R&D, quality of education).

Maintaining macroeconomic stability remains an important goal of economic policies after the euro was adopted. Further efforts will have to be devoted particularly to fiscal viability in future. In 2006, Slovenia fulfilled the Maastricht convergence criteria for euro adoption and thus met its main short-term macroeconomic policy objective. Amid the brisk economic expansion, the country maintained its price stability which is vital in terms of keeping up and improving Slovenian economic competitiveness. Slovenia has managed to reduce its general government deficit over the last few years. The country's challenge for the future remains to enhance the adaptability of its fiscal policy to changes in the macroeconomic environment, which will call for a decrease in the structural deficit and higher quality of public finances. In order to ensure sustainable fulfilment of the provisions of the Stability and Growth Pact, further structural changes will need to be carried out in the years ahead. Further, to maintain long-term fiscal viability, timely reforms must ensure that demographic trends do not create excessive pressure on public finances.

The competitiveness of the Slovenian business sector measured by its performance in export markets is still improving. However, Slovenia lags far

behind the more advanced countries in a number of indicators that measure the innovation of businesses and are critical for the sustained growth of competitiveness. These indicators show sluggish progress or even a reversal. In 2006, the growth of Slovenia's market share continued for the sixth consecutive year. Slovenia's position among the EU countries in terms of its market share growth in foreign markets kept improving as well. However, both manufacturing's cost competitiveness and the technological intensity of goods exports declined in 2004 and 2005. The estimated developments in 2006 based on the data released to date are more encouraging. It appears that trends from the previous two years did not continue in 2006. The internationalisation of the economy is increasing, but it is mostly effected through foreign trade flows and outward foreign direct investment, while the inward FDI that could boost the technological restructuring of manufacturing remains very modest. Developments in entrepreneurship in recent years have been somewhat more positive. Early entrepreneurial activity has rebounded and the efficiency and quality of the early entrepreneurial process have been improving. On the other hand, aid for the funding of high-risk, innovative projects is still too low. The effects of liberalisation are also believed to benefit economic competitiveness yet liberalisation in Slovenia has been gradual and is only taking place in some sectors, notably telecommunications. Further economic advancement will require the development of services, particularly those closely linked to doing business (financial and business services), and their increased efficiency. Over the last year, the sophistication of the financial sector improved only in the banking segment, whereas business services recorded a relatively modest improvement in their competitiveness. The innovation activity of services similarly remains poor.

Development factors of the knowledge-based society show a relatively favourable situation and trends in the area of human capital, whereas insufficient progress has been made in the quality and efficiency of tertiary education. The education structure is still improving, in large part thanks to the high participation of youth in education, which is above the EU average. According to some indicators, participation in lifelong learning is also rising and is relatively high, yet it is also necessary to involve older and less educated people in it. Faster progress must also be achieved in promoting the study of physical and technical sciences and improving the quality of tertiary education, including by changing the system of funding tertiary education. The first steps in this direction have already been made by promoting enrolment in science and technical programmes and thus increasing the number of higher education institutions. The growing difficulties in employing highly educated people are a further signal that higher education should be modernised.

Among the factors that strengthen the R&D and innovation potential of Slovenia, satisfactory progress was only achieved in the area of Internet use and accessibility. A visible move forward was also made in the number of patent applications. The increase in expenditure on R&D was too small (notably in the business sector), since its share relative to GDP only rose modestly in 2004 and 2005 after having decreased in 2001-2003. Slovenia is thus moving away from the objectives of SDS. It is more encouraging that the hiring of researchers in the private sectors is rising at a faster rate than in the government

sector, and that the number of European patent application increased in 2002-2003 (latest available data). Investment in information and communication technologies is rising too slowly. Compared with the most competitive economies, Slovenia also recorded a modest but still positive improvement in the innovation activity of enterprises. The greatest room for improvement regarding innovation exists in small and medium sized enterprises and the service sector, where the gaps with developed countries are largest. In the past year, the government adopted a number of measures that could improve the situation in research, technological development and innovation in future. However, co-ordinating the policies in different areas will be vital to put these measures into action.

General government expenditure and the tax burden on labour are being reduced in accordance with the adopted strategy for a more efficient and economical government. Positive shifts have also been achieved regarding the regulation and efficiency of the judiciary. However, progress has been sluggish as regards privatisation and the attempts to make public finance more development-oriented. Looking at the *quality of public finances*, it is positive that general government expenditure as a share of GDP is decreasing in line with SDS targets. On the other hand, trends in industrial policy are adverse. Subsidies are displacing the more long-term and development-oriented expenditure, which reflects poor policy co-ordination. In the area of taxation, Slovenia has adopted measures to reduce the tax wedge on earnings in line with the strategic objectives. Regarding the *institutional competitiveness of the country*, progress has been made in the regulation and reduction of the administrative burden, although this has still not translated into an improvement in the aggregate indices of competitiveness. The improvement in the business environment has also been underpinned by the further reduction of court backlogs and duration of procedures. However, the situation in the area of enforcements, which is vital for the business sector, is still not showing any improvement but is expected to do so once the procedures have been automated. Except for the phased withdrawal of the KAD and SOD (the pension and restitution funds) as major shareholders from companies, there have been no major shifts in the area of privatisation.

Slovenia has retained its good results as regards the main ***social development goal of SDS****, i.e. the quality of life and the welfare of Slovenia's inhabitants, although weaknesses in some areas remain a continuing policy challenge.* The *living conditions* are improving gradually, and the risk of poverty remains among the lowest in the EU. The dwellings stock is rising, as are the achieved dwelling standards and access to services of general interest. The weaknesses that remain ongoing policy challenges include the low share of rented dwellings and insufficient access to housing for young people; further, the participation in lifelong learning drops sharply with the age of participants, a certain proportion of the population have no compulsory health insurance, many parents do not have access to kindergarten and the demand for long-term care appreciably exceeds the capacities to provide the service. The *situation and trends in the labour market*, which significantly determine the quality of life and the well-being of people, are generally positive. The employment rate is rising and has exceeded the European average for the third consecutive year, while the unemployment rate remains below the EU average. Also, some segments of the

labour market have become more flexible. The key problems in the labour market include the low (albeit rising) employment rate of the elderly, the high share of the long-term unemployed and the growing number of the highly educated unemployed. Negative consequences, particularly for starting a family, can also be caused by labour market segregation according to age, which means that greater flexibility is primarily achieved by the high share of fixed-term jobs for young people. Over the past few years, *social protection systems* were partly adjusted to demographic changes, needs to ensure basic social security and labour market needs, and the rising demands for a competitive economy. However, these systems call for further adjustment to the new circumstances in response to the public finance problems that are already beginning to surface as a result of demographic changes and changes in the patterns of the organisation and life of society whereby new or atypical forms of employment are gaining in importance, especially in certain population groups.

*The principle of sustainability, the **intergenerational and sustainable goal of SDS**, is not being sufficiently applied, particularly in the environmental field.* Although pressures on the *environment* are abating gradually, the pace of their reduction has been too slow considering the pace of economic development and the objectives of sustainable development. The high energy intensity of the economy is declining too slowly to help reduce the vast gap with the developed economies in this area. Manufacturing industries are particularly critical as their energy intensity even increased in 2003 and 2005. Similarly pressing are the developments in transport, where unsustainable modes of mobility are notably on the rise. As a result, greenhouse gas emissions have escalated. On the other hand, the use of renewable energy sources is relatively high although it shows no rising trend. Pressures on the environment in agriculture are diminishing, whereas waste management still shows no significant improvement in terms of recycling. Recently, some environmental policy measures have been adopted, yet in the most critical areas they are not keeping pace with the swift economic expansion. *Demographic development* shows a break in fertility trends, where the long-standing decline halted. Although the natural increase has been negative for several years, the population is still growing due to the rising positive net migration. Population ageing continues as a result of the rising life expectancy and the declining number of births. These phenomena call for appropriate responses of economic and social policies. *Regional disparities* in Slovenia are not very high in comparison with the EU. The biggest regional gaps are found in unemployment, but even these have been moderating over the last few years. *Spatial development* has seen positive shifts in the housing market, although considerable regulatory barriers still exist in this area.

*Slovenia's **development has become more balanced** in 2000-2005 (latest data), which is in line with the fundamental strategic goal.* The model-based estimate of the movements of development indicators' values allows us to see whether the achievement of the country's development goals has been balanced or not. Results of the analysis for 2000-2005 show that Slovenia enjoyed brisk economic progress and managed to keep up the achieved results in social development in this period, whereas in environmental development, which is characterised by the greatest methodological constraints on analysis, results vary strongly across

the years. This shows that the main goal of the development strategy that was effective at that time (Strategy of the Economic Development of Slovenia, 2001), which was to reduce the economic development gap without compromising the otherwise more favourable results in social and environmental development, was achieved in the analysed period. Therefore, Slovenia's current development challenge remains to shape such integrated (sustainable) development policies that will create balanced progress in all three areas of development, which will enable Slovenia to join the club of economically advanced EU countries while improving the quality of life for its citizens.

In the initial period of implementing Slovenia's Development Strategy, Slovenia has taken important steps towards achieving its development goals. Looking ahead, it should strengthen particularly those determinants of competitiveness that are based on knowledge and innovation, strive to retain the relatively favourable social conditions in the country and reduce pressures on the environment. The acceleration of economic growth in the last three-year period was in line with the planned scenario of implementing SDS. In addition to the strong business cycle, this accomplishment was also underpinned by the successful macroeconomic stabilisation of the economy linked to the process of euro adoption, along with some structural reforms, notably the beginning of the gradual reduction of the tax burden and simplification of the business environment. In order to maintain these favourable economic developments in future, Slovenia must keep up the achieved level of stability of its economy. Fiscal viability will pose the main challenge in this area. The vital task in achieving faster economic progress will be to strengthen the knowledge- and innovation-based factors of competitiveness since Slovenia has still not made sufficient progress in increasing the efficiency of investment in knowledge and innovation. To achieve this goal, Slovenia must improve its institutional and financial instruments and co-operation between the private and public sector to ensure a more effective application of knowledge in order to increase the innovative capacity of the business sector. This is a prerequisite for Slovenia to catch up with the average development level in the EU, which is SDS' central economic goal. Regarding the quality of living and the welfare of people, a generally positive picture is marred by the high social vulnerability of certain population groups (particularly the young, the old and the less educated) that will have to be addressed by an effective and co-ordinated mix of economic and social policies in future. Environmental issues must also receive more attention in the coming years since pressures on the environment, intensified by the accelerated economic expansion, are not being reduced in line with the principles of sustainable development.

I.

Development by the Priorities of Slovenia's Development Strategy

1. A competitive economy and faster economic growth

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

The Slovenian economy is gradually catching up with the average development level in the European Union, which is the main economic objective of Slovenia's Development Strategy. According to the most recent available data, ***gross domestic product per capita in purchasing power standards*** reached 82% of the EU average in 2005, 2 p.p. more than the year before and 9 p.p. more than in 2000. The SDS target is to catch up with the average development level of the EU by 2013 on the back of accelerated growth of productivity and employment. The period has been divided into three sub-periods with respect to the projected dynamics of economic growth. In the first period, until 2007, we expect a moderate acceleration of growth in both GDP components (productivity and employment). In the second period (2007-2010), the acceleration is projected to be more pronounced. This pickup is expected to be followed by a slowdown to the level of potential GDP growth in the third period (2010-2013). The available data for the period until 2006 show that trends have hitherto been satisfactory in terms of the realisation of SDS' economic objective. The average annual growth of productivity rose to 3.9% from 2004 to 2006, which is 0.9 p.p. more than in 2001-2003. The employment rate[1] also increased considerably, which both translated into the brisk growth of gross domestic product. In 2004-2006, GDP growth exceeded the average growth in the EU by 0.8 p.p. more on average than in 2001-2003 and was slightly above the level projected for this period in SDS. As elaborated later in the report, the acceleration in economic growth was primarily underpinned by macroeconomic factors (a supportive external environment, stabilisation of the economy ahead of the euro's adoption, public investment) and partly by individual structural reforms. That the contribution of structural

[1] See Chapter 4.1.

changes was still relatively small in this initial period of SDS implementation is also corroborated by the fact that while GDP growth was fairly strong, several indicators that measure economic competitiveness in the long run still showed relatively slow progress or even a reversal.

1.1. Macroeconomic stability

*Slovenia achieved its key short-term macroeconomic policy goal by meeting the **Maastricht convergence criteria** for the adoption of the euro.* In the middle of 2006, after having participated in the exchange rate mechanism ERM II for two years, Slovenia formally fulfilled all five Maastricht convergence criteria for admission to the Economic and Monetary Union (EMU). On 1 January 2007 Slovenia thus adopted the euro as the only country among the new EU member states. The main short-term macroeconomic policy objective of the government and the Bank of Slovenia was thus accomplished. By maintaining the tolar's exchange rate stable at a level that prevented any deterioration of price competitiveness or any major external imbalance, the coherent mix of macroeconomic policies applied in the last three years enabled the sustainable disinflation and the improvement of public finance indicators.

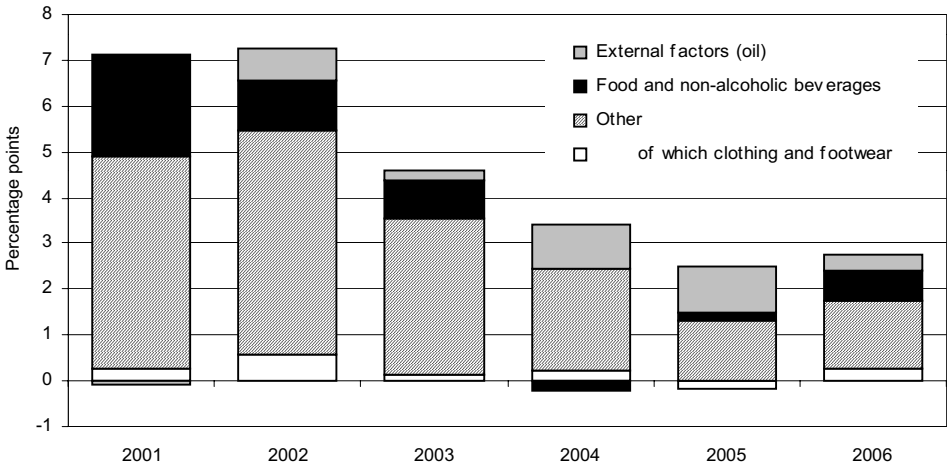
***Economic indicators** improved further in 2006. The acceleration in economic growth was stimulated by foreign demand and investment activity.* After GDP growth had lingered above the average of the previous medium-term period for two years, it gathered momentum in 2006 and reached 5.2%. Like in the entire period after 2003, economic growth was largely underpinned by the buoyant international environment and additionally boosted by the positive effects of Slovenia's entry to the EU. In comparison with the previous years, the growth of domestic demand rebounded as well in 2006, particularly in investment. The private sector's investment growth was stimulated by the favourable business climate, more stable macroeconomic conditions (adoption of the euro, low interest rates) and some one-off factors. The gradual abolition of the payroll tax, which reduced the tax burden on businesses, is also estimated to have had a positive effect. Further, there was a pick-up in the growth of investment in residential and motorway construction. The real growth of private consumption remained moderate at a similar level as in 2005[2]. The continuation of the robust growth of bank loans that had already started in 2003, when interest rates were being gradually reduced in the process of their convergence towards a level comparable to the EU levels, therefore caused no rapid increase in final consumption since the mostly long-term housing loans and loans to enterprises were on the rise. The latter, in our estimate, were partly used to finance the companies' increased investment in machinery and equipment. Taking into account the determinants and structure of last year's GDP growth we estimate that its quickening did not create any additional inflationary pressures. The growth of the real gross wage per employee was moderate as well. It totalled 2.2% in 2006, 1.8 p.p. less than productivity growth.

[2] For more details see the indicator *Real growth of gross domestic product.*

Price stability *in Slovenia is the result of the co-ordinated economic policies of the Bank of Slovenia and the government, coupled by the increased competition in the domestic market.* Price increases remained subdued in 2006. Average inflation remained at the level recorded at the end of 2005 (2.5%) whereas year-on-year inflation, after having hit its lowest level since Slovenia's independence in 2005 (2.3%), rose to 2.8% in 2006, having hovered around its average throughout the two years. The key factors that enabled inflation to remain contained in 2006 were the macroeconomic policies of the BS and the government that remained committed to maintaining price stability as one of the key factors of Slovenia's competitiveness in the international environment. As the tolar's exchange rate remained stable and contributed significantly to the sustainable disinflation and Slovenia's entry to the ERM II, the government continued to pursue a restrictive policy of administered price rises and to counter-cyclically adjust excise duties on liquid fuels and heating. The contained price growth was also underpinned by the continued moderate wage growth policy in both the public and private sectors, which prevented any demand and cost pressures on inflation.

The structure and dynamics of inflation changed in 2006. These changes were primarily caused by external and one-off factors. An analysis of the structure of goods and services prices (see Figure 1) shows the changes that occurred in 2006 and were also the main reason for the changed dynamics of inflation. While the large price swings were predominantly caused by external factors, the contribution of prices that are affected by these factors was much lower in 2006 than in 2005, mostly due to the global decrease in oil prices seen in the final quarter of the year. For the first time after July 2005, the government could thus resort to a raising of excise duties on liquid fuels for transport and heating from the minimum level still allowed by EU regulations. The swings in the year-on-year inflation were also linked to the prices of food and non-alcoholic beverages, whose contribution increased. This primarily reflected the fact that the one-off positive effects of

Figure 1: **Structure of consumer price rises in 2001-2006**



Source: SI-Stat data portal – Prices, 2007; calculations by IMAD.

Slovenia's entry to the EU on the lowering of food prices[3] lost its impulse after two years so that the rises of these prices re-stabilised at a level similar to the one seen before Slovenia joined the EU. The main reason for the higher contribution of other prices in 2006 was the higher contribution of prices of clothing and footwear, which decreased the year before. Apart from that, the increase in this group, which was crucially determined by macroeconomic policy measures and the situation in the domestic market, remained at a similar level as in 2005[4].

The maintenance of ***macroeconomic stability*** *remains an important goal of economic policies.* In order to maintain and increase the competitiveness of the Slovenian economy it will be vital to retain its price stability, whereas changes in the fiscal area aimed at reducing the structural deficit and improving the quality of public finances will make fiscal policy more responsive to the changes in the macroeconomic environment.

The decrease seen after 2001 in the ***general government deficit*** *expressed as a % of GDP was achieved by both increasing the revenues and cutting the expenditure.* The general government sector deficit, which had totalled 4.1% of GDP in 2001, decreased gradually in the following years to total 1.4% of GDP[5] in 2006. The narrowing of deficit was underpinned by the increase in the share of revenues, coupled by a decrease in the share of expenditures during the period of stronger economic growth, which was mainly based on the lower expenditure on social transfers, interest and government costs[6]. General government debt totalled between 28% and 29% of GDP in the period after 2001. In 2006, it decreased for the second consecutive year and amounted to 27.8% of GDP.

In order to increase the possibilities for fiscal policy to operate in a stabilising way, the ***structural deficit*** *should be reduced.* Figure 2 shows that general government deficit was almost entirely caused by structural rather than cyclical reasons[7], which means that the structure of public finances will need to be improved in order to reduce the deficit in a sustainable way. Based on the latest data we infer/deduce that the structural deficit increased slightly in 2006[8].

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[3] Stronger competition after Slovenia's entry to the EU, the abolition of the remaining customs restrictions on imports from the EU and the opening up of the market to third-country products.

[4] See the indicator *Inflation.*

[5] Aggregates of the general government sector are presented according to the ESA-95 methodology. For more details, see the indicator *General Government Sector Balance.*

[6] See Chapter 3.1.

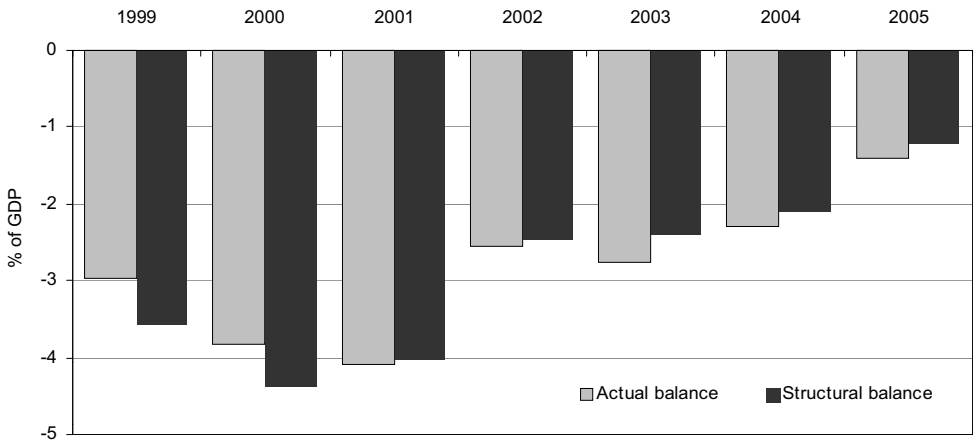
[7] The division of the deficit into its structural and cyclical parts has been done in accordance with the methodology developed by the European Commission. Due to methodological constraints already pointed out by the Commission and the additional limitations in Slovenia (short time series) results should be interpreted with certain caution.

[8] As economic growth accelerated considerably in 2006 the total deficit declined modestly (-0.1 p.p.), which means that the structural deficit widened. Since the data on the general government deficit for 2006 were released just before the preparation of the Development Report was finalised, the exact level of structural deficit for 2006 could not be estimated yet. The estimated structural deficit for 2005 is based on general government debt data from the 'Report on Government Debt and Deficit' (October 2005) and the Stability Programme (December 2006).

According to the current fiscal policy objectives, the structural deficit is projected to remain close to the achieved level this and the following year and fall to the level compliant with the Stability and Growth Pact (1.0% of GDP) in 2009[9]. Although the pace of improving the structural deficit is slower than stipulated by the Stability and Growth Pact (0.5% of GDP per year), this is attributable to one-off events in this period (increased investment in railway infrastructure and the Schengen system, EU presidency) and does not prevent Slovenia from achieving its medium-term fiscal objective by 2009. This is important because a high structural deficit narrows the leeway for fiscal policy to operate counter-cyclically. Therefore, if the economic conditions were to deteriorate significantly, Slovenia could relatively quickly approach the threshold of the allowed deficit. In accordance with the provisions of the Stability and Growth Pact, the excessive deficit procedure is launched against a country that exceeds this reference value. Given the relatively high taxation in Slovenia, it is reasonable that the structural deficit should be eliminated primarily through further restructuring and cutbacks of general government expenditure[10].

According to the current projections, expenditure related to ***population ageing*** *is a key factor that weakens the long-term sustainability of public finances.* Projections show that the ratio of the working-age to non-working-age population will continue to worsen in the coming years. Without a change in policies, this development will increase the ageing-related expenditure and aggravate the long-term sustainability of public finances. Under the no-policy-change assumption and taking into account the 60% of GDP threshold for government debt, both sustainability indicators (S1 and S2) used by the European Commission to estimate

Figure 2: **Actual and structural general government deficit in Slovenia, 1999-2005**



Source: Ministry of Finance, calculations by IMAD.
Note: Data collected according to ESA-95 methodology are not available for the period prior to 1999.

[9] In the Convergence Programme 2005 update, the fulfilment of the medium-term objective was foreseen for 2008. The Stability Programme of December 2006, however, defers its fulfilment to 2009.

[10] The structure of the general government sector expenditure is shown in Chapter 3.1.

the long-term[11] sustainability of public finances show that the primary structural balance, which was balanced in 2006, will start to increase in the next few years.

Additional measures are needed to make public finances sustainable in the long run. The 1999 pension reform introduced changes that alleviated the pressure on public finances, but this effect was weakened by the changes in pension indexation adopted in 2004. Taking into account demographic projections, the described changes are foreseen to result in a relative decrease in age-related budgetary costs by 2010. However, pension expenditure will begin to increase thereafter, notably after 2020 when its relatively rapid growth is expected to jeopardise the sustainability of public finances. In order to keep public finances sustainable, additional measures that were already presented in the Framework of Economic and Social Reform to Increase Welfare in Slovenia must be taken, notably the extension of working lives and additional pension insurance schemes. According to projections, these measures would reduce the age-related government expenditure from the projected 19.5% to a projected 17.6% of GDP in 2020.

Slovenia's greater integration in international financial flows, which has intensified considerably since 2003, has been matched by the rising ***gross external debt*** *that increased substantially in 2005 and 2006, primarily due to the banking sector's stronger long-term borrowing abroad.* Gross external debt totalled 79.7% of GDP in 2006, marking a considerable increase in comparison with 2004 (58.4% of GDP)[12]. Although gross external assets in debt instruments also increased in 2005 and 2006, the increase was relatively smaller than the one seen in gross external debt. Consequently, net external debt widened. It amounted to 1.5% of GDP in 2005 (in 2004, Slovenia still had net external assets in the amount of 3.4% of GDP) and rose further thereafter, according to data for the first eleven months of 2006. Both in these two years and in the entire period from 2000 on, the current account deficit, having totalled 2% of GDP in 2005 and 2.6% of GDP in 2006[13], was not the main factor of the increase in gross external debt. The increase in indebtedness abroad seen in 2005 was driven by the accelerated long-term borrowing of the banking sector abroad, whereas companies mostly borrowed in the domestic financial market that year. In 2006, the volume of banks' borrowing abroad was again high, albeit somewhat lower than in 2005. Meanwhile, corporate borrowing rebounded slightly but still accounted for less than one-third of the banking sector's borrowing. These developments, characteristic of the period from 2003 onwards, were related to several factors: the provision of financing sources to cover the increased demand of enterprises and households for loans in domestic banks; the more favourable borrowing conditions abroad[14]; and the possibility of taking out loans in affiliated enterprises abroad. As a result of the vigorous borrowing, the indicators of Slovenia's indebtedness abroad deteriorated in 2006, however they remain within

[11] The indicators S1 and S2 span the period until 2050.

[12] See the indicator *Gross external debt.*

[13] From 2000 to 2006, gross external debt rose by over 34% of GDP, whereas the current account deficit averaged out at 1.4% of GDP per year. Also see the indicator *Balance of payments.*

[14] Particularly until 2005, when differentials between domestic and foreign interest rates narrowed considerably.

sustainable limits. The currency structure of external debt is dominated by the euro, which significantly reduces the exposure to a currency risk after euro adoption as the domestic currency is borrowed. A major deterioration in indicators could be triggered by a significant slowdown of economic growth that would give rise to a rapid increase in gross external debt as a share of GDP, or by a further raising of interest rates that had been falling in the past few years and resumed a rising trend last year; this could cause a quick escalation of the debt service burden.

1.2. Increasing competitiveness and promoting entrepreneurial development

In an open economy such as Slovenia's the competitiveness of the business sector is to a significant degree determined by the results achieved in foreign markets. Performance in foreign markets is measured by the growth of a country's market shares. From the indicators that have a short-term effect on competitiveness, this chapter analyses the movements of unit labour costs. Among the indicators with a more long-term and indirect effects, we look at technological intensity of production and exports, the development of entrepreneurship, the internationalisation of the economy, and the liberalisation of network industries, in accordance with SDS[15].

*The steady growth of Slovenia's **market shares** seen from 2000 onwards indicates an improvement in Slovenia's export competitiveness.* In 2006, Slovenia's market shares in its main trading partners grew for the sixth year in a row. Moreover, Slovenia's position relative to other EU members continued to improve. Slovenia was ranked 6th according to market share growth in the first nine months of 2006, up one place in comparison with the average of 2004-2005 and four places in comparison with 2001-2003. The position of exporters again improved most notably in the EU markets in 2006, which has been characteristic ever since Slovenia joined the EU. It is worth noting that the growth structure of manufactured goods' market share, which is by far the most important market share for Slovenia, changed significantly last year. Following its robust growth in 2005, the growth of the market share of machinery and equipment slowed down sharply due to the drop in road vehicles exports, whereas the market shares of chemical products and manufactures classified by material were growing at a brisk pace. The market share of miscellaneous goods (furniture, clothing, shoes, prefabricated buildings) shrank as well, indicating that the competitiveness of these goods declined[16].

*The dynamics of **unit labour costs** were less favourable in 2004 and 2005 in comparison with the EU, however the deteriorationg trend did not continue in 2006 according to the first estimates.* Although the growth of unit labour costs slowed down in 2005, it was, like in 2004, still higher than on average in the EU,

[15] In addition to these indicators, competitiveness is determined by a number of other factors such as knowledge, investment in R&D, innovation, and government efficiency, which are analysed elsewhere in the Report.

[16] Also see the indicator *Market share.*

where these costs decreased. The ratio of labour costs to GDP was influenced by two sets of factors that operated in the opposite direction. The effect of factors that contained the growth of real compensation per employee was beneficial (restrictive incomes policy[17] and lowering of the tax burden on earnings[18]). At the same time, however, the growth of value added per employee eased off considerably, which resulted in a deterioration of cost competitiveness. The downturn was largely caused by manufacturing industries, where the growth of value added was slackened by a sharp decline in the terms of trade. The latter was reflected in a relatively high increase in the cost of intermediate consumption[19]. In circumstances of intense competition, producers could not fully pass this cost through to prices, which was also significantly related to the trade specialisation into the less technologically intensive and labour-intensive products[20]. A continuation of such trends could pose a cause of concern with regard to the further improvement of Slovenia's competitiveness in foreign markets since the manufacturing sector performs the bulk of Slovenia's trade in goods. However, estimates for 2006 based on still incomplete data show that the trend of rising unit labour costs reversed last year on the back of higher productivity and the continued application of the restrictive incomes policy. The impact of the reduced tax burden on labour costs effected by the gradual abolition of payroll tax[21] launched in 2006 was also favourable.

The technological intensity of goods exports*, which has a longer-term effect on economic competitiveness, declined in 2004 and 2005. However, indirect indicators suggest that some improvement took place in 2006.* The share of high-technology products in goods exports[22] fell by 0.7 p.p. in 2004 and by a further 1.2 p.p. in 2005 when it accounted to 16% of goods exports. Similar developments are reflected in the structure of manufacturing's value added, where the share of high-technology industries has been falling since 2004 (see Figure 3). Both in exports of goods and in the structure of manufacturing's value added, the shares of the two leading high-tech industries in Slovenia, i.e. the pharmaceutical industry and the manufacture of radio-television and communication equipment, decreased[23]. Data for the first nine months of 2006, which are only available for the structure of exports by activity and are much more aggregated, show that the share of the chemical industry, which includes

[17] See Chapter 1.1.

[18] The tax burden on earnings was reduced in 2005 in accordance with the Personal Income Tax Act. However, this decrease was also matched by a fall in other remuneration due to the increased tax on contract-based payments. In 2004, other remuneration rose sharply in anticipation of the higher tax.

[19] Statistics from the balance sheets and profit and loss accounts of manufacturing companies show that the share of material costs in operating revenues rose substantially.

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

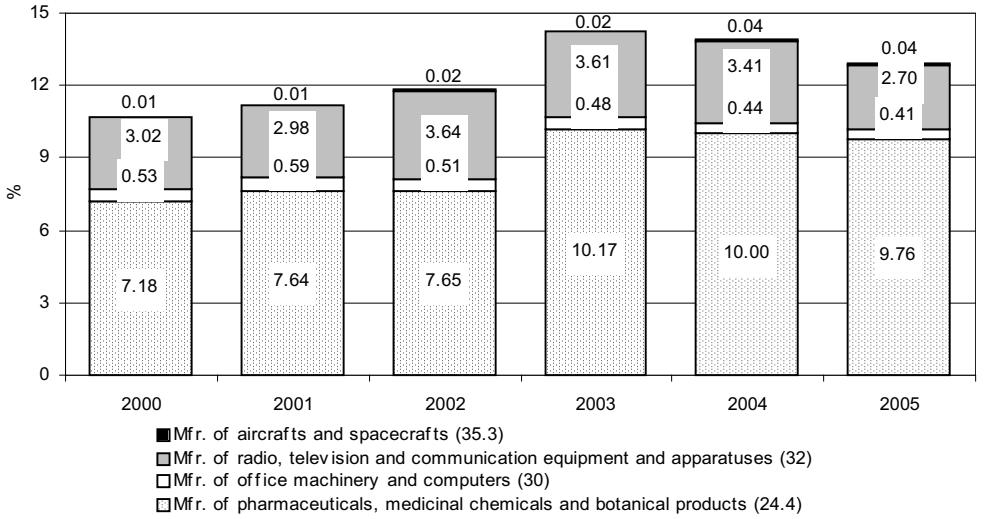
[21] According to adopted amendments to tax legislation, payroll tax will be fully revoked by 1 January 2009.

[22] According to the United Nations' methodology (also see the indicator *Structure of merchandise exports according to factor intensity).*

[23] Value added in the manufacture of radio-television and communication equipment fell in real terms whereas the real growth of value added in the pharmaceutical industry slowed down sharply in 2004-2005 after its booming growth seen in 2003.

the high-technology pharmaceutical industry, rebounded after a two-year decline while the falling of the share of electrical industry that includes the manufacture of radio-television and communication equipment slowed down. Slovenia lags far behind the European average (27.9% in 2005)[24] in terms of the technological intensity of exports. The gap widened further in these two years[25], pushing Slovenia farther away from its SDS targets. Similarly, the structure of Slovenia's manufacturing industries is changing too slowly in comparison with the EU. The share of medium- and high technology industries, which should exceed 50% of manufacturing's value added by the end of SDS' implementation, increased by 0.2 p.p. in 2005 to total 41%. The increase was generated solely by the higher share of medium-technology-intensive industries.

Figure 3: **Share of high-tech industries[1] in manufacturing's value added in Slovenia, 2000-2005**



Source: Statistical data from balance sheets and profit and loss accounts of commercial companies for 2000-2005 (AJPES).
Note: [1] Definition according to OECD methodology (see the key in the graph).

*In the area of **entrepreneurship**, early entrepreneurial activity has started to rebound in the last few years after a two -year decline, while participation in established businesses is on the decrease.* In 2006, the early-stage entrepreneurial activity[26] increased for the second consecutive year. Nevertheless, it thus merely returned to the level already achieved in 2002 (4.6%). Slovenia was ranked 11th

[24] According to the European Innovation Scoreboard (2006) compiled by the European Commission and based on a more detailed classification of goods, which means that only the most high-tech products are included, Slovenia's lagging behind the EU average is even greater. According to these data, the share of high-tech products in Slovenia's goods exports totalled 5.2%, compared with 18.4% in the EU-25.

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

[26] Early-stage entrepreneurial activity is calculated as the share of the population (aged 18 to 64) that plans to establish a business or has been managing a business for less than 42 months (Rebernik et al., 2006).

among the 16 EU countries that participated in the GEM[27] project in 2006, while the average of these countries totalled 5.5%. The improved situation in entrepreneurial activity is also reflected in the rapid growth of the number of enterprises in the business sector[28] seen over the last few years. On the other hand, the considerable decrease in the share of people engaged in established businesses[29] was less favourable and also pushed down the overall entrepreneurial activity rate[30] in 2006. It should be noted, however, that while the highest possible share of entrepreneurially active people is important in terms of (self-)employment, the development orientation of entrepreneurs is even more relevant to economic competitiveness.

The efficiency and quality of the early-stage entrepreneurial process in Slovenia are gradually improving. This is indicated by the declining mortality rate[31] of firms and the improving ratio between entrepreneurs that start a business to pursue a perceived business opportunity and those who do it because they are unable to find any other suitable work in the labour market. The mortality rate totalled 1.6 in 2006, the lowest value thus far and down by a quarter from the previous year. The ratio of opportunity- to necessity-driven entrepreneurs increased by one-tenth to total 8.6, which is again the highest value recorded thus far. The latter may indicate an improvement in the quality of the entrepreneurial process in Slovenia since opportunity-driven entrepreneurs tend to be more development-oriented and their firms are generally more stable in the market. In 2006, Slovenia's values in both indicators were more favourable than in the EU on average.

Financial indiscipline remains the biggest problem facing Slovenian entrepreneurs. According to the survey[32] for 2004-2006, other important obstacles to doing business include tax policy and red tape, while recently entrepreneurs have also increasingly experienced difficulties in finding qualified workers in the labour market. The rigidity of the national institutional environment is also shown by Slovenia's low ranking in the World Bank's ease of doing business index[33]. The government has already adopted measures to address some of these problems. It has also substantially increased the funds for small and medium-sized enterprises[34].

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[27] The average of the EU countries that participated in the GEM (Global Entrepreneurship Monitor) project in 2006 includes data for Greece, the Czech Republic, Ireland, Spain, Latvia, Hungary, United Kingdom, the Netherlands, Denmark, Finland, Slovenia, France, Germany, Italy, Sweden and Belgium.

[28] Activities C to K according to the standard classification of activities.

[29] The established businesses rate is defined as the share of entrepreneurs that have been running a business for more than 42 month relative to the population aged 18-64 (Rebernik et al., 2006).

[30] See the indicator *Entrepreneurial activity.*

[31] According to the GEM's definition, the mortality index is calculated as the ratio between the share of nascent and the share of new firms.

[32] Survey data regarding the barriers to business operation in Slovenia are prepared by the SPEM Communication Group as part of measurements of the Slovenian entrepreneurial index.

[33] See Slovenian Economic Mirror 12/2006.

[34] For more details, see Chapters 3.1 and 3.2.

The level of ***internationalisation of Slovenia's economy*** *continued to increase in 2005 and 2006.* The openness to foreign trade has been on a more or less steady rise since 1995. A particularly notable increase of export-import activity in the economy started in 2003, reflecting primarily Slovenia's entry to the EU in 2004 and, especially in 2006, also the economic upturn in the global market[35]. The rising trend in outward direct investment continued in 2004 and 2005, mostly thanks to investment in the markets of former Yugoslavia. Meanwhile, the dynamics of inflows were less favourable. Although they vary strongly across the years, inflows in 2006 were the lowest in the last few years. In 2006, Slovenia thus recorded the highest net outflow of FDI thus far, which is just opposite to what has been observed in other countries at a similar development level – as a rule they record net inflows of FDI[36].

The internationalisation of the Slovenian economy is mostly accomplished through foreign trade flows and less through FDI. This is also corroborated by a comparison with other EU countries. On average, Slovenia's economy shows a much higher export-import intensity and a significantly lower intensity of inward and outward FDI. The gap between the intensity of Slovenia's foreign trade and the EU average has been increasing steadily since 2000 in favour of Slovenia. In FDI, however, Slovenia is lagging far behind the EU and does not seem to be closing the gap. In 2000-2005, Slovenian FDI as a share of GDP constantly lagged behind the average of the EU-25 by over 10 p.p. in inward FDI and by over 30 p.p. in outward FDI. In view of Slovenia's development level, this situation may be expected with outward FDI, but certainly not with inward FDI. International and domestic econometric analyses are fairly unequivocal in their findings that higher export-import intensity and higher inward and outward FDI have a positive effect on productivity and economic growth[37].

Competition in network industries *rose primarily in telecommunications in 2006.* Progress was made in fixed telephony (national calls), a previously monopolised market, where four operators provided services in 2006. Nevertheless, the incumbent provider still held a 99% market share in the middle of 2006. In markets providing international calls in fixed telephony, broadband Internet access and mobile telephony, the market shares of dominant operators continued to decrease; however, in comparison with the EU average, they still remain relatively high in mobile telephony and in fixed telephony for international calls (Kmet Zupančič, Povšnar, 2007). A step towards establishing competition was also made in the mobile broadband Internet access market, where two new operators were granted the UMTS licence in 2006 and joined the existing provider in the market. There were no significant changes in the structure of energy markets in 2006. Although the market share of the biggest electricity producer's output decreased in 2005 (by 2.2 p.p. to 50.8%), this fall was caused by the lower production in hydro-electric plants linked to unfavourable weather conditions, rather than by an increase in competition in the market. The concentration of

[35] See the indicator *Exports and imports as a share of GDP.*

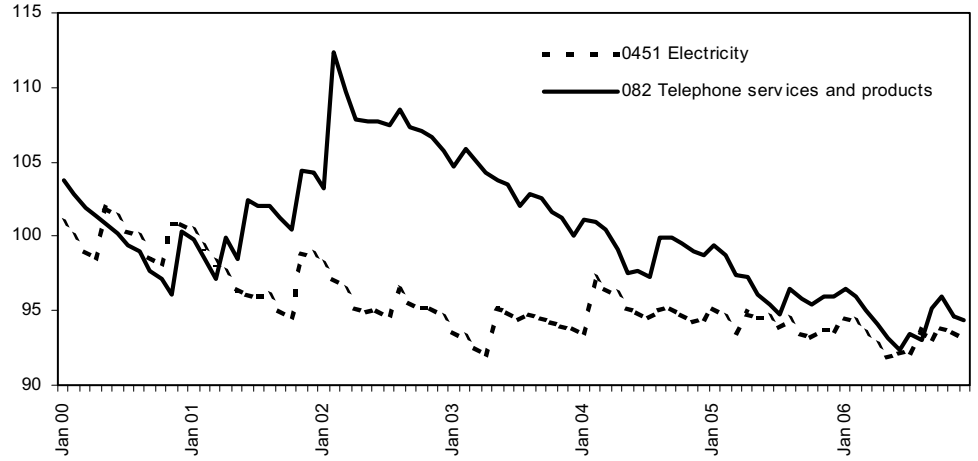
[36] See the indicator *Foreign direct investment.*

[37] See e.g.: Factor Mobility in the Global Economy, 2006; for Slovenia: Burger, Jaklič and Rojec, 2006 and Damijan, Jaklič and Rojec, 2006.

electricity producers measured in this way was somewhat lower than in the EU on average[38]. In the wholesale natural gas market, the national provider still dominated the market almost completely in 2005 (99% market share). Competition is stronger in retail markets of electricity and natural gas, where no provider holds a dominant position in the market[39].

The effects of network industries' liberalisation are gradually translating to lower prices. In the markets where competition had already been established, prices mostly continued to decrease in 2006. However, the falling of the relative[40] prices of *telecommunication services*, characteristic of the period after 2002, halted in 2006. This halt was caused by the increase in the leading operator's prices of telephone subscription and national calls in fixed telephony, which shows that the market power of competitors in this market is still low, although they mostly offer cheaper services. Prices in other segments of telecommunication services, where competition was tighter (mobile telephony and international calls in fixed telephony), continued to decline in 2006. *Electricity prices* are currently determined by the market only for industry, while household electricity prices will be liberalised on 1 July 2007. Industrial prices have recorded a falling trend relative to the average price in the EU[41] ever since 1999, which may, in the

Figure 4: **Relative[1] prices of electricity and telecommunication services (average 2000 = 100)**



Source: SI-Stat – Economy – Prices (SORS), 2007.
Note: [1] Relative to CPI.

[38] In 2004, the share of the largest producer totalled 62.2% in the EU (non-weighted average) and 53.0% in Slovenia.

[39] In 2005, 13 providers operated in the retail electricity market; the three largest ones held market shares of 34%, 24% and 13%, respectively. In natural gas, the shares of the three largest providers to medium-sized consumers totalled 23%, 17% and 15%.

[40] Relative to the consumer price index (CPI).

[41] Electricity prices exceeded the average EU price in 1998 and 1999, after having been significantly lower for a number of years. In the middle of 2006, the Slovenian price (for a medium-sized user) was 21.3% lower than the average price in the EU (weighted average).

period after July 2001 when the market was liberalised, be partly attributed to the stronger competition in this market. In addition, consumers are increasingly switching providers. Household electricity prices relative to the CPI have recorded a falling trend since 2000. In comparison with the EU average, however, they have persisted at a level around 80%.

1.3. Increasing the competitiveness of services[42]

The competitiveness and effectiveness of the service sector are an important factor of economic growth. Apart from the direct effect of services on the expansion of the economy due to their high and rapidly growing share in gross domestic product, their indirect impact through the intermediate consumption of services in the manufacture of products and other services is becoming increasingly important. This pertains especially to financial, business, communication and information services. Financial services are dealt with separately in this chapter due to their specificity and their special role in the economy[43].

1.3.1. Non-financial market services

In 2005, Slovenia's gap with the EU in terms of the ***share of non-financial market services***[44] *in the structure of economy narrowed for the fourth consecutive year. This improvement was partly underpinned by knowledge-based services, where Slovenia's lagging behind the more advanced countries is greatest.* The gap between Slovenia and the EU in terms of non-financial market services as a share of value added had been rising until 2001 when it widened to almost 8 p.p. Since then, it has been falling gradually and totalled 5.4 p.p. in 2005. Especially in the last two years, the closing of the gap has mainly been driven by the brisk increases in the shares of transport (I) and distributive trades (G). Although the share of knowledge-based non-financial market services (telecommunications and business services)[45] in the economic structure is increasing, the catching-up process was relatively slow in the past (data are available until 2002) given the concurrent rapid development in the more advanced countries. Slovenia's lagging is particularly notable in the share of business services, which increased by 1.8 p.p. to 8.7% from 2000 to 2005. With the implementation of SDS, it is foreseen to approach the shares of the more advanced EU countries by 2013 (around 12% of value added). While Slovenia's share of telecommunications is not significantly lower than the comparable shares in the EU, this sector is burdened by the slow establishment of competition in

[42] The chapter focuses on the predominantly commercial services whereas other, predominantly public services, are analysed elsewhere in the Report.

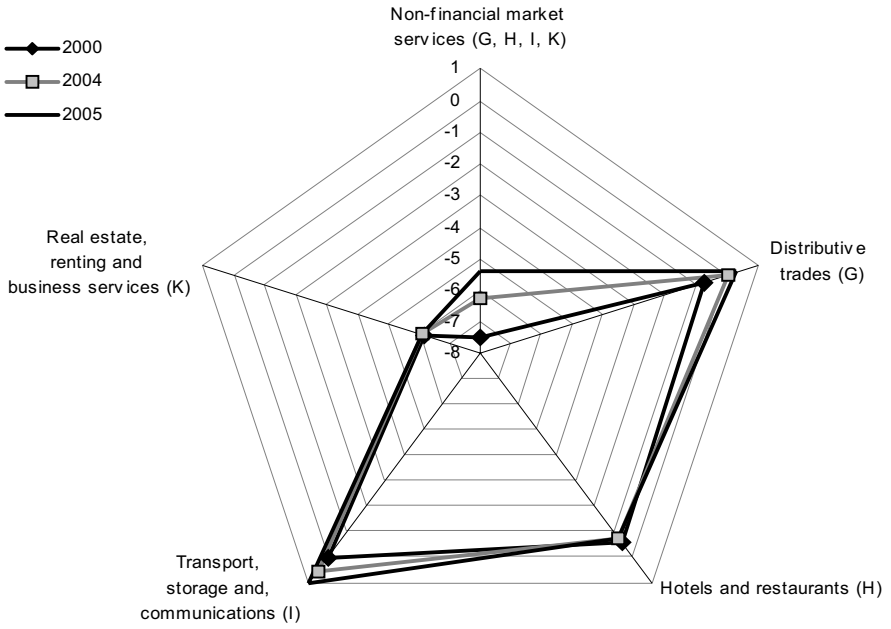
[43] See Competition, productivity and prices in the euro area services sector, 2006.

[44] NACE activities: wholesale and retail trade and the repair of motor vehicles (G), hotels and restaurants (H), transport, storage and communications (I), and real estate, renting and business services (K).

[45] NACE activities: renting of machinery and equipment without operator (71), computer and related activities (72), research and development (73), other business activities (74), and post and telecommunications (64).

individual markets, which has been hampering a faster increase in the efficiency of telecommunication services[46].

Figure 5: **Gap[1] between Slovenia and the EU-25 according to the share of non-financial market services in value added of the economy, 2000 and 2005, %**



Source: SI-Stat data portal – Economy – National Accounts (SORS), 2006; Eurostat Portal Page – Economy and finance, 2006.
Note: [1]A negative value indicates Slovenia's lagging behind the EU-25 average in percentage points.

*Over the last few years, the gap in the **productivity** of services between Slovenia and the EU[47] has gradually narrowed. **Profitability indicators** similarly point to a considerable improvement in the competitiveness of services.* After the catching-up process with the EU's service productivity practically came to a halt in the period between 1999 and 2002, the narrowing of the gap has resumed in the last three years. The gap narrowed in all three activities, although the catching up was more intense in distributive trades (G), transport (I) and hotels and restaurants (H) than in business services (K), where no substantial narrowing was observed before 2005. Data from the structural statistics of enterprises on the profitability of services similarly confirm an improvement in the last two years for which data are available (2003-2004)[48]. Gross operating surplus as a

[46] For more details see Chapter 1.2.

[47] Since disaggregated data on labour productivity in purchasing power standards are not available, the comparisons are based on labour productivity (value added per employee) in current prices. This means that the effect of the varying price levels across countries on the level of productivity, which can be much higher in services than in manufacturing industries due to services' smaller integration in international trade, is not controlled for.

[48] The return on sales rose from 7.3 % in 2002 to 7.7% in 2003 and 8.2% in 2004.

share of value added is increasing as well. Data show that the ratios of labour costs and intermediate consumption to value added are decreasing. In both profitability indicators, transport (I) made the greatest progress while business services (K) recorded the smallest improvement. Apart from hotels and restaurants, the latter are the only activity that significantly lags behind the EU average in terms of the achieved profitability.

It is vital that Slovenia increases ***competition*** *in non-financial market services in order to further narrow the gap with the EU in this area. Over the last five years, positive shifts have been made to this end in most activities with a low level of competition.* Due to the lack of data for some indicators[49] and the incomparability of databases for others, the estimate of the progress made regarding increasing competition is based on the analysis of changes in the number of enterprises[50] and the values of the Hirschmann-Herfindahl Index (HHI) of concentration[51]. The results indicate positive trends in the competition increase in the non-financial market services. The share of branches[52] with a high concentration[53] fell from 43% to 36% from 2000 to 2005. A less favourable change was recorded in the share of these branches in the revenues of non-financial market services, which increased in the same period (from 27% to 39%). However, a more detailed analysis shows that rather than being caused by an overall decline in competition, this increase was linked to the brisk expansion of some activities that are classified as highly concentrated according to the HHI. The latter primarily include two groups of branches: first, those with a high HHI; however, some other indicators suggest that competition in these branches is fairly well established (e.g. retail sale in non-specialised shops[54]); second, branches whose market structure is gradually shifting towards increased competition but where not many companies are expected to operate due to the type of activity (e.g. some rapidly growing network industries[55]). In addition to the declining number of industries with a low degree of competition we have also observed positive shifts towards greater competition in branches where concentration is still high. In most of these industries (71%), the number of companies increased, while the HHI value fell in half of them.

The ***competitiveness of Slovenia's services in foreign markets*** *is also showing some signs of improvement.* Between 2003 and 2005, the market share of Slovenian

[49] The HHI is computed by adding up the square shares of all the companies in an industry (in terms of the net revenues generated in the domestic market).

[50] E.g. the degree of market regulation.

[51] Based on data for commercial companies.

[52] Branches correspond to the four-digit codes of the standard classification of activities.

[53] HHI value is higher than 1800.

[54] In retail sale in non-specialised shops, the number of firms fell sharply in 2000-2005. While their HHI value rose from 857 to 2369, the share of the largest company in revenues increased from 23% to 42.1%. However the share of the largest three companies rose significantly as well (from 39% to 74%), as did the share of the four largest firms (from 47% to 81.5%). It is therefore not possible to say that competition in this branch decreased.

[55] Also see Chapter 1.2.

services in the total imports of services in the EU-15 recorded a bigger increase than the average share of the new member states. Only Slovakia enjoyed a higher increase in its market share than Slovenia[56]. Especially the increases in the market shares of Slovenian transport services and other services[57] in the EU-15 imports deserve mentioning. In transport services, Slovenia achieved the highest increase in its market share among the new member states, whereas in other services it was outperformed only by Estonia.

Trends in the various indicators of competitiveness suggest that the competitiveness of non-financial market services is improving and approaching the EU standards. Nevertheless, changes remain too slow, particularly in certain services. Moreover, innovation activity in services remains weak not only in comparison with manufacturing industries but also in comparison with the average services' innovation activity rate in the EU[58]. In view of services' critical role in generating value added and considering the need for a faster development of knowledge-based services, increasing the innovation activity in services should be one of the priorities of future development objectives.

1.3.2. Financial services

*According to the **indicators of the financial sector's level of development** analysed in the Development Report, Slovenia still lags significantly behind the European average. The biggest progress in the last two years (2005-2006) was made in the banking sector.* According to the indicator of banks' total assets relative to GDP, the gap with the EU average narrowed somewhat in 2005 but nevertheless remained large. Similar developments are expected in 2006, since the value of this indicator for Slovenia continued to increase. The volume of insurance premiums relative to GDP stagnated in 2005. Given the more favourable developments in other European countries, this led to a widening in Slovenia's gap with the EU average. Although the lagging of Slovenia's financial sector behind the EU is smallest in the area of insurance, the low share of life insurance premiums relative to GDP still stands out with less than a third of the average value in the EU. Further, the Slovenian capital market remains underdeveloped. After the market capitalisation of shares had grown for several years it fell in 2005 as a result of the overall drop in stock values on the stock exchange. The development gap thus widened considerably since the value of this indicator in the EU rose strongly that year. Since the market capitalisation in Slovenia rebounded substantially in 2006, we estimate that the closing of the gap with the EU resumed last year.

[56] Due to data shortage for the EU-15 we can only analyse a very short period. An analysis of the shares of Slovenian exports of services in the markets of the main EU trading partners, for which data are available for 2000-2005 (Italy, Austria, United Kingdom and France) shows that all other new member states increased their market shares in the services imports of these countries more than Slovenia.

[57] Communication, computer and miscellaneous business services.

[58] See Chapter 2.2.

The possibilities in the Slovenian financial market to provide financial support to the business sector are gradually increasing, especially in the ***banking market****.* Banks strengthened their lending activity considerably in 2005 and 2006. In the two years combined, the share of loans to the non-banking sectors relative to GDP increased by 20.3 p.p. to total 67.5 %. However, this is still way below the levels achieved by countries with developed banking systems (EU average in 2005: 141.2%). More than half of this growth can be attributed to the increase in loans to non-financial corporations. Enterprises mostly took out foreign currency loans, which were more favourable than tolar loans. The robust growth in the volume of loans mainly reflected the dynamics of interest rates, which decreased appreciably over the last few years, coupled with the significantly stronger competition among the banks[59], which increased the availability of loans in the domestic market. In order to finance their increased lending activity, banks resorted to raising loans abroad, particularly from affiliated enterprises. Prior to Slovenia's entry to the EU, banks were also able to secure additional liquid assets as a result of the changed monetary policy that lowered reserve requirements and, more importantly, reduced the volume of central bank securities in banks' balance sheets[60]. Bigger and more established companies also used the possibility to borrow abroad. As interest rates rise, borrowing conditions are getting increasingly tighter. From the end of 2005 to March 2006, the European Central bank's benchmark interest rate thus rose by 175 basis points to reach 3.75%, the highest level in five years. Such a leap has a significant effect on debt servicing costs.

Other sources of financing *are still much less prominent in Slovenia.* The primary market continues to be poorly developed, but data suggest it is growing. Companies issued 2.5-times more securities in 2005 than in 2004, over half of which were shares. The volume of further public offers of securities to known investors and non-public offers[61] expanded, however there was again no first offer of securities to a wider circle of investors in 2005. Further development of the primary capital market is also limited by its ownership structure since a large proportion of companies is still controlled by the state or its funds that have diverging interests and are not always prepared to support this type of financing for development projects, which has negative effects both on the development of the company itself and the development of the capital market. The volume of financing provided by venture capital funds is even smaller and ranks Slovenia at the end of the EU countries[62]. This could have a negative effect on the already weak innovation activity of firms because the availability of venture capital is vital for the realisation of innovation projects[63].

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[59] The main players are banks with a predominantly foreign ownership which, given the halt in the privatisation of the banking sector, see organic growth as the only option for their own development.

[60] Due to the deferment of increased liquidity to the period until after the adoption of the euro, banks also invested some of the assets freed up in this way in long term-deposits at the Bank of Slovenia.

[61] These securities may neither be traded on the stock market nor offered publicly in any other way.

[62] The Venture Capital Corporations Act, which is currently being drafted, should help increase this type of financing for promising small businesses.

[63] Also see Chapter 2.2.

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

SDS guidelines: In order to ensure efficient creation, two-way flow, and use of knowledge for economic development and quality jobs, SDS priorities include improving the quality of tertiary education, promoting lifelong learning, and increasing the effectiveness and levels of investment in research and technological development.

2.1. Education and training

The education structure *of the adult population has been gradually improving from year to year.* The share of the population with a tertiary education in Slovenia increased greatly in 2003-2006 and approached the EU-25 average. Nevertheless, Slovenia still lags behind those countries with the highest corresponding shares[64] which, as a rule, also achieve the highest levels of economic development. That the education structure of the population is improving is also reflected in the growing number of the average years of schooling attained by adults, which totalled 11.6 years in 2005 in Slovenia, slightly less than the average of the OECD countries[65].

Education tends to improve the employment possibilities of individuals. Consequently, the employment rates of people with a tertiary education are generally higher than those of workers with a primary or secondary education. The employment rate of people with a tertiary education in Slovenia is considerably higher than the EU average whereas the employment rate of those with a secondary education hovers around the EU average. The employment rate of low-skilled workers lags considerably behind the EU average, which reveals, inter alia, the problem of structural unemployment and the shortage of highly qualified labour in certain professions. The imbalance between the supply of and demand for tertiary educated labour that is characteristic of Slovenia reflects a relatively rapid increase in the number of the registered unemployed with a higher education[66], as well as a gradual rise in survey unemployment for this category[67].

Interest in ***science and technology studies***[68] *is increasing, albeit relatively slowly.* Despite the higher number of science and technology graduates in 2000-2005,

[64] In Q2 of 2006, this share totalled 21.5% in Slovenia and 23.2% in the EU on average. In 2003-2006, Slovenia reduced its gap with the EU-25 average from 3 to 1.7 p.p. For more details, see the indicator *Share of the population with a tertiary education*.

[65] For more details, see the indicator *Average years of schooling.*

[66] The number of the registered unemployed with a higher education rose by 60.6% from 2001 to 2006.

[67] 3.1% in 2005.

[68] The field of science and technology is divided into two broader fields according to ISCED 97: 'science, mathematics, and computing' and 'engineering, manufacturing, and construction'.

both the proportion of these graduates to the total number of graduates and their proportion to the total number of students decreased in this period since the number of students in other fields of study rose at a faster pace. In 2000-2004 (the latest comparable data) the lagging behind the EU-15 average increased further[69]. Despite the positive shifts seen in the last few years, activities aimed at boosting the enrolment rates in these fields should continue in order for the large gap to be reduced. Such knowledge and skills are one of the main levers for increasing innovation. Therefore, these structural differences could be a significant barrier to the greater innovation and competitiveness of Slovenian firms.

*The **participation of young people** in education continues to rise.* The enrolment of the generation aged 15-19 in *secondary schools* has been increasing steadily every year and is relatively high, above the EU average[70]. Further, the percentage of young people (aged 20-24) participating in *tertiary education* is above the EU average in Slovenia (43.8% in 2005; EU-25: 27.8% in 2004)[71]. Over the last 30 years, it has been on the rise in all EU countries, notably after the Lisbon Strategy was adopted in 2000[72]. Accordingly, the percentage of the generation at enrolment age participating in education is rising as well. According to SDS, this rate should increase to at least 55%. Slovenia is currently not achieving this target, mostly due to the lower male participation rate in tertiary education[73].

*The high percentage of young people participating in education also requires relatively high **education expenditure**. Especially at the tertiary level, however, the structure of this spending and its amount per student differs significantly from the situation in the EU.* In Slovenia, public expenditure on education as a share of GDP totalled 6.0% in 2004 according to the latest available data. It fell somewhat in comparison with 2003 but still ranks Slovenia well above the EU-25 average. The Slovenian share of public expenditure on tertiary education in GDP is also higher than the European average[74]. We note, however, that Slovenia earmarks a significantly higher share of tertiary-level public expenditure than other European countries for scholarships and other social benefits for students (24% in 2004; EU-25: 16% in 2003)[75]. In contrast with the high transfers, the

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

[70] In the 2004/2005 academic year, 77.6% of the generation aged 15-19 were enrolled in secondary schools (72.5% in 2000/2001, 67.2% in 1994/1995). The share of students enrolled for the first time exceeded 80% of the generation in 2005/2006.

[71] Calculations by IMAD based on Eurostat's data.

[72] Progress towards the Lisbon objectives in education and training, 2006.

[73] According to IMAD's calculations, the percentage of 20-year-olds participating in tertiary education totalled 51.1% in 2005 (42.1% for males and 60.5% for females).

[74] See the indicator *Total public expenditure on education.*

[75] Similarly high transfers are also characteristic of Scandinavian countries. Public funding appears to be a key determinant of participation in tertiary education although, according to research findings (Otero and McCoshan, 2004), it does not necessarily mean direct financial support for students. An analysis of indicators that determine access to tertiary education showed a very strong positive correlation between participation in tertiary education and the level of public expenditure on education as a share of GDP. However, the analysis did not confirm the correlation between the level of direct financial support for students (the share of transfers to households in total public expenditure on education) and participation in education (gross enrolment ratio in tertiary education).

tertiary-level direct public expenditure on educational institutions is relatively low in Slovenia (1.0% of GDP; EU-15: 1.2% of GDP). In addition to public spending, private expenditure on tertiary-level educational institutions amounted to another 0.3% of GDP (EU-15 average: 0.2% of GDP). A recalculation of education expenditure per student shows similar results as the indicators of the total level of education expenditure. For all education levels combined, the annual expenditure on educational institutions per student expressed in GDP per capita is high in comparison with the EU countries. However, Slovenia lags behind according to its level of tertiary-level expenditure, which, according to the most recent data available, dropped sharply in 2003 for the second consecutive year[76].

*The **ratio of students to teaching staff** has been improving slightly.* The ratio of students to teaching staff is one of the indicators of the quality of tertiary education. A lower ratio normally indicates a higher quality of teaching. Although the ratio has improved somewhat in Slovenia, the number of students per teacher is still relatively high in comparison with other European countries[77]. Moreover, the efficiency of tertiary studies is still low in Slovenia. In 2005, the average duration of study[78] was 6.3 years in higher education programmes and 6.8 years in university programmes. In international comparisons, the low efficiency of Slovenian studies is also reflected in the small number of graduates per 1,000 population aged 20-29 (2004: 50.0; EU-25: 54.9) despite the fact that Slovenia is high above the EU average according to its gross enrolment ratio in tertiary education relative to the population aged 20-24[79]. The efficiency and quality of studies are serious concerns. Addressing them calls for a prompt preparation and adoption of the measures proposed in the Framework of Economic and Social Reforms to Increase Welfare in Slovenia[80].

*The **participation** of the population in **lifelong learning**, a very important factor of improving the quality of human capital and labour market flexibility, is relatively high.* The percentage of the adult population participating in education and training, measured by the Labour Force Survey[81], decreased somewhat in 2005 (from 16.2% to 15.3%) but was still 2 p.p. higher than in

[76] For more details, see the indicator *Expenditure on educational institutions per student*.

[77] For more details, see the indicator *Ratio of students to teaching staff.*

[78] From enrolment to graduation.

[79] Slovenia: 72.3%; EU-25: 57.5%.

[80] Data on employment in 2006, when employment only rose significantly in higher education and university programmes, may be seen as a first sign of the start of structural shift towards an expansion of tertiary education, which also reflects the rise in the number of vocational colleges and universities along with the launching of the reform process and introduction of new study programmes.

[81] The indicator refers to the percentage of persons aged 25-64 who stated that they received education or training in the four weeks preceding the survey. The indicator is calculated on the basis of the annual average and refers to just one quarter of the year. Experts from the European Commission caution that the indicator is methodologically lacking, particularly as regards the measuring of participation in education and training in just the final four weeks preceding the survey. This means that the results strongly depend on the time the survey is carried out. Since October 2006, the indicator has been calculated on the basis of annual averages of quarterly data rather than the previously used figure for a single quarter. The values are thus calculated for the entire analysed period.

2003[82] and higher than the EU-25 average (10.2%). Slovenia's rate of participation in lifelong learning was one of the highest in the EU. The only countries that had higher rates in 2005 were Sweden, the United Kingdom, Denmark, Finland and the Netherlands. Despite the high participation rate, the modest percentages of older and less educated people participating in education and training remain a significant problem. Data on adult participation in formal education show less favourable trends as the number of adults participating in formal education is declining. Nevertheless, this type of education represents just one segment of lifelong learning.

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

Relative to the set targets, Slovenian expenditure on ***research and development*** *(R&D) had been rising too slowly until 2005.* The growth of expenditure on R&D recorded a negative trend after 2001. Its share in GDP declined; the drop was particularly notable in 2003[83]. In 2004 and 2005, R&D expenditure as a share of GDP rose somewhat (to 1.49% of GDP in 2005) yet it was still lower than before 2003. Such trends are pushing Slovenia away from the SDS objectives. Similar trends regarding R&D expenditure in GDP are also being observed in the EU. This is not conducive to achieving the Barcelona objectives and shows that the adoption of political documents and commitments aimed at increasing investment in R&D in both Slovenia and the EU has not translated sufficiently into efficient implementation. It also demonstrates that the achievement of such objectives is a long-term process contingent on the co-ordination and co-operation of different policies and stakeholders. Some EU countries, however, have pursued a more consistent policy of increasing R&D expenditure in GDP ever since 2000 (e.g. Austria, the Czech Republic, Finland, Lithuania, and Spain).

The business sector*, which should become the most dynamic segment of increasing R&D expenditure, raised this expenditure by less than one per cent in real terms in 2005.* In 2002-2005, the business sector even cut the spending on R&D in real terms. As a result, its share in the total expenditure on R&D fell from 60% in 2002 to 55.3% in 2005[84]. However, the business sector mainly reduced expenditure on R&D implementation in enterprises, while raising the expenditure earmarked for R&D implementation in the government and higher education sectors. In developed countries, the links between different sectors in R&D funding and implementation have significantly contributed to the increase in the total investment in R&D. In Slovenia, however, the links across the sectors

[82] Comparable data are available from 2003 when the methodology was changed.

[83] The SORS' first data on R&D expenditure as a share of GDP for 2003 and 2004 that were also used in our analysis in the Development Report 2006 were subsequently revised downwards. The reasons are explained in detail in the indicator *Gross domestic expenditure on research and development.*

[84] The main increases were recorded in the shares of the government sector and funds from abroad (see the indicator *Gross domestic expenditure on research and development).*

to co-fund R&D are still very limited, as evidenced by the fact that companies still finance most of the R&D that they implement. The situation should improve in the future by applying appropriate measures to enhance the co-operation between the public research and business sectors. Moreover, the new tax relief on R&D introduced in 2006[85] should provide an incentive for businesses to invest more.

In 2002-2003 (the most recent available data), considerable progress was made regarding the number of ***patent*** *applications at the European Patent Office (EPO).* Among the new member states, Slovenia has the highest number of EPO patent applications per one million population. Slovenia also reduced its lagging behind the EU-25 average in 2002-2003 compared with 2001[86]. Nevertheless, the European average of patent applications per million population is at least 2.5-times higher than in Slovenia.

In 2000-2005, ***the number of*** *full-time equivalent* ***researchers*** *rose at the fastest pace in the business sector and at the slowest pace in the government sector.* Researchers play a key role in implementing R&D and boosting the country's capacity to innovate. In 2000, Slovenia had the highest number of researchers in the government sector, but by 2005 the structure changed in favour of researchers in the business sector[87]. Their number grew by 40% in 2000-2005, whereas the total number of researchers rose by 21%. Nevertheless, Slovenia still lags behind the EU-25 in terms of the percentage of researchers to the total labour force.

Selected data on innovation activity suggest some positive, if modest, changes. Although the increase in the number of researchers in the business sector creates a solid basis for an increase in the innovation activity of enterprises, it does not by itself guarantee any significant progress in innovation and in closing the gap with the most developed EU countries. The most recent available data on innovation activity in Slovenia in 2002-2004[88] show that 26.9% of enterprises were innovation-active, which is more than in 2001-2002. A comparative analysis

[85] 20% tax relief was introduced for firms that invest in R&D. In those statistical regions where GDP per capita is lower than the national average by up to 15% / over 15%, the relief may be raised to 30% / 40%, respectively. Eligible costs comprise both the purchase of equipment and new technology for the purposes of R&D, and the cost of labour, and the purchase of licences. 10% tax relief on all investment including the cost of R&D applied until 2006 but it mainly focused on the cost of equipment.

[86] According to Eurostat's data, Slovenia applied for 50.4 patents per million population at the EPO in 2003, whereas the EU-25 average was 136.7. According to provisional data for 2003 published in the Development Report 2006, Slovenia had just 21.9 patent applications per million population. This large difference is attributable to the fact that provisional data are subject to substantial revisions due to time lags that occur in the release of patent information.

[87] Expressed as a full-time equivalent. If researchers were counted as persons, the largest number would be found in the higher education sector; however, most of them are employed as teaching staff and their research work represents only 20% of their total workload that is taken into account in the full-time equivalent.

[88] Innovation activity (SORS), 13 July 2006, first release. The SORS survey is based on the standardised questionnaire 'Community Innovation Survey (CIS)' carried out in the EU countries. Results of the CIS 4 for the analysed period are still not available for all EU countries.

across the EU countries including a broader set of indicators that affect innovation performance ranks Slovenia among those countries that are catching up with the most innovative EU countries, yet it also finds that the efficiency of the national innovation system is low in Slovenia[89] (EIS, 2006). Although Slovenia has made some progress in innovation activity, we cannot be satisfied with either the level of innovation activity achieved by firms and the very low share of small enterprises that innovate, or the share of innovative enterprises in services, which is less than half the share of such firms in manufacturing (16% over 35%). In most other EU countries, the differences between the innovation performance of firms in the manufacturing and service sectors are not as striking (EIS; 2004). A more recent study that dealt with the peculiarities of measuring innovation in services within the EU and took into account a number of other factors relevant for innovation activity in services, similarly ranked Slovenia 23rd among the EU-27 countries according to its innovation index value (Kanerva et al., 2006). Bearing in mind that services predominate in the structure of the Slovenian economy (they generate over 60% of value added), the neglect of the innovation potential in services is reducing the capacity of the Slovenian economy to rapidly increase its competitiveness[90]. For the first time, the new programmes of the Ministry of the Economy for 2007-2013 also include measures aimed at increasing innovation in services (ME, Programme of Measures, 2006).

Slovenia achieved substantial progress in the area of the access to and use of ***information and communication technology*** *in the past three years (2004-2006).* According to the share of Internet users among the population aged 16-74, which topped 50% in the first quarter of 2006, Slovenia lagged by only 3 p.p. behind the EU-25 average, whereas it exceeded the EU-25 average in the share of households having Internet access[91]. It is also positive that the share of households with broadband Internet access increased to 34% in the first quarter of 2006. Slovenia thus exceeded the EU-25 average (32%) in terms of broadband connections. These developments were mainly underpinned by the reduction of barriers to the entry of smaller broadband access providers to the market and the consequently stronger competition among the providers. Another significant step forward was made in the introduction of e-government services in Slovenia. The availability of e-government services rose appreciably[92] in 2004-2006 to total 65% (50% in the EU-25). However, the share of people who conducted all their business with the government electronically was much lower than in the

[89] The EIS 2006 measures the efficiency of the national innovation system as a ratio between investment in innovation activity (14 indicators covering education, investment in knowledge, and innovation) and the results of innovation activity (10 indicators covering the sales of new goods and services, employment in high-technology sectors, number of patents, etc.).

[90] A great majority of the young researchers who are being trained for work in the business sector are currently being trained at science and technical universities. Only a minor share is involved in this training at social science faculties. This could either signal that the social science faculties are not familiar with these measures, or that non-technological innovation and the skills required for its realisation are not acknowledged as an important driver of economic competitiveness.

[91] For more details, see the indicator *Internet use.*

[92] The indicator of e-government availability measures the share of basic government services that are fully available electronically.

EU-25 on average. A gap in utilising the advantages of information-communication technologies (ICT) also persists in the business operations of Slovenian firms, which use the Internet for purchases, to accept orders or to sell their products to a much smaller extent than their counterparts in the EU as a whole. This is related to the insufficient standardisation of such transactions and to the fact that, in order to use ICT effectively, enterprises must make a number of organisational changes and employ more skilled labour. Given that ICT have become the most broadly applicable technologies in both professional and private life and that these trends are expected to become even stronger in the future, it should be emphasised that Slovenia's investment in ICT is not sufficient, notwithstanding the achieved results. In 2005, the EU spent 6.4% of GDP on investment in ICT whereas Slovenia earmarked only 5.4% of its GDP[93] for this purpose.

In the second half of 2005 and in 2006, Slovenia adopted a number of measures that could improve the situation in research and innovation activity in the future. Based on development documents (Slovenia's Development Strategy, National Research and Development Programme), a number of measures were adopted to enhance innovation activity by increasing the co-operation between public research institutions and the business sector (e.g. common R&D programmes, improvement of the research infrastructure in technology parks/centres), providing better access for small and medium-sized enterprises to financial resources for modernisation, and strengthening human resources in R&D (training programmes for young researchers). These measures are expected to produce the intended effects in the upcoming years[94]. However, according to the European Trend Chart report for 2006, Slovenia does not have a stable and coherent innovation system that would enable transparency and greater coherence between the various programmes aimed at promoting innovation.

[93] Estonia: 9.6% of GDP, Hungary: 8.1% of GDP.

[94] Some effects could already be shown in the data for 2006, but they are not yet available.

3. An efficient and more economical state

The SDS objectives within the third priority extend to three areas: first, a *structural reform of public finances* comprising the following targets: reduce general government expenditure as a share of GDP by at least two percentage points; restructure expenditure to support the SDS priorities and the absorption of EU funds; and carry out a comprehensive tax reform aimed at disburdening labour, stimulating competitiveness and employment, and simplifying the system. Second, *an increase in the state's institutional competitiveness and efficiency* with the following specific goals: reduce state ownership in the business sector; improve the quality of regulations and cut red tape; introduce public-private partnerships in infrastructural investment and public utilities; and enhance the efficiency of the civil service. Third, *improving the operation of the judiciary* by making the system more efficient and reducing court backlogs.

3.1. Quality of public finance[95]

The lowering of the level of ***general government expenditure*** *as a share of GDP is underway and consistent with the SDS targets*[96]. After general government expenditure persisted at a level of 48% of GDP during the period of slower GDP growth, it declined fairly evenly in the period of higher GDP growth (2004-2006). It decreased by 1.8 p.p. from 2003 to 2006. According to the national budgets adopted for 2007 and 2008, government spending is expected to decline by a further 2 p.p. in these two years. The narrowing of government expenditure was largely based on the lower expenditure on social transfers (due to the gradual implementation of the pension reform and the changed system of indexing social transfers), expenditure on interest payments, and the cost of government operation (intermediate consumption and compensation of employees). It is less encouraging that the decrease in overall expenditure has been accompanied by a decline in publicly financed investments that will have to be counterbalanced by a greater role of public-private partnerships. While the appropriate legislative framework for this purpose has been adopted this year, no major PPP projects have taken place thus far.

2005 saw a further decline in the share of expenditure on economic affairs, health care, and social protection. On the other hand, expenditure on education and basic functions of the government rose. The most recent comparable data on the structure of total general government expenditure

[95] The notion of the quality of public finance, which is linked to the role of fiscal policy in supporting structural reforms, was defined in greater detail in the Development Report 2006 (p. 42). In the current report, the quality of public finance is analysed with regard to its structure rather than the efficiency of its spending, for which sufficiently detailed data are lacking.

[96] The analysis is based on SORS' official data collected by using a comparable European methodology (ESA-95), while the analysis for the period from 2006 to 2008 is based on official estimates of the Ministry of Finance (Stability Programme 2006).

according to the basic functions of the government[97] for the EU countries are available for the 2003-2004 period. We can see that, in terms of supporting GDP growth, Slovenia's expenditure structure was more favourable than in the EU-15 on average, yet less favourable than in the most rapidly growing countries. Slovenia earmarked a higher share of public expenditure (as a share of GDP) for 'productive purposes' than the EU-15 countries on average. Expenditure on education was notably high. The comparison with the most briskly growing EU economies is less favourable. Compared to them, Slovenia stands out particularly as regards the considerably higher total expenditure as a share of GDP, along with a higher share of expenditure on social protection. In 2005 (the most recent available data), trends from the previous years did not change substantially, however the adopted national budgets provide for higher expenditure on active employment policy.

*Looking at **industrial policy**, subsidies, particularly for agriculture, are displacing the more long-term and competitiveness-boosting expenditure, according to data for the period up until 2005*[98]. While total expenditure on economic affairs has been falling, the level of subsidies has been rising sharply (from 1.3% of GDP in 2002 to 2.1% of GDP in 2005). Only Austria and Denmark had a higher proportion of subsidies to GDP in 2005, whereas the EU average was much lower (1.1%). This reflects the short-term orientation of industrial policy, which focuses on subsidies rather than investment transfers or other long-term instruments. At the central level (national budget), the volume of subsidies to agriculture, forestry, and fishing is the largest in absolute terms and still rising rapidly. These subsidies surged particularly in 2005, when they already accounted for more than half of all subsidies (2004: 40%, 2005: 51.8%). Subsidies for other purposes consequently shrank in 2005: subsidies for the business sector more than halved, while those intended for the labour market and working conditions decreased by around one-fifth. Only the relatively minor subsidies for science and technological development recorded a significant increase. This means that less productive uses of subsidies are displacing the more productive uses. On the other hand, a change in line with SDS objectives was achieved in the narrowly defined expenditure on state aid, whose total volume decreased in 2005, while a higher percentage was used to support small and medium-sized enterprises and regional objectives[99].

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[97] The analysis of the 'functional' structure of public expenditure is limited by data restrictions. Data are currently only available at the highly aggregated level comprising ten areas and are not fully harmonised with some sectoral statistics, which are relevant in terms of development (education, research and development, social expenditure). The findings regarding the structure of public finances also significantly diverge from last year's results due to the interim revision of statistical data (for more details, see the indicator *Public expenditure according to the Classification of the Functions of Government (COFOG).*

[98] Industrial policy comprises financial and non-financial measures whereby governments try to influence the operation of markets and induce changes in economic structure. Due to the diversity of instruments used to this end and due to data shortages, the scope and intensity of industrial policy is difficult to measure. Therefore, data on general government expenditure, especially on subsidies and state aid, are usually used as a proxy.

[99] See the indicator *State aid.* In previous years, the analysis was mainly based on state aid data, which have become less useful due to methodological changes (disregarding agricultural state aid granted for the implementation of the EU common agricultural policy; smaller coverage due to the raised threshold below which subsidies are considered as state aid).

*In the area of **taxation**, Slovenia has adopted measures to reduce the tax wedge on earnings in line with the strategic objectives.* The adopted tax reform will reduce the tax burden on labour, which was identified as the main competitive weakness of the tax system[100]. The payroll tax, which brought in revenue totalling 1.8% of GDP, will be gradually abolished by 2009. Changes in personal income tax will further reduce the tax burden on labour in 2007 (by approximately 0.5%) and accelerate GDP growth by around 0.3 p.p. The lowering of corporate income tax rates will provide an additional incentive for economic activity. Despite the increase in the tax base, the lower tax rates are foreseen to reduce the burden by 0.3% of GDP in 2008[101]. The revenue lost by reducing the tax burden on labour is being partially compensated for by the raising of excise duties, and to a greater extent by the cutting of general government expenditure.

3.2. Institutional competitiveness

*There have been no significant changes in the area of **privatisation**.* The state remains one of the major owners in Slovenian companies. According to year-end data for 2005, the share ownership structure of companies registered at the Central Securities Clearing Corporation (KDD), i.e. not only those listed on the Ljubljana Stock Exchange, was as follows: private non-financial companies/organisations (30%), public sector (23%), individual investors/households (18%), private financial enterprises (16%), and foreign investors (13%; FESE, 2006). Table 1 shows the declining trend in the proportion of the public sector in the share ownership structure. However, among the EU countries Slovenia is ranked second immediately after Lithuania (27.3%) according to this indicator. In 2006 the process of Telekom's privatisation was launched – the company's shares were listed on the stock exchange. Among major transactions, the sale of the state's share in the Slovenian Steel Group in 2007 deserves mention.

Table 1: **Share ownership structure of KDD listed public limited companies in 1998-2005, %**

	1998	1999	2000	2001	2002	2003	2004	2005
Private non-financial companies/organisations	9.0	12.6	21.2	19.5	20.2	25.5	24.8	29.3
Public sector	29.6	33.4	24.5	26.2	17.8	17.7	16.8	23.3
Individual investors/households	33.7	28.9	23.4	19.7	25.1	25.8	21.5	18.1
Private financial enterprises	22.5	22.1	26.5	24.7	24.4	23.0	24.9	15.9
Foreign investors	5.2	3.0	4.4	9.9	12.5	8.0	12.0	13.4

Source: Share Ownership Structure in Europe 2004 (FESE), 2006.

The withdrawal of the capital fund (KAD) and the Slovenian restitution fund (SOD) from company ownership has been gradual. Last year, the government adopted a programme for the withdrawal of the state from commercial companies in which the state holds indirect ownership shares through the KAD and the SOD. The aim of the programme is to gradually sell the ownership shares of the

[100] See the indicator *Economic structure of taxes and contributions* and Development Report 2006.

[101] For details, see the Autumn Report 2006.

KAD and the SOD and restructure them into portfolio investors to the extent that their shares in companies will no longer be high enough to enable them to influence business operations. The programme stipulates that non-listed companies must be sold within two and a half years, whereas the shares in listed companies are due to be sold in two years. The only exception is 18 investments of strategic significance, for which the deadline for the sale of shares has not been fixed. Tables 2 and 3 show the dynamics of the withdrawal of the KAD and SOD from company ownership. From 2004 to 2006, the number of companies included in the balance sheets of these two funds decreased from 265 to 162 for the KAD and from 179 to 102 for the SOD (active investments). While this decline evidences the gradual withdrawal of the state from company ownership, both funds remain important players in a number of the largest Slovenian companies.

Table 2: **Capital Fund: Overview of cumulative sales and stock (on 31 Dec.) in 1999-2006**

	1999	2000	2001	2002	2003	2004	2005	2006[1]
Fully sold companies - cumulatively	553	862	945	997	1043	1093	1127	1181
No. of companies in the year-end balance sheets[2]	735	458	385	353	312	265	210	162

Source: Capital Fund.
Notes: [1]Estimate. [2]The decrease in the number of companies in the balance sheet of a given year could be smaller than the number of sales in that year due to subsequent acquisitions (free transfers, swaps, purchases, etc.) of new shares.

Table 3: **Slovenian Restitution Fund: Overview of the stock of capital investments and sales in 2004-2006**

STOCK			SALES		
Year-end	No. of investments	No. of active investments[1]	Year	No. of sold[2] investments	Sale value of investments (SIT m)
31.12.2004	227	179	2004	43	18,247
31.12.2005	194	151	2005	37	26,759
31.12.2006	134	102	2006	57	20,419

Source: Slovenian Restitution Fund.
Notes: [1]Capital investments in companies that are not involved in a bankruptcy procedure, and capital investments for which no sales contract has been signed. [2]Signed sales contract.

In 2006, the first steps were undertaken towards shaping a comprehensive policy for ***better regulation***[102]. The government amended its rules of procedure to the effect that the proposers of regulations are obliged to carry out a preliminary regulatory impact assessment before submitting a bill. 2006 also saw the adoption of the basic methodology for the preparation and monitoring of the Statement on the Removal of Administrative Obstacles and the Participation of Stakeholders, which observes the principles of good regulation more consistently and requires a proposer of a regulation to report on their prior consultations with stakeholders. The possibilities to express opinions about legislative proposals on the websites improved as well. Progress in the area of better regulation was also favourably

[102] Regulations comprise legal or administrative instruments aimed at achieving policy objectives. For reasons of clarity, the term 'regulations' is sometimes replaced by the term 'legislation'.

assessed in the SIGMA 2006 report, which includes guidelines for the future evolution of the regulatory regime in Slovenia[103].

Progress was also made in the area of ***reducing administrative burden.*** The administrative and business environment was modernised and e-simplified to some extent (e.g. the introduction of a 'one-stop-shop' for sole proprietors). The tax legislation was simplified, a new law on companies was adopted[104], and the Court Register Act was amended. Around 20% of the proposed regulations were rejected in the process of the preliminary regulatory impact assessment, in which the Council for Business-Friendly Administration also plays an important role. The government is also implementing a pragmatic programme aimed at reducing the administrative burden in the existing legislation[105]. Simplification in the area of government services particularly comprises the new portal of electronic government services, which enables the description of citizen services provided by government bodies and the electronic exchange of documents and forms.

The described changes in the area of better regulation have thus far not been evidenced by higher ***aggregate competitiveness indices****.* According to the most recent reports by the leading institutions that assess the competitiveness of countries, Slovenia's ranking among other EU countries has remained unchanged, whereas the slipping of Slovenia on the global scale is largely explained by the fact that some countries have been making faster progress[106]. The most recent reports of the IMD and WEF are based on data for 2004 and 2005 and on surveys of top executives carried out at the beginning of 2006. Due to the substantial differences in the methodologies applied, however, they are only conditionally comparable. According to these reports, Slovenia's main strengths include macroeconomic indicators, education, and health, whereas the core weaknesses identified were market efficiency and business legislation, innovation, and general attitudes and values.

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[103] SIGMA (Report on the Assessment of Regulatory Management Capacities of Slovenia 2006) finds that Slovenia should enhance public communication on the significance of better regulation and strengthen the participation of civil society in the preparation of policies and regulations. It also recommends that Slovenia should separate policy-making procedures from bill-drafting procedures. In addition, Slovenia should develop a regulatory culture that will primarily seek possible alternatives to regulation to achieve public goals.

[104] The new law facilitates doing business: it simplifies the establishment of a limited liability company and the change of status of sole proprietors; it introduces a voluntary stakeholders agreement form that does not require notarial authentication; a company can be established with a non-cash contribution or non-cash acquisition only; the minimum share capital requirements were reduced to EUR 7,500; the law contains new provisions on the possibilities of changing the status of a sole proprietor into a limited liability company.

[105] In line with the programme for 2006, 12 measures were carried out fully last year. Most other measures are being harmonised with the competent ministries and stakeholders. At the end of November 2006, the Ministry of Public Administration prepared a draft programme of measures for 2007. Individual measures that require major changes of the system are foreseen to be carried out in 2007 or 2008.

[106] For more details, see the indicator *Aggregate competitiveness indices* and the presentation of data from the ease of doing business estimate prepared by the World Bank (Slovenian Economic Mirror, 12/2006).

3.3. Efficiency of the judiciary

*The gradual reduction in the number of **pending court cases** and the shortening of procedures continued in 2005 and 2006.* The number of pending cases declined in all courts in 2005, whereas our estimates for 2006 show that the number of pending cases decreased in some courts while it increased in others. The situation in court backlogs appears to be similar to that in pending court cases in both major and minor cases[107]. The duration of procedures has also been declining for several years in both major and minor cases. The improvement in the efficiency of the judiciary is important for the business sector, since companies that cannot rely on judicial protection resort to less efficient but safer ways of doing business. This also hampers market entry of new suppliers which cannot join the already established informal networks that offer a substitute for safety in the face of the ineffective judicial system[108].

A further improvement in the situation will depend on successful implementation of the programme aimed at reducing court backlogs. In the first year of implementing the 'Lukenda Project', the focus was on drafting new or amended laws[109]. 2007 saw the coming into force of the Act on Protection of the Right to Trial without Undue Delay, which allows citizens to claim damages for excessively long court procedures within the national legal system. The adoption of two important procedural laws (Criminal Procedure Law and Civil Procedure Act) is pending. These two laws will determine the future efficiency of procedures in Slovenian courts. Further, activities aimed at improving the spatial and organisational conditions of the operation of courts are underway, along with the computerisation and hiring of additional judges and judicial staff.

Although the situation is improving, a comparison of the efficiency of the Slovenian judiciary with the situation in other countries is not encouraging. In its annual analysis of the cost of doing business in individual countries, the World Bank also measures the time spent and number of procedures required to register a property, and the duration of procedures involved in enforcing contracts[110]. Among 175 countries, Slovenia was ranked 93rd on the property registration index in 2005, and a further four places lower the following year. Although Slovenia climbed one place up on the contract debt enforcement index (to 85th place), the facts that 25 procedures must take place from the moment a creditor files a lawsuit until the actual payment, and that the average duration

[107] For more details, see the indicator *Court backlogs.*

[108] In their empirical analysis, Johnson, McMillan, and Wudroof (1999) find that long-term contracts, i.e. dependence on certain suppliers, are a partial substitute for an inefficient judiciary, which may lead to inefficiency of the business sector. For instance, when companies in four transition countries were asked if they would be prepared to switch their trusted suppliers if a new supplier offered them a 10% lower price, only 37.9% responded positively (while 45% would buy from both). This shows that new companies have somewhat restricted access to the market, whereas the existing suppliers are 'protected' largely because of the ineffective judicial system.

[109] Report on the Implementation of Measures in Line with the Lukenda Project from 12 Dec. 2005 to 12 Dec 2006.

[110] For detailed information, see http://www.doingbusiness.org/.

required to resolve the dispute averages 1,350 days, are not encouraging. Our analysis of pending cases similarly shows that the situation in the area of enforcement has not improved thus far, but is expected to start improving this year when the enforcement procedure is foreseen to be computerised. By way of conclusion we can therefore say that, although the number of unresolved cases and court backlogs in Slovenia is declining, the situation is not improving in any significant way in comparison with other countries, which is sapping the competitiveness of the country and undermining the efficiency of the economy.

4. A modern welfare state and higher employment

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

4.1. Increasing labour market flexibility

*The situation and trends in the **labour market** are relatively favourable.* The employment rate of the population aged 15-64 increased in 2005. In 2006, the rising trend of the previous two years continued and the employment rate thus kept approaching the 70% target level. In 2006, this rate totalled 66.6%[111] and was above the EU average for the third consecutive year[112]. The survey unemployment rate in 2000-2005 totalled between 6% and 7%, hovering below the EU average. In 2006, it stood at 6%, down 0.5 p.p. from the previous year[113], whereas the SDS target is to reduce the unemployment rate to 3% by 2013. The key problems in the labour market are still the low employment rate of the elderly and the high ratio of the long-term unemployed to total unemployment. In addition, the problem of hiring tertiary-educated people is also mounting. Although the employment rate of the elderly (aged 55-64) rose substantially after 2000, it remains one of the lowest in the EU. The low employment rate of the elderly reflects the still early retirement of the current generations and the mass early retirements seen at the beginning of the 1990s, coupled with the high structural unemployment of the elderly. The number of the registered unemployed with a higher education has been rising year by year. In 2006, it was 7.6% higher than the year before and 60.6% higher than in 2001[114].

[111] According to the SORS' preliminary calculations.

[112] See the indicator *Employment rate*.

[113] See the indicator *Unemployment rate*.

[114] That this problem is growing is also evidenced by the survey unemployment rate of tertiary educated people, which has become a statistically significant phenomenon in the last few years and totalled 3.1% in 2005.

***Labour market flexibility**, measured by the prevalence of temporary and part-time employment in total employment, increased in 2006, following the ongoing trend of the last ten years.* Temporary employment as a share of the total number of employed in Slovenia has been rising at a faster rate than in the EU-25 and exceeded the EU average. In 1996-2006, this share doubled in Slovenia. It increased even after the enforcement of the Employment Relationship Act (2003), which reduced employment protection and partially tightened the conditions for the use of temporary employment. The distribution of people employed for a fixed term into quintile income brackets shows that temporary employment is no longer limited to poorly paid jobs. The prevalence of part-time employment rose as well, although it still lags well behind the EU-25 average. In Slovenia, the labour market exhibits a notable age segregation and is much more flexible for young people. The concentration of fixed-term jobs among the young can have a negative effect on young people's decisions to start a family.

*The **reconciliation of work and family life** is promoted primarily through flexible forms of employment and other types of assistance to young parents* (part-time work, flexispace, work at home, employees' participation in planning work schedules, help with childcare, etc.). According to the SORS, 81% of employees may come to work at least one hour late or leave at least one hour early due to family obligations (51.3% can do so regularly whereas 29.6% are allowed to do it exceptionally)[115].

4.2. Modernising the social protection systems

*The total **social protection expenditure** has amounted to between 24% and 25% of GDP ever since 1996.* According to the most recent available data, it increased by 3.1% in real terms in 2004 (measured by the ESSPROS methodology). In that year, Slovenia earmarked 24.3% of GDP for social protection, 3 p.p. less than the EU-25 countries on average. The share was the highest in 2001 and 2002 and began to decline thereafter[116]. Age-related expenditure (especially for pensions) comprises the largest share of GDP. Combined with the expenditure on sickness and health care, it accounts for a good three-quarters of the total social protection expenditure.

[115] A case study carried out in seven Slovenian enterprises (Kanjuo-Mrčela, A. and Černigoj-Sadar, N., April 2006), however, shows that certain discrimination exists in Slovenia due to parenthood (e.g. regarding the promotion of parents or other caregivers, unpleasant reactions to pregnancies and sick leave, demotion after maternity leave, termination of employment by the employer, lack of understanding for nursing mothers, problems regarding annual leave, etc.). The Development Partnership entitled Young-mother/Family-friendly Employment, which runs under the Equal Initiative Programme in Slovenia, is aimed at creating a more parenthood-friendly climate in firms. In September, the partnership launched a pilot project that grants Family-friendly Enterprise certificates. The certificate is issued to firms providing family-friendly employment, which is not only an advantage for parents and young people who want to start a family but also for the employer since the new organisational culture – a positive attitude towards parenthood – results in greater satisfaction of employees, stronger loyalty to the employer, fewer cases of sick leave, and lower fluctuation, which in turn also translates into higher productivity.

[116] See the indicator *Social protection expenditure.*

Social protection systems *have been partly adapted to the modern challenges, yet the supply of social insurance schemes should become even more flexible in the future.* The changes in the functioning of social systems are also urgent with regard to the need for a greater flexibility and diversification of the supply of services and other benefits within the social protection system. The labour market is becoming more flexible either spontaneously or by means of new *regulatory* arrangements. People are increasingly participating in new and/or atypical forms of employment: *young people* who study and work at the same time; young people engaged in atypical activities (project work, occasional work); *migrant workers* who are not forced to migrate (for economic or political reasons) but for whom migration is a way of life; *women* who work part-time during a period of their lives when they are starting their own family or taking care of other members of their nuclear or extended families; *employees who are displaced from the labour market due to their age* and the consequently higher cost for employers. For the latter, labour flexibility can either be regarded as help if it enables them to stay active longer, or as punishment if it serves as an instrument to drive them out of the market. For all of the abovementioned categories and for all the *insured who already fulfil the conditions for retirement* but would like to continue working for various reasons, social insurance still does not provide appropriate answers to the new realities in the labour market. They mostly apply instruments that exclude rather than include those who are not regularly employed. The supply of social insurance should therefore be made more flexible.

As a result of the ***pension reform****, the average age of new recipients of old-age pensions has increased*[117]. It rose from 56 years and 7 months in 1999 (the last year before the reform) to 58 years and 11 months in 2006[118]. However, this is still low in comparison with the EU-25 (2005: 60 years and 11 months). In comparison with the legally stipulated full retirement age (63 years for men and 61 years for women), men on average retired at the age of 60 years and 4 months in 2006 while women stopped working at the age of 57 years and 2 months. Since 2004, the average age of new pensioners has risen somewhat only due to the reduced retirement based on special regulations. For men, however, it has even decreased. Pensions as a share of GDP declined between 2000 and 2004 (from 11.41% to 10.84%). In 2005, they increased slightly for the first time in this period (10.88%) and remained at the same level in 2006.

The total ***expenditure on health care*** *as a share of GDP has declined somewhat in the last few years.* The most recent internationally comparable data are only available for 2004 when the expenditure on health care totalled 8.5% of GDP (8.7% in 2003)[119], which is somewhat higher than the EU-25 average. In per capita terms, however, it is lower than the EU-25 average. Based on the data on

[117] Monthly statistical overview (Pension and Disability Insurance Institute), February 2007.

[118] A similar increase was also observed in the age of disability pension claimants, which rose from 49 years and 9 months in 1999 to 52 years and 3 months in 2005.

[119] SORS, First Release (22 Dec. 2006): data on health expenditure and expenditure on long-term care for Slovenia for 2003 and 2004 were for the first time collected according to the international methodology of A System of Health Accounts (2000). For more information, see the indicator *Health Expenditure.*

public expenditure[120], which represents the bulk of health expenditure, we can infer that its modest growth relative to GDP also continued in 2005 and 2006. Similarly as in the EU, a quarter of the total health expenditure is covered by private sources. Within that, voluntary health insurance comprised 12.9%, households' out-of pocket payments totalled 9.9%, whereas corporations earmarked 2.2% for health care in 2004. Compared with the EU countries, the household out-of-pocket expenditure is low (in the EU-25 it averages 20.3% of the total expenditure) due to the system of supplementary health insurance in Slovenia that covers the extra payment the full price of health services. Most people have this kind of insurance.

Expenditure on long-term care *is increasing.* According to the most recent available data, this expenditure rose by a real 3.9% in 2004. As in the year before, 1.13% of GDP was spent on long-term care that year. In terms of the level of public expenditure (0.88% of GDP in 2004), Slovenia is on a par with the EU-15 (0.9% of GDP). As a rule, old member states earmark significantly higher shares of public expenditure for long-term care than the new EU members[121] (Sweden is at the top with 3.8%). Private expenditure totalled 0.26% of GDP in Slovenia in 2004, which is slightly less than a quarter of the total expenditure on long-term care. This expenditure even decreased somewhat from 2003, while public expenditure increased[122].

Since 2000, there have been no significant changes in the systems of health care and long-term care that would, in line with the SDS objectives, cater to the needs of the long-living society, despite the broad debate about the required regulatory and other changes that has taken place in both fields. Ensuring the efficiency and fiscal sustainability of both systems is vital in view of the fact that population ageing also brings increasing levels of chronic diseases and other age-related problems that reduce the functional abilities and hamper the social inclusion of old people. Most Slovenian hospitals have extended the range of their services to include a programme of non-acute treatment in nursing wards. Nevertheless, the capacities are insufficient, particularly as the average length of inpatient stay at acute treatment wards has been shortening. Other expenditure in the health care system is on the increase as well, which is also evidenced by an analysis of data on health expenditure by the gender and age of patients[123]. The supply of and demand for individual services are at variance. An estimated[124] 58,000 persons (19% of the population aged 65 or over) needed

[120] In 2005, public health expenditure increased by a real 2.6%, whereas in 2006, expenditure on compulsory health insurance rose by a real 2.9%, according to preliminary data.

[121] Internationally comparable estimates of public long-term care expenditure were first prepared as part of a study on the economic effects of population ageing (European Economy, Special Report no/2006, The impact of ageing on public expenditure, 2005) and were partly already based on the SHA methodology (A System of Health Accounts, 2000).

[122] See Social Overview 2006.

[123] In 2004, people aged 65 and over spent approximately 41% of the expenditure on hospital treatment and medications (Marn, Morovič et al., 2006).

[124] Studies about the economic effects of population ageing (European Economy, Special Report no/2006, The impact of ageing on public expenditure, 2005). The estimate of needs is based on the SHARE survey.

long-term care in 2004, while approximately 30,000 users received long-term care within various public systems. Institutional care in particular was on the increase, although the development objectives have been emphasising the need to extend home care ever since 2000.

*The number of recipients of **financial social assistance** decreased in 2006.* The fact that around 4%-5% of the population have depended on this allowance in the last few years remains critical since this share is relatively high and shows that the activation policy for social benefit claimants should be strengthened[125]. Most claimants, around 80%, are unemployed. However, the number of unemployed recipients of FSA who got hired rose at a faster rate in 2003-2006 than the total number of claimants[126]. 2006 saw the adoption of legal changes that increased the activity requirement as a condition for entitlement to FSA and introduced additional incentives for employers to hire the unemployed. The new system is in line with the SDS objectives regarding the need for greater responsibility of each individual for their social status. What remains to be done is to add more incentives aimed at boosting the activity of these people.

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

*The value of the **human development index** (HDI)[127] has been increasing steadily since 1992 (first available data).* In 2004[128], it rose to 0.910. Among the 177 countries included in the analysis, Slovenia was ranked 27th. The index value is slightly below the EU-25 average, where Slovenia was ranked 15th, ahead of all the new member states and Portugal. Throughout the period, the relatively rapid increase in the index value was mainly driven by GDP growth and the increase in the gross enrolment ratio. On the other hand, the positive effect of life expectancy at birth on the total increase in the HDI has been smaller, although it has been improving steadily[129].

***Satisfaction with life** in Slovenia has improved somewhat over time. In 2004 (the most recent available data), Slovenia was among the second half of European countries according to perceived satisfaction with life*[130]. Compared with other European countries, self-perceived health in Slovenia was among the lowest, having waned slightly. Trust in others and in institutions is still low, and

[125] The system of assistance for people who have been left without (sufficient) means for survival was changed in 2001. The number of FSA recipients has increased gradually since 2001. It totalled 35,481 in September 2001 and 54,900 in December 2006 (in certain periods, it has exceeded 60,000, or 90,000 if family members are also counted).

[126] The main positive change occurred in 2004, when the proportion of FSA recipients who got hired to the total outflow of the unemployed into employment rose significantly (from 26% to 31%, or by around 4,000 persons). The share also remained at approximately the achieved level in 2005 and 2006.

[127] The values of the HDI and its components range between 0 and 1.

[128] Data for 2004 were published in 2006 (data are released with a two-year time lag).

[129] See the indicator *Human development index.*

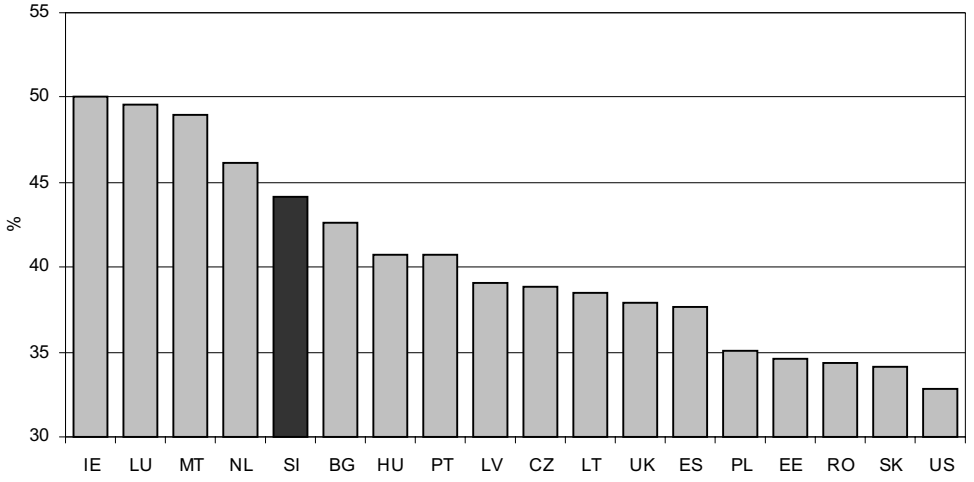
[130] See the indicator *Life satisfaction.*

solidarity is not very high either. The European Social Survey for 2006 confirms that the Slovenian pattern of trusting institutions is fairly similar to the pattern of other European countries covered by the survey, according to which people have the highest trust in the police and the lowest trust in politicians.

Per capita disposable income[131] *increased by a real 2.9% in 2005 and by 2.8% per year on average in 2000-2005*[132]. Income from employment and social benefits grew by approximately the same amount in this period, whereas a much higher increase was observed in income from property (which comprises a small share in the structure of income). *The average gross wage per employee* rose at an average annual growth rate of 2.1% in 2000-2005. In 2006, it increased by 2.2% in real terms.

The minimum wage *increased by a real 2.8% in 2000-2006 (per year on average), which is faster than the rise in the average wage per employee.* Until 2004, it was additionally adjusted once a year by the real increase in GDP in the previous year. In 2004-2005, it was also set at a slightly higher level than it would have been based on the adjustment mechanism otherwise applied to wages in the private sector[133]. Relative to the average gross wage in the private sector, the minimum wage thus increased from 43.2% in 1995 to 45.3% in 2006. In comparison with other EU countries where the minimum gross wage is also enacted, Slovenia ranks in the top third of the scale. The adjustment mechanism also affected the number of minimum wage recipients. The share of recipients relative to total

Figure 6: **Minimum gross wage relative to the gross wage per employee in the private sector in Slovenia and the EU-27 countries where the minimum wage is enacted, and in the USA, 2004**



Source: Eurostat, 2006.
Note: data for the private sector exclude agriculture and fishing.

[131] Household disposable income is an aggregate from the national accounts; estimate by IMAD.

[132] The average monthly gross salary in 2005 totalled SIT 277,279, the average old-age pension was SIT 123,082, whereas the average social assistance paid in 2005 amounted to SIT 46,485.

[133] Since 2006, however, the adjustment mechanism only takes projected inflation into account.

employees had been increasing until 2003, when it reached 3%. Since then, it has been declining and totalled 2.4% in 2006.

Social differences in Slovenia appear to derive to a greater extent from ***wealth disparities*** *rather than from* ***differences in income****.* According to both indicators of income inequality[134], Slovenia is one of those countries with the lowest inequality. In 2004, the quintile share ratio was 3.3, which means that the 20% of richest people received an income only 3.3-times higher than the 20% of the poorest people. Although inequality was slightly higher than the year before, it was the lowest in the EU-25 (it is as low only in Sweden). The Gini coefficient totalled 23.0% in the same year. Only Sweden and Denmark had lower values. Similar results were also arrived at by the analysis of differences in the level of gross earnings of employees, which did not change in 2000-2005. In 2000, the gross salary of the 10% of employees with the highest salaries was 3.46-times higher than the gross wage of the 10% of workers with the lowest pay. The ratio was the same in 2005[135]. According to the most recent available data for 2004, employed women in Slovenia have around 7% lower gross earnings than men, but the closing of this gap (in 2000 it still totalled 10%) has been much faster than in the EU-25[136]. These figures indicate that the differences in income resulting from social stratification are less important than the differences in wealth in Slovenia. Unfortunately, no data or analyses are available about wealth disparities in Slovenia. However, we can nevertheless infer that wealth disparities increased greatly in the period of transition, particularly with the process of privatisation and the greater economic role of private capital.

The at-risk-of-poverty rate *remains at a low level and among the lowest in Europe.* According to the most recent published data for 2004, it stood at 12.4% (11.4% if income in kind is included)[137]. Social transfers contribute significantly to the lowering of the risk of poverty. Without them, the-at-risk-of-poverty rate would be 24.8%. Compared with the EU countries, Slovenia is ranked among those countries with the lowest at-risk-of-poverty rates[138]. In 2004, the lowest poverty rates were found among the employed, those aged 25-49, and households of two adults with one dependent child. On the other hand, single households (particularly those composed of women and elderly people), unemployed, elderly

[134] Both indicators of income inequality are measured by including income in kind. The *quintile share ratio* measures the ratio of income received by the 20% of the population with the highest income to that received by the 20% population with the lowest income, whereas the Gini coefficient takes into account the total distribution of income. In circumstances of perfect income equality, the Gini coefficient would total 0%, indicating that everyone has an equal income. On the other hand, a Gini coefficient totalling 100% would mean that the total national income is concentrated in the hands of one person.

[135] See the indicator *Distribution of earnings in the private sector.*

[136] In the EU-25 countries, the gender pay gap totalled 16% in 2000 and 15% in 2003.

[137] The at-risk-of-poverty rate is calculated on the basis of the EU Survey on Living Conditions (EU-SILC), which was first carried out in Slovenia in 2005. In previous years, the calculation was based on data from the Household Budget Survey. Due to the different methodologies of both surveys, the SORS calculated the social security indicators for 2004 using both sources. The at-risk-of-poverty rate based on data from the Household Budget Survey totalled 10.4% in 2004, remaining at the 2003 level (10.0%) (SORS, Social Cohesion Indicators, 2004 – provisional data, 9 February 2007, First Release).

[138] See the indicator *At-risk-of-poverty rate.*

people, tenants, and single-parent households with at least one dependent child were the most exposed to the risk of poverty. The decline in the risk of poverty beyond 2004 may indirectly reflect the decrease in the share of adults (aged 18 to 59) who live in jobless households. In 2006, 7.2% of the population lived in such households, which is 1.8 p.p. less than in 2000. Throughout 2000-2006, the share of adults in jobless households in Slovenia was approximately 2 p.p. lower than in the EU-25 on average.

The number of dwellings *in Slovenia is rising along with the achieved housing standards.* At the end of 2005, the housing fund amounted to 805,203 dwellings, 4% more than at the 2002 census. The number of dwellings built in 2005 was higher than in the last five years on average. The number of newly acquired non-profit flats rose as well, indicating that the SDS target (2000 new non-profit flats) could soon be reached[139]. The average floor area of dwellings is increasing. According to the housing survey[140], the average household resided in 1.2 rooms per person in 2005, which ranks Slovenia in the lowest quarter on the scale of European countries[141]. Slovenia has one of the lowest shares of tenant homes dwellings and lags far behind most EU-15 countries, where tenant dwellings comprise 25%-50% of the total housing stock. Moreover, most new EU member states also have a higher share of rented housing. The most common tenants of non-profit flats are households in the lower income bracket, most often couples with children. Despite the credit provided by the national Housing Fund[142], young people usually still buy homes with the financial help of their families, or they live in an extra flat of their parents or relatives. The percentage of household income spent on housing costs (housing, water, electricity, heating) has been rising slightly yet is still lower than the average in the EU[143].

4.3.1. Access to services of general interest[144]

On the whole, ***access to services*** *of general interest is improving.* This improvement is indicated by the higher available capacity and participation in

[139] In 2001-2005, a total of 35,067 new flats were built, the bulk in 2005 (7,516). In the same period (2001-2005), 2,181 non-profit flats were obtained. More than 1,000 non-profit flats were obtained in 2005 and 2006 alone (524 in 2005 and 550 in 2006).

[140] Mandič, Cirman, 2006.

[141] In the top-ranking Belgium, households have 2.7 rooms per person at their disposal.

[142] The Housing Fund of the Republic of Slovenia gave long-term loans to 30,997 applicants (69% of the total applications); 60.7% thereof were granted to young families.

[143] Slovenian households spent 19.6% of their income on housing costs in 2005 and 19.3% in 2004 (18.8% in 1995), whereas households in the EU-15 and EU-25 spent 22.3% of their income on these costs. In most countries, this percentage increased somewhat in 2000-2005. Maltese households spend the lowest share of their income on housing costs (8.5%), whereas Swedish households pay the most for housing (28.3%).

[144] According to the European Commission's definition (Green Paper on Services of General Interest), services of general interest cover both market and non-market services which the public authorities class as being of general interest and subject to specific public obligations in order to ensure the achievement of certain objectives of general interest. Services of general interest are an important element of the European social model. They are especially vital for the improvement of the quality of

the programmes or provision of services. On the other hand, no significant changes were recorded in the spatial distribution of the network and financial affordability over the last year.

The number of higher education institutions and participation in tertiary education *are increasing.* The number of students rose by 2.3%[145] in the 2005/2006 academic year, reflecting the continuation of the positive trend characteristic of the entire 2000-2005 period, during which the number of students rose by 25.5%. Another new university was established in 2006 (in Nova Gorica). The state also aims to improve access to tertiary education by providing various benefits to students[146].

Participation in lifelong learning[147] in Slovenia is above the EU-25 average; however, similarly as in most other EU countries, there are differences in terms of gender, age, and attained education. *The female rate of participation in lifelong learning is higher than the male one (in 2005: women 17.2%, men 13.6%). Due to population ageing, the expected higher participation of the elderly in the labour market, technological advancement, and extension of working lives, it is important that older people also participate in lifelong learning. According to the data, however, the Slovenian participation rates of the adult population in education and training[148] are decreasing more rapidly with age than in the EU-25 countries on average. Less educated people[149] also participate in education and training to a smaller extent; therefore, one of the (education and employment) policy objectives is to encourage higher participation of lowly educated[150] adults in education and training and to raise the education level of the adult population.*

Access to public health services *at the primary level is relatively good*, with the exception of dental care. In 2005, additional funds were provided to cover the increased volume of hospital treatments (by 2%) and more people were

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life and prevention of social exclusion. Moreover, the efficiency and quality of theses services are also important factors of competitiveness and social cohesion. The commonly emphasised characteristics of services of general interest are derived from requirements such as: continuity, universal access, affordability, good quality, transparency, adaptability to changes, and protection of users. In addition, these services must also observe the principles of equity, equality, solidarity and subsidiarity (Green Paper, 2003, Social services of general interest in the EU – Assessing their specificities, potential and needs, 2004).

[145] In 2005/2006, the number of students at higher education institutions reached 114,794 (in 2004/2005: 112,228).

[146] In 2005, 23,208 students (17.2% of full-time students) received a national scholarship in Slovenia.

[147] Also see Chapter 2.1, especially the note about the methodological shortcomings of the indicator.

[148] The indicators measuring participation in education and training according to age are based on data for one quarter for the population aged 25-64.

[149] The number of adults (persons who participate in formal secondary education after a break in regular education) in secondary schools declined in 1999-2005; in 2004/2005 their number was 18,942, which is 2.6% less than in 1999/2000 and also less than in 2003/2004.

[150] Persons with a low level of education include those with an attained education level ISCED 2 or lower (finished or unfinished primary school or without a formal education).

granted medical devices. The number of insured persons rose by 0.4% from the previous year. The biggest increase was recorded in the number of insured persons whose contributions are covered by the national budget, however their share in the structure of all insured persons is very small. The number of people without any insurance is declining.

According to the indicators of personnel and hospital bed capacities in the health care system, Slovenia still lags behind the European average[151]. The number of practising physicians per 100,000 inhabitants has been rising at a faster pace since 2000, yet the gap with the EU-25 average remains high. Analyses by the Institute of Public Health notably reveal a lack of physicians at the primary level in some regions of the country, as well as a lack a paediatricians. Slovenia also falls into the lower half of the EU countries according to the indicator of the number of dentists per 100,000 inhabitants, which saw a minor increase in 2000-2004 (from 58.3 to 59.7). The number of nurses and medical technicians per 100,000 inhabitants was above the EU-25 average in 2004, but only a quarter of them with a higher education. Similarly, Slovenia also has smaller hospital bed capacities, although the number of beds has been falling everywhere.

The ***percentage*** *of children attending* ***kindergartens*** *is increasing.* In 2005/2006, 77.6% of children aged between three and five attended kindergartens, whereas the inclusion of children aged less than three was 38.5%. Relative to 2000/2001, the share of children aged three to five attending kindergartens increased by 9.7 p.p., while the share of younger children increased by 9.3 p.p. Due to the gradual introduction of the nine-year primary school, the number of kindergartens fell after 2000[152]. Within the total expenditure on pre-school education, the share of public expenditure is on the increase and totalled 81% in 2004[153] (75% in 1999). Access to kindergartens is limited by the relatively high price relative to parents' income already in the middle income brackets and the difficulty of enrolling a child during the year (most places are usually allocated at the beginning of each year).

The network *of providers of* ***social services*** *and programmes is growing, but so is the number of people using them.* In 2005, there were 68 homes for the elderly in Slovenia, five of which opened in 2005, and 19 new homes have opened in total since 2000 (compared with just two in 1995-2000). In 2000-2005, the number of care-dependent people living in them rose by 14.6%[154], and the demand still

[151] See the indicator *Health care resources.*

[152] There were 777 kindregartens in 2005/2006; only 18 of them were private.

[153] Provisional data from the SORS.

[154] Their number rose from 11,905 to 13,641. For 2004 and 2005, the SORS counted the care-dependent people in eight units providing special care for adults that function as special or separate units within homes for the elderly to seven specialised social welfare institutions. Care-dependent people living in these eight units had been registered under homes for the elderly until 2003. Consequently, the number of care-dependent people in specialised social welfare institutions increased in 2004 and 2005 while their number in homes for the elderly decreased. If the care-dependent people living in the eight separate units (1,036 in 2004 and 1,039 in 2005) are included in the count according to the old methodology, the number of places in homes for the elderly rose by as much as 23.3% in 2000-2005.

significantly exceeds the capacity[155]. In 2005, the number of places per 100 inhabitants aged 65 or over was 4.4 (4.3 in 2004), but the regional distribution of the places was still very uneven[156]. Facilities for mentally or physically handicapped adults expanded as well. Centres for protection and training intended for day-care have seen a particularly vast expansion since 2000. The number of people in care in these centres has risen by 36%[157], whereas the capacities of the special social welfare institutions in which these people live have not increased[158].

[155] More than 10,000 applicants were rejected in 2005.

[156] The highest number of places was recorded in the Zasavska region (6.7), followed by the Osrednjeslovenska region, while the lowest number of places was registered in the Gorenjska region (2.5).

[157] The number of centres rose from 40 to 78 in 2000-2005 while the number of persons in care increased from 1,976 to 2,695.

[158] The number of care-dependent people living in these institutions totalled 1,690 in 2000 and 2,674 in 2005. Close to 700 applicants were rejected in 2005.

5. Integration of measures to achieve sustainable development

SDS guidelines: The fifth priority covers development in the areas of the environment, sustained population growth, regional development, and spatial management. *The environmental objectives of SDS are to* reduce energy intensity and increase the use of renewable energy sources, improve resource efficiency, and promote waste recycling. The achievement of these goals will also be underpinned by promoting the development and use of environmental technologies. In the area of transport, the SDS objective is to encourage sustainable modes of mobility and boost the use of public passenger transport. Another goal is to protect nature, stop the decline in biodiversity, and establish Slovenia's natural spatial quality as a quality for the whole EU. The main objectives in the area of *sustained population growth* include better conditions for greater inclusion of the working age population, the creation of suitable working and societal conditions for elderly active citizens, and the provision of suitable conditions for young people to start families. The objectives aimed at *more balanced regional development* are broadly based, comprising the establishment of regions, making the system more polycentric, applying regional development programming, preserving populated areas, building transport networks, and strengthening local economies. The planned measures mostly aim to strengthen the regional economies, the network of universities, development aid, and local self-government, which would allow municipalities and regions to develop endogenously. The key priorities in the area of better *spatial management* focus on an improvement of spatial planning with an emphasis on providing building land and creating the conditions for a better functioning real estate market.

5.1. Integrating environmental criteria with sectoral policies

Slovenia's ***energy intensity*** *is relatively high.* According to the latest internationally comparable data for 2004, Slovenia used 60.7% more energy than the EU countries[159] (on average) for the same generated value of GDP. However, its energy intensity was lower than that of the EU-10 countries (except Cyprus and Malta). If the consumption of primary energy is recalculated per unit of GDP in purchasing power standards, whereby the effect of the price level is eliminated, Slovenia only scores one place higher (17^{th})[160]. The structure of the Slovenian economy is one of the main factors of the high energy intensity since it comprises a high share of energy-intensive industries in comparison with other EU countries; moreover, these industries are also more energy intensive than in other countries.

[159] See the indicator *Energy Intensity.*

[160] According to the recalculation of energy intensity in terms of GDP in PPS, Slovenia is ranked behind Hungary but ahead of Sweden and Finland. The latter is explained by the relatively lower purchasing power of GDP relative to its nominal level. A similar effect occurs for Germany, France, the Netherlands, and Luxembourg, which were ranked below the EU average according to this indicator. Conversely, Malta, the UK, Greece, and Portugal scored better than the average according to this calculation, in contrast with the standard indicator.

The reduction of energy intensity has been too slow. Following the strong deterioration in 2001, energy intensity has been improving but with a decelerating dynamic (1.3% in 2005). In the last five years, it has only declined by 0.6% annually on average, which is much less than what was foreseen by the National Energy Programme[161] and the Action Plan for Energy Efficiency of the EU[162] (1.8%). The most unfavourable trends were recorded in manufacturing, where energy intensity increased considerably in 2003 and in 2005. The main reason for the deterioration in 2005 was the high increase in energy intensity in the three most energy-intensive industries (the manufacture of non-metal mineral products, pulp and paper, and metal and metal products). In 2000-2004, the pace of reducing energy intensity in Slovenian industry was similar as in the EU-15, which is problematic in view of Slovenia's strong lagging behind these countries[163].

In 2006, the production of ***emission-intensive industries*** *reaccelerated*[164]. In terms of pressures on the environment it was positive that the relatively high increase in the production of these industries in comparison with other manufacturing industries, characteristic of the previous years, slowed down in 2005. The share of the metal industry in the structure of value added, which had already been one of the highest in the EU, increased. Data for 2006 show, however, that the growth of emission-intensive industries reaccelerated and was considerably higher than the increase in the production volumes of other manufacturing industries. In view of the adopted measures, we can nevertheless expect that the emission intensity of these industries will decrease in the future. In 2007 or by 2011 at the latest, those industrial installations that are major polluters are required to obtain an environmental permit to meet the requirements of the IPPC Directive. These facilities will therefore have to adapt their production processes to the standards of the best available technologies.

The use of ***renewable energy sources*** *is not on a rising trend.* On the whole, the share of renewable energy sources (RES) in the primary energy balance is declining. In 2005, when this share totalled 10.7%, it was lower than the year before. A comparison with 2000 also shows a downward trend since the use of RES in this period increased by just 0.6% while the consumption of primary energy rose by an average of 2.9%. A similar development was observed in the share of electricity produced from renewable resources, which also decreased between 2000 and 2005[165]. Although the share of RES depends on climate

[161] The NEP does not lay down any concrete targets regarding the reduction of energy intensity, but it does set targets for the improvement of energy efficiency by 2010 that would result in a 2.5% lower annual increase in the final energy demand relative to GDP growth.

[162] Action Plan for Energy Efficiency: Realising the Potential, 2006.

[163] According to the Energy Efficiency Centre (at the Jožef Stefan Institute), it would take over 200 years for Slovenian industry to converge with the EU-15 energy intensity indicator at the current pace of changes (Annual Energy Review, 2006).

[164] Called 'dirty' industries in previous reports; see the indicator *Emission-intensive industries.*

[165] It fell from 31.7% in 2000 to 24.2% in 2005: the high increase in electricity consumption (3.8% on average) was much higher than the rise in the electricity production from RES (1.8%). In 2005, the growth of electricity consumption slowed down (1.6%), however in manufacturing and construction it has rebounded strongly since 2003.

conditions and hence on the hydro-electric output, achieving the target increase in this share is being hampered by the fact that electricity consumption growth strongly exceeds the growth of electricity production from RES in the long term. Data on expenditure on R&D in the area of production, supply, and rational use of energy are unfavourable as well. After the high growth rates seen in the preceding years, these figures fell in 2005.

The mechanisms aimed at supporting the use of renewable sources and efficient use of energy use are modest. The too low feed-in tariffs are the main reason for the sluggish development of electricity production from RES. The too short guaranteed purchase period ensured by the current legislation (10 years) is the second obstacle, while administrative reasons are the third hindrance to any faster progress in this area[166]. The purchase price policy also affects the slow development in the area of the combined production of heat and power, which represents a more economical use of energy. This segment of electricity production in Slovenia was one of the lowest in the EU and the lowest among the new member states in 2004. Moreover, the budgetary funds for programmes of efficient energy use and the promotion of RES are modest. As a share of GDP, they are even decreasing.

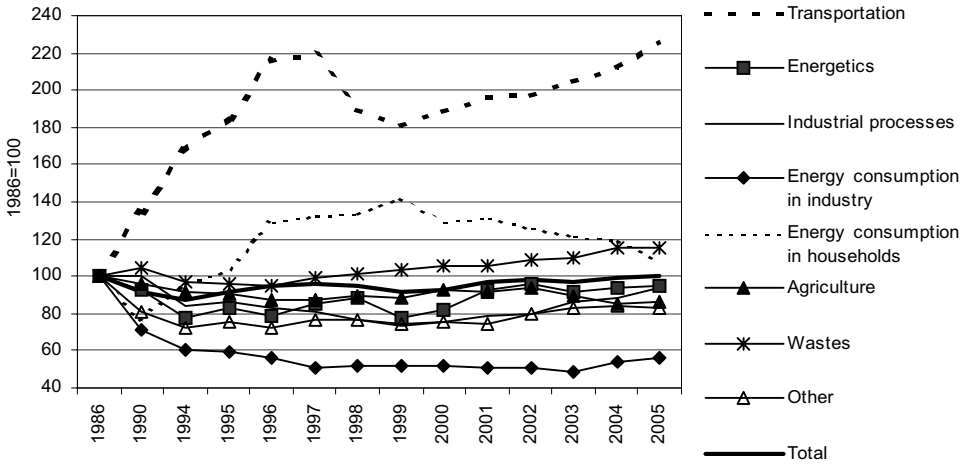
The situation in the area of ***waste*** *management is improving very slowly.* With regard to municipal waste management, the proportion of separately collected waste is increasing slightly, however one-third of this waste is still disposed of. The recovery or recycling of municipal waste is minimal – as much as 78% of the generated waste is landfilled. An environmental tax on pollution of the environment with used tyres, lubricants, electric and electronic equipment, and packaging waste was adopted in 2006. While the tax provides a financial source for the establishment of databases it is not an economic instrument of environmental protection policy. These databases will enable the setting up of an efficient system of waste management.

Greenhouse gas emissions *increased again in 2005.* By signing the Kyoto Protocol, Slovenia made a commitment to reduce greenhouse gas emissions by 8% in 2008-2012 (from the 1986 levels). However, after the decrease in 2003 these emissions reescalated in 2004 and 2005 by a respective 1.6% and 2%. In 2005, they were thus even 0.5% higher than in 1986. Looking at the structure of emissions, the biggest increase in the entire period since 1986 was recorded in transport emissions (from 10% to 22%), while emissions from energy consumption in industry decreased (see Figure 7). Slovenia belongs to the group of EU countries with the highest recorded increases in emissions from transportation in the period since 1990. Since 2000, emissions have been rising in all sectors except households and agriculture. The biggest rises were recorded in emissions from industrial processes and the two sectors that generate the highest amounts of emissions: energetics and transport. In accordance with the National Allocation Plan for the period 2008-2012, adopted at the end of 2006, the operators of installations for which permits for GHG

[166] Report of Slovenia to the European Commission on the implementation of Directive 2001/77/ES (Ministry of the Economy), 2006.

(greenhouse gas) emissions were issued were allocated a certain amount of EU allowances[167].

Figure 7: **Greenhouse gas emissions**



Source: EIONET-SI: Environmental indicators in Slovenia (ARSO), 2006.

Road freight transport *has carried an increasing share of freight in Slovenia, especially since EU accession, which is not in line with the objectives of sustainable development.* Road freight transport is expanding at a faster rate than GDP, and the gap between the two is much bigger in Slovenia[168] than in the EU. The share of road transport in total goods transport thus already exceeded the EU average in 2005[169]. The actual results are even less favourable because the figures on road freight transport do not include transit traffic (goods transported through Slovenia by foreign operators), which rose by 10% annually on average in 2000-2004 and even much faster since Slovenia joined the EU[170]. The estimate of the national Directorate for Roads confirms the high increase[171].

[167] Target emissions were determined in line with the Operational Programme for Reducing Greenhouse Gas Emissions. The method of EU allowances allocations consists of the method of historic emissions ('grandfathering') in 70% and the method of comparison ('benchmarking') in 30%.

[168] The increase in tonne kilometres carried in 2004 and 2005 totalled a respective 28% and 22%.

[169] See the indicator *Road freight transport.*

[170] The number of freight vehicle border crossings rose by 23% in 2005, and at the border crossings with Hungary by as much as 50% (Eionet-Si indicator: Volume and structure of freight transport). Since according to the most recent estimates (Statistical Yearbook 2006: Cross-border road freight traffic – data on freight vehicles), transit traffic comprised a good half of all road freight vehicle border crossings, and since transport increased the most at border crossings with a relatively high share of transit traffic, we can infer that this share is still rising.

[171] For 2001-2004, it estimates the increase in transportation by domestic and foreign heavy lorries at 56% and by domestic ones at only 49% (Eionet-SI indicator: Volume and structure of freight transport).

As public passenger transport remains poorly developed, ***personal road transport*** *is also on the increase.* Travelling by car produces almost two-thirds of the external costs and three-quarters of the greenhouse gas emissions generated by transport as a whole (Lep, 2004). There is no systematic monitoring of this mode of transport[172], however data on the growth in registered cars, which reaccelerated in 2005 after the last surge in 1999 (the number of registered cars rose by 35% in 10 years), indicate a trend of an increasing automobilisation of passenger transport in Slovenia. This development is additionally encouraged by the poorly developed pubic passenger transport and the low investment made in this segment. On average, the public transport of passengers has shrunk by 10% per year since 1995; the volume of passenger kilometres travelled in 2005 was only a third of that recorded in 1995. These figures do not include city passenger transport which, however, fell only slightly less in the same period[173]. Meanwhile, rail passenger transport increased at a modest 2% average annual rate.

For several years, transport policy has been directing the bulk of investment into the construction of the motorway network while neglecting both railway and other road infrastructure. This is evidenced by data on investment made in transport infrastructure in 1995-2006, when 1.8% of GDP (annually, on average) was earmarked for roads while just 0.2% of GDP was allocated to railways (Investment scenario of SDS, 2006). As the motorway network grows, the gravitation areas around the main urban centres are increasing as well, yet their road infrastructure often cannot handle the mass of the current daily migrations[174]. Amid the ineffective public and city passenger transport that is not responding to the new circumstances, traffic congestion and greenhouse gas emissions are increasing.

Agriculture has a strong impact on the environment in both positive and negative senses. Therefore, cross compliance requirements and other measures aimed at achieving environmental standards are raising the significance of environmental protection in this sector. There are several indicators of agricultural intensity. In this report, we monitor the following: (i) average yield of wheat and maize per unit of sown area; (ii) number of animals per unit of agricultural land and milk yield per animal; (iii) use of fertilisers and (iv) pesticides per unit of agricultural area; and (v) share of controlled organic farms.

We estimate that the level of ***agricultural intensification*** *in Slovenia is, on average, moderate.* The average crops of wheat and maize rose considerably in 2005, partly due to the favourable weather conditions, but they fell again in 2006 and are still much lower than in other EU countries on average[175]. The number of

[172] According to the Directorate for Roads' estimate, transport by car rose by 4.6% in 2004 and by almost 12% from 2000 (Eionet-SI indicator: Volume and structure of passenger transport).

[173] On average by 5% per year, and it was hence a third lower in 2005 than in 1995 according to the number of coaches, passengers carried, and kilometres travelled (Statistical Yearbook, SORS, 2006).

[174] 350,000 daily to Ljubljana, 90% of which by car (Bajt, 2006).

[175] The low level of production is not optimal in terms of the utilisation of land as a natural resource. A very high level of production, on the other hand, is similarly inappropriate because it necessarily involves a high environmental impact.

livestock per hectare of agricultural land is slightly higher than the EU average due to the geographical characteristics of the Slovenian landscape, yet it is decreasing slightly. The intensity of milk production is rising but is nevertheless still almost a quarter lower than in the EU-15. The consumption of nitrate fertilisers per unit of agricultural land is decreasing steadily. In 2005, it was 21% lower than in 2000. This decline was mainly due to observing the principles of good agricultural practice and the Nitrates Directive, which has applied to most farms in the last few years. The total sales of pesticides decreased in 2005 but they have been fluctuating considerably from year to year. Organic farming has been on the increase in Slovenia ever since its beginnings in 1998, however the expansion slowed down in 2005. The proportion of organically farmed area to total agricultural land totalled 4.6% in 2005. While this is higher than the EU average, it is still too low in respect of Slovenia's natural endowments and the targets set out in the Action Plan for the Development of Organic Farming[176].

Wood *remains an underutilised natural resource since the forest area, which covers almost 60% of Slovenia's territory, has been growing steadily* (in the last five years by 0.6% annually, on average). Although tree removal and consequently also the production of raw wood categories have recently been on the increase, the intensity of tree removal is still relatively low due to the faster wood increment[177].

Agriculture also plays a significant role in the preservation of ***biodiversity***. The share of Natura 2000 areas, which comprise 31.4% of the national territory, is by far the highest among the EU countries (Spain scores second with 22.6%; EU: 12.1%). Agricultural land covers 22.1% of the Natura 2000 areas. In order to preserve biodiversity, a comprehensive approach to policy-making in these areas is required to complement the agricultural and environmental measures. However, Slovenia's activities in this field are currently still limited to individual projects[178]. Data on the expenditure on research and development aimed at ensuring environmental protection and control are more encouraging. This expenditure almost doubled in 2005, especially due to the expenditure of the higher education sector.

5.2. Sustained population growth[179]

The ***size of the Slovenian population*** *continues to increase, largely due to the rising* ***net migration***. In 2005, it topped two million. The number of births rose somewhat, as did the number of deaths which remained higher than the number of live births. Therefore, the natural increase also remained negative. The number

[176] See the indicator *Agricultural intensity.*

[177] See the indicator *Intensity of tree fellings.*

[178] Expenditure on these projects rose considerably in 2006; the European Commission approved two further projects (the Mura river, Lake Cerknica), which are the biggest thus far in terms of the financial funds involved (their total value is EUR 3.8 m; the EU is contributing 66% and 86%, respectively), and a project providing communication support for the implementation of Natura 2000 (EUR 0.6 m).

[179] This chapter analyses demographic trends, whereas the realisation of SDS objectives in this area (see SDS guidelines at the beginning of Chapter 5) is discussed in Chapter 4.

of deaths has exceeded the number of live births ever since 1997. The population size, which has been growing slowly since 1998, is thus mainly increasing on the back of the positive net migration, which is higher than the natural increase. In 2005, net migration surged in comparison with the previous decade. Increases were observed in both immigration and emigration[180].

The age structure of the population *is gradually changing with the decline in the number of* ***births*** *and* ***mortality****.* The fertility rate, which had fallen to 1.20 live births per woman of childbearing age by 2003, began to increase in the following three years, especially due to the higher fertility of women aged 31-36. Nevertheless, the Slovenian fertility rate remains one of the lowest in Europe[181]. On the other hand, life expectancy is still rising[182]. As a result, the Slovenian population is ageing; the share of children is decreasing along with the share of the working-age population, while the share of old people is growing. This process is currently still slow and Slovenia hence still lags behind the EU average regarding the share and the dependency ratio of the population aged over 65[183]. According to projections[184], however, the share of old people is set to become critical as regards the sustainability of public finance already in the next decade[185] [186].

5.3. More balanced regional development

According to the latest available data, ***changes in the regional variation in per capita GDP*** *show favourable trends.* According to the level of development measured by GDP per capita, the highest values were recorded in the Osrednjeslovenska and the lowest in the Pomurska region. Other regions are roughly even according to this indicator[187]. The differences widened somewhat between 2000 and 2003, notably in favour of the Osrednjeslovenska region. In 2004 (the last year for which data are available), however, this trend reversed.

More pronounced are regional differences regarding ***the risk of poverty****, measured by unemployment and the share of recipients of financial social assistance, however these have also been narrowing.* In addition to unemployment which is one of the main determinants of poverty, for which no regional data are available, the social situation across the regions is also indicated by the share of financial social assistance claimants. Although *regional*

[180] See the indicator *Migration coefficient.*

[181] See the indicator *Fertility rate*.

[182] See the indicator *Life expectancy and infant mortality*

[183] See the indicator *Old-age dependency ratio*.

[184] Projections prepared by the IMAD (Kraigher, 2005) and the Eurostat.

[185] The ratio of the working-age to the old population will decline from the current 5:1 to 4:1 by 2013. It will fall to below 3:1 after 2020 and to below 2:1 after 2040. It will not be possible to improve this increasingly unfavourable ratio by either higher fertility or by increased immigration.

[186] The fiscal implications of population ageing and measures in this area are discussed in Chapter 1.1., whereas the social aspects of ageing are dealt with in Chapter 4.2.

[187] See the indicator *Regional variation in GDP per capita.*

differences in unemployment[188] are vast, they have been decreasing since 2002. Despite the declining registered unemployment rate, however, structural problems escalated in 2006 in some regions, including those with low registered unemployment rates. Regions with above-average registered unemployment rates are concentrated in the eastern half of the country (Pomurska, Podravska, Savinjska, Zasavska, Spodnjeposavska, and Koroška). Compared with the EU countries[189], Slovenia is ranked around the middle in terms of these differences. The high percentages of claimants of *financial social assistance* relative to the total population overlap with areas with above-average registered unemployment and low income (measured by personal income tax base per capita): according to data for 2005, this share was the highest in the Pomurska region, while above-average levels were also recorded in the Podravska, Zasavska, Savinjska and Spodnjeposavska regions. Other regions, located mainly in the western half of the country, show more favourable results. The lowest percentage of persons entitled to financial social assistance was recorded in the Goriška region. From 2001 to 2004, this percentage increased in all regions, primarily due to the changed legislation[190]. In 2005, it remained largely unchanged, while the regional disparities decreased over the entire period.

Demographic regional differences *are diminishing due to the deterioration in regions that used to have more favourable demographic trends.* The population is growing mainly in the western half of the country while it continues to concentrate in Central Slovenia. The total increase resulting from the natural growth and migratory trends was positive in most regions in 2005, however it was mainly based on the positive net migration. Only the Osrednjeslovenska, Gorenjska, and Savinjska regions recorded both positive net migration and a positive natural increase. The decline in the population, particularly in the peripheral regions of Slovenia, is a reason for concern since it does not contribute to more balanced land settlement and weakens regional economies. Along with the decline in natural growth and the lower mortality of the population, the ratio of old to young people (the ageing ratio) is rising while regional gaps are narrowing.

The percentage of ***cohesion funds for the development of less developed regions*** *increased.* The Single Programming Document for the programming period 2004-2006 is the basis for implementing the European cohesion policy in Slovenia[191]. It prioritises the development of regions A and B[192] which should have access

[188] See the indicator *Regional variation in unemployment.*

[189] This comparison is based on Eurostat's data on the coefficient of variation at the NUTS 3 level, which the Eurostat calculates using data from the Labour Force Survey and registered unemployment submitted by the national statistical offices or other relevant national institutions.

[190] The amended regulations in 2001 provided for the phasing in of more favourable criteria for the entitlement to financial social assistance; the changed legislation was fully enacted at the beginning of 2004.

[191] Its aim is to boost growth, create 4,000 jobs, and support the balanced development of all Slovenian regions in such a way that the ratio of the most to the least developed regions does not increase.

[192] Balanced regional development is promoted by a spatially oriented approach to individual measures in the priority regions of the national regional policy. It includes the regions from the so-called A and B lists defined by the 'Instructions on the priority areas for the allocation of incentives essential for the coherent regional development'. Priority regions are defined on the basis of the development deficiency

to an indicative allocation of funds in the amount of 60% of disposable funds. In 2005, however, this ratio was not reached yet: the structural funds allocated by the end of 2005 (EU funds and Slovenia's co-funding) show that 58.4% of funds were allocated to the less developed regions A and B, whereas 41.6% of funds were allocated to the economically more developed regions C and D[193]. A comparison with 2004 shows that the ratio in favour of the economically less developed regions A and B rose[194]. The achievement of the target is additionally hampered by the lower labour potential in the less developed regions.

5.4. Improving spatial management

Spatial development continues despite legislative obstacles; however, the instability of legislation on spatial planning is a specific barrier to development. The total floor area of buildings that was planned by the issued building permits increased for the fifth consecutive year in 2006[195]. In accordance with the still valid Spatial Planning Act, municipal spatial plans can no longer be changed before the preparation of new municipal spatial strategies (this has applied since the middle of 2004). Therefore, they can also not be extended in order to improve the supply of building land. This has not had a major impact thus far since the supply of building land is more limited by the upgrading of land plots with utilities and the willingness of owners to sell. However, if the present situation remains unchanged in the medium term, this could have a negative effect on spatial development. The new Spatial Planning Act that is due to be adopted shortly should primarily simplify the adoption of municipal spatial plans. In addition, it should enable the drafting of inter-municipal regulations[196], elaborate the procedures for providing land plots with utilities, and institute environmental assessments already for spatial regulations, rather than leaving this burden to investors (which is complicating the issuing of building permits).

Otherwise, spatial development is following trends which cannot be reversed by spatial legislation alone and depend on other forces. Two main trends are suburbanisation[197] and the concentration of activity along the motorway network,

index (DDI), which is based on the factor analysis of more than 30 indicators. The A list comprises regions with the lowest level of development: Pomurska, Podravska, Zasavska, and Spodnjeposavska; the B list includes Savinjska, Koroška, Notranjsko-kraška, and Jugovzhodna Slovenija; the C list comprises Gorenjska and Goriška; and the D list extends to the two economically strongest regions: Obalno-kraška and Osrednjeslovenska.

[193] In per capita terms, regions A and B were allocated SIT 29,413 on average while regions C and D received SIT 24,500. The analysis excludes funds for which the regional allocation could not be determined (11.4%).

[194] 51.3% of funds was allocated to regions A and B in 2004.

[195] See the indicator *Issued building permits.*

[196] Although regional spatial regulations are requisite for the acquisition of European funds, their adoption will be hampered until the provinces are established because they require the consent of all municipalities involved.

[197] After the urbanisation rate increased from 46.7% to 50.8% between 1981 ad 2002, it has been decreasing slightly since 2002 (49.3% in 2005), largely as a consequence of the migration from larger towns

which create both positive (better access to services and jobs) and negative effects for the environment and the landscape as well as higher infrastructural and energy costs than in the more urbanised EU countries. While studies and strategies have noted that public transport and the restoration of town centres should be given greater attention, the prevailing measures still promote development in the opposite direction.

Obstacles in the real estate market are being reduced in the areas of databases and mortgage loans. The Slovenian real estate market is characterised by relatively high prices that are still rising in circumstances of limited supply and rising demand (in the last few years, the latter was additionally boosted by improving access to financial resources)[198]. According to the CEPI[199], real estate and rental prices in Slovenia are therefore relatively (considering purchasing power) higher than in the EU on average[200]. The deficient real estate records, undeveloped mortgage lending, and the incomplete tax and financial systems still act as obstacles to a more efficient functioning of the real estate market. Regarding the former two, significant progress was achieved over the past year: the biggest step forward in the area of real estate records is the setting up of a real estate register by means of a real estate census (recording buildings and parts of buildings), which started at the end of 2006. This measure is intended to at least partially compensate for the deficient land register, which is one of the main development obstacles in this field. March 2006 saw the adoption of the Mortgage Bond and Municipal Bond Act, which has not started to operate yet in practice but does provide opportunities to make loans more accessible. The delay in adopting a law on real estate tax is one of the major areas of the Slovenian system that is not harmonised with the more developed countries. It would also serve as a lever for a more rational acting of real estate owners and as a brake on the further raising of real estate prices. Legislation on real estate funds is similarly delayed.

(Ljubljana, Maribor, Celje) to suburbanised areas as well as the countryside (the calculation is based on data on the number of citizens).

[198] In Ljubljana, for instance, they have been increasing at an annual rate above 10% (Bank of Slovenia: Financial Stability Report, 2006).

[199] Overview of the European real estate market 2005 (Council of European real estate professions – CEPI), 2006.

[200] Compared with other countries, Slovenia has a relatively high share of homes occupied by owners (see Chapter 4.3), which is a major hindrance to development.

II.

Indicators of Slovenia's Development

The first priority:

A competitive economy and faster economic growth

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

Gross domestic product per capita in PPS

In 2005 Slovenia continued to approach the average EU development level. According to Eurostat[1] gross domestic product per capita reached 19.200 PPS[2] in Slovenia, accounting for 82% of the average GDP per capita in PPS recorded in the EU-25. Among the ten new EU member states, only Cyprus had higher GDP per capita in PPS (89%) in 2005, while in comparison with the old members – EU-15[3] – Slovenia still ranked above Portugal (71%). Data relating to this indicator thus reveal that Slovenia has improved its position over the last few years, namely by two percentage points compared to last year and by a remarkable 14 percentage points since 1995 (see table).

The level of GDP per capita in PPS in the EU-25 ranged between 48% and 251%[3]**.** In the countries of the euro area it accounted for 106%. Luxemburg remains the top-ranking country with 251% of the EU-25 average, by far outstripping the second-ranking Ireland (139%). The Netherlands, Austria, Denmark, Belgium, the UK and Sweden hovered between 15% and 25% above the EU-25 average. Finland, Germany and France were around 10% above the EU-25 average, while Italy and Spain were close to the European average. The following countries were below the EU-25 average: Cyprus by around 10%, Greece and Slovenia by around 20%, the Czech Republic, Portugal and Malta lagged behind by around 30%, while Hungary, Estonia and Slovakia fell around 40% short of the average. Lithuania, Poland and Latvia achieved around half of the EU-25 average. Bulgaria and Romania, which became members in 2007, lagged behind the EU average by around 65%. The candidate countries Croatia and Macedonia lagged behind by 50% and almost 75%, respectively. Compared to the previous year, all countries with the exception of Belgium, Italy, Malta, Germany and Portugal increased or maintained an unchanged GDP per capita in PPS compared to the EU average.

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[1] In December 2006, Eurostat published the data on gross domestic product per capita in purchasing power standards (GDP in PPS) for 2005, 2004 and 2003. The data are based on revised calculations of purchasing power parity and the latest data on GDP and population size. Four publications of the estimated purchasing power parity are planned for each year. For 2005, the Eurostat's publication New Release 79/2006 of 15 June 2006 put out the first estimate based on forecasts. The present, second estimate (preliminary data) is based on prices gathered in 2005.

[2] PPS is a unit of artificial value reflecting the differences in national price rates that are not accounted for in exchange rates, thus allowing international comparisons of BDP p.c. level.

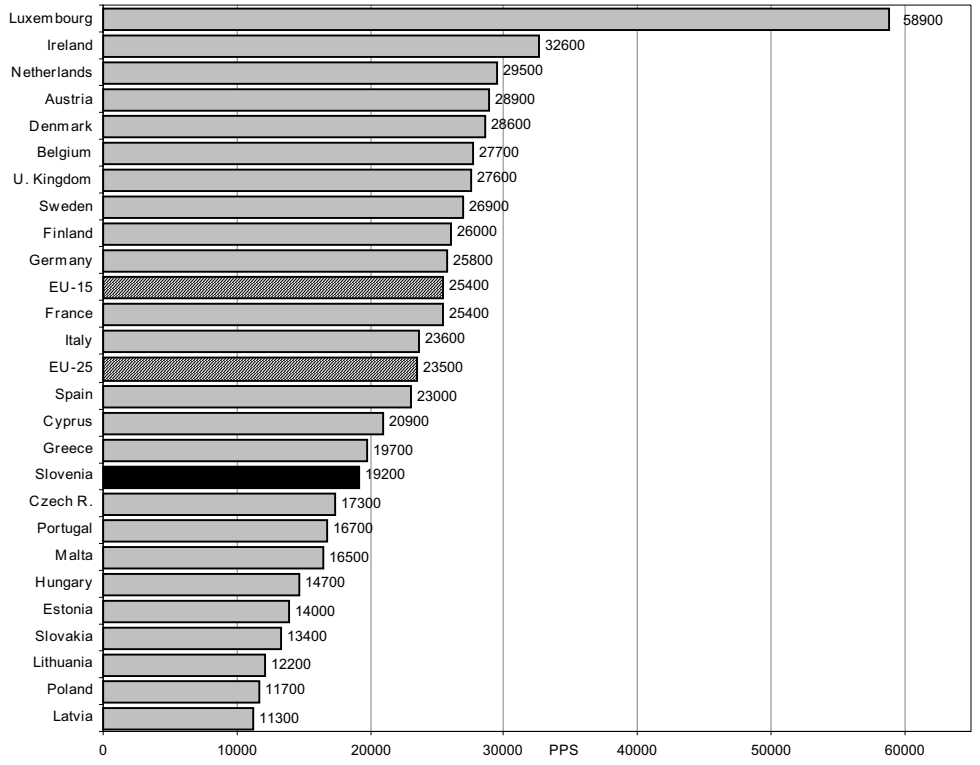
[3] Data on GDP per capita level indices are not entirely comparable among different countries since when calculating GDP for 2005 not all the EU member states had carried out the compulsory methodological changes concerning the manner of calculating financial intermediation services indirectly measured (FISIM), which will result in a slight increase of GDP in PPS per capita in those countries. Moreover, Greece has not yet carried out an audit of its national accounts.

Table: **GDP per capita in PPS, EU-25 = 100**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**100**	**100**	**100**	**100**	**100**	**100**	**100**
EU-15	**111**	**110**	**110**	**109**	**109**	**109**	**108**
Austria	127	126	122	120	123	123	123
Belgium	121	117	117	118	119	119	118
Cyprus	82	82	84	83	85	88	89
Czech Republic	69	65	66	68	71	72	74
Denmark	124	126	125	121	119	120	122
Estonia	34	42	44	47	51	53	60
Finland	105	114	116	115	109	111	111
France	114	113	114	112	108	108	108
Greece	71	73	73	77	80	81	84
Ireland	99	126	128	132	134	136	139
Italy	117	113	112	110	106	103	100
Latvia	30	35	37	39	41	44	48
Lithuania	34	38	40	42	47	49	52
Luxemburg	201	222	215	221	237	241	251
Hungary	49	54	57	59	61	61	63
Malta	-	78	74	75	74	71	70
Germany	120	112	110	109	112	111	110
Netherlands	119	124	127	125	124	125	126
Poland	41	47	46	46	47	49	50
Portugal	76	80	80	79	73	72	71
Slovakia	45	47	49	51	53	54	57
Slovenia	**68**	**73**	**74**	**75**	**77**	**80**	**82**
Spain	87	92	93	95	97	97	98
Sweden	117	119	115	114	115	115	115
United Kingdom	109	112	113	116	116	118	118

Source: *Eurostat Portal Page - Economy and Finance,* January 2007.

Figure: **GDP per capita in PPS in 2005 , EU member states**



Source: *Eurostat Portal Page – Economy and Finance*, January 2007.

Real growth of gross domestic product

Economic growth in 2004-2006 was much higher than in the previous three-year period. After GDP growth slackened in 2001-2003 in response partly to the less favourable external economic environment and partly to the continuation of the cyclical slowdown in domestic consumption in 2001 and 2002 (following its high growth rates in 1999), it regained considerable momentum in the period after 2003. The upturn in economic growth seen in 2004 was propelled by the brisk growth of foreign demand on the back of supportive external conditions and the positive effects of EU accession. The contribution of domestic consumption, driven *inter alia* by the gradual lowering of interest rates ahead of Slovenia's entry to the ERM II and the euro area, was also high. Nevertheless, the growth of domestic consumption remained macroeconomically sustainable.

Like in 2004, GDP growth was primarily driven by foreign demand in 2005 while the contribution of domestic consumption dropped off sharply. Real GDP growth totalled 4%, down 0.4 p.p. from 2004 and slightly above the average of the last few years. It was largely based on foreign demand since the growth of domestic consumption eased off once again due to the lower real growth of gross capital formation. Even though the growth of goods exports moderated somewhat in 2005 over 2004 (from 12.5% to 10.5%), its deceleration was smaller than anticipated in view of the lower GDP growth in Slovenia's main trading partners within the EU. This development is mainly attributable to the booming road vehicles exports (up 35% in nominal terms) as a result of the partial relocation of car manufacturing to Slovenia in Q4 of 2004. Exports to new EU countries accelerated and rose more than exports to the old member states. The principal reason for the deceleration in investment growth (from 7.9% to 1.5%) was the lower growth of investment in residential building. In addition, investment in civil engineering and in machinery and equipment also slackened after their strong growth in 2004; the latter only rebounded towards the end of the year. This development was possibly caused by the investment relief regime that became less favourable in 2006. Imports of goods and services increased by 7.0% in real terms, considerably less than in 2004 (13.4%), primarily due to the deceleration in investment in machinery and equipment and the lower growth of value added in manufacturing (2.8%; in 2004: 4.1%), which resulted in smaller growth of intermediate goods' imports. The real growth of private consumption accelerated from 2.6% in 2004 to 3.4% in 2005, whereas the real growth of government consumption fell from 3.4% to 2.2%. After the contribution of changes in inventories to GDP growth was positive for three years it turned negative again in 2005.

In 2006, GDP growth accelerated strongly and was primarily driven by foreign demand and strong investment activity. GDP grew by a real 5.2% in 2006. The two fastest-growing consumption components were gross fixed capital formation (11.9% in real terms) and exports of goods and services (10.8%). Backed by the supportive external environment, manufacturing's value added also rose at a brisk pace, largely due to the growing sales in foreign markets. The second part of the year saw a shift in the structure of GDP growth: the contribution of gross fixed capital formation increased while the contribution of exports decreased despite the slight rebound in export growth in Q4. After real export growth abated to 6.9% in Q3, year on year (14.9% in Q1 and 9.4% in Q2), it rebounded to 9.5% in the final quarter. The real growth of gross fixed capital formation, on the other hand, picked up to 14.6% in Q3 and 15.2% in Q4 (8.6% in Q1 and 8.5% in Q2). The accelerated investment activity in the second half of the year was underpinned by the higher growth of investment in machinery and equipment and the construction of roads and motorways. In addition to the good business climate, higher growth of investment in machinery and

equipment is estimated to have been supported by several one-off factors, notably the abolition of the general investment relief from 1 January 2007, which boosted investment at the end of the business year. The vigorous growth of investment in other construction seen in the latter months of the year is, however, mainly attributable to the favourable weather conditions. The real growth of private consumption was moderate throughout the year (3.3%), at a similar level as in 2005 (3.4%).

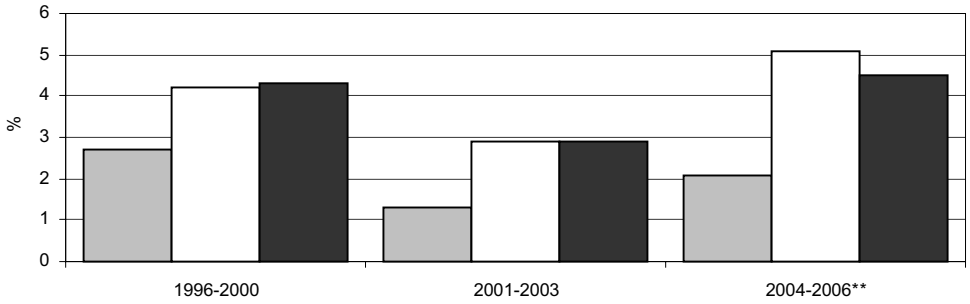
The gap between Slovenia's GDP growth and the average growth in the EU-15 has widened since 2003. In 1996-2003, the dynamics of economic growth in Slovenia generally followed the dynamics of GDP growth in the EU. In 1996-2000, real GDP growth in Slovenia was 1.6 p.p. higher than the average of the EU-15 and 0.1 p.p. higher than the average of the new member states. Between 2001 and 2003, the deceleration of GDP growth in Slovenia was comparable to the slowdown in the EU-15 (the gap between their achieved growth rates remained unchanged). Similarly, a comparison with the EU-10 shows that the slowdown in the new member states was just slightly smaller. After 2003, GDP growth accelerated in both Slovenia and the EU. Slovenia increased its advantage in the GDP growth rate over the EU-15, albeit not as much as the other new member states on average. In 2004-2006, Slovenia's real GDP growth was thus 2.4 p.p. higher than the average growth in the EU-15, which brought the country closer to its target set out in Slovenia's Development Strategy (i.e. to exceed the GDP growth rate of the more advanced countries by 3.0 p.p.).

Table: **Contribution of expenditure components to GDP growth in Slovenia, 1996 and 2000-2006, in percentage points**

	1996	2000	2001	2002	2003	2004	2005	2006
Real GDP growth, %	3.7	4.1	2.7	3.5	2.7	4.4	4.0	5.2
Contribution of individual components to GDP growth, percentage points								
External balance of goods and services (exports-imports)	0.2	2.6	1.7	1.1	-2.0	-0.5	2.0	-0.3
- Exports of goods and services	1.4	6.5	3.5	3.8	1.8	7.0	6.3	6.5
- Imports of goods and services	-1.2	-3.9	-1.8	-2.8	-3.8	-7.5	-4.3	6.8
Domestic consumption, total	3.6	1.5	1.0	2.4	4.7	4.9	2.0	5.5
- Private consumption	1.8	0.4	1.3	0.8	1.9	1.5	1.9	1.8
- Government consumption	0.5	0.5	0.7	0.6	0.3	0.7	0.4	0.7
- Gross fixed capital formation	2.2	0.5	0.1	0.2	1.7	1.8	0.4	2.9
- Changes in inventories and valuables	-1.0	0.1	-1.2	0.8	0.8	1.0	-0.6	0.1

Source: *SI-Stat data portal - National Accounts. Gross Domestic Product, annual data (SORS)*, 2007, calculations by IMAD.

Figure: **Average real GDP growth rates in selected EU countries in 1996-2000, 2001-2003 and 2004-2006**



Source: *Economy and Finance – General Economic Background* (Eurostat), 2007; *SI-Stat data portal - National Accounts. Gross domestic product* (SORS), 2007, calculations by IMAD.
Note: * Data for Malta prior to 2000 are not available and hence not included in the calculation. ** Data on GDP growth in 2006 for the Czech Republic, Estonia, Greece, France, Ireland, Luxembourg, Poland and Portugal were not released by the time of finalising the Development Report. The calculation is based on the European Commission's autumn forecasts.

Inflation

The moderate rise in consumer prices and the sustainable fulfilment of the Maastricht criterion continued in 2006. The average inflation in 2006 remained unchanged compared to 2005 and accounted for 2.5%, similarly to the average inflation measured by the harmonised index of consumer prices used as an indicator of the fulfilment of the Maastricht criterion on inflation. Slovenia has fulfilled this criterion ever since November 2005. After reaching its lowest level in the history of independent Slovenia in 2005 (2.3%), year-on-year inflation in 2006 rose to 2.8%. The indicator seems to be relatively volatile, although its average for the last two years appears to be stable at 2.5%.

The moderate price rise in 2006 has been underpinned by the concerted action of the economic policies of the Bank of Slovenia and the government aimed at maintaining price stability. The stability of the tolar's exchange rate made a significant contribution to the sustained lowering of inflation in the last three years and the government continued to strictly increase administered prices. Another factor contributing to the decelerated rise in consumer prices was the pursuing of a moderate wage rise policy both in the public and private sectors which prevented demand from influencing price rises. Administered prices rose by 2.1% last year, thus staying below the rise in market-determined prices which recorded an increase of 3.0% (1.2% in 2005), mostly resulting from the rise in market-determined prices of services (4.2%) and food (3.6%). The rise in administered prices contributed slightly less than 0.4 p.p. to the inflation totalling 2.8%, which is about 0.2 p.p. more than planned by the government in the Administered Prices Control Plan for 2006 and 2007. Likewise, the Plan did not envisage the increase of the margins and excise duties on liquid fuels which in 2006 – in accordance with the policy of a counter-cyclical adjustment of excise duties on liquid fuels for transport and heating aimed at reducing the fluctuations of oil prices in world markets – rose and contributed over 0.3 p.p. to the growth of administered prices. If they had remained unchanged, the contribution of the rise in prices of liquid fuels for transport and heating to the inflation would have been negative (-0.1 p.p.) and the contribution of administered prices less than expected. Deviating from the government Plan, the prices of public utility services fell by 6.6% due to changes in their calculation in Ljubljana while the prices of district heating rose by 12.4% as a result of a considerable increase of oil prices in the first three quarters of 2006 since the methodology for calculating such prices takes into account trends in prices of energy-related products over a longer period of time. At the same time, the government continued to harmonise excise duties on tobacco and tobacco products to bring them to the agreed EU levels, thereby contributing a further 0.2 p.p. to inflation. The rise in the market-determined prices of services was mainly due to higher prices in health insurance (15.6%), vehicle maintenance and repair (7.3%), and restaurants and cafes (8.1%), the latter rising most explicitly in December which can partly be considered as a consequence of the change of currency. Two factors affected the rise in food prices in 2006. First, the one-off effect of Slovenia's accession to the EU which in 2004 and 2005 had caused lower prices of non-seasonal food lost its impact in 2006, and this segment of food prices started to rise similarly to other price groups. Second, the price rise in the seasonal component of the food group deviated from the usual dynamics of the past year; oscillations were less pronounced which affected the dynamics of their year-on-year growth and their contribution to inflation.

The difference between the average inflation level in Slovenia and in the euro area remained unchanged in 2006. In 2006, the average inflation rate in the euro area was 2.2%. Similarly to 2005, Slovenia exceeded this rate by 0.3 p.p. due to its 2.5% price rise.

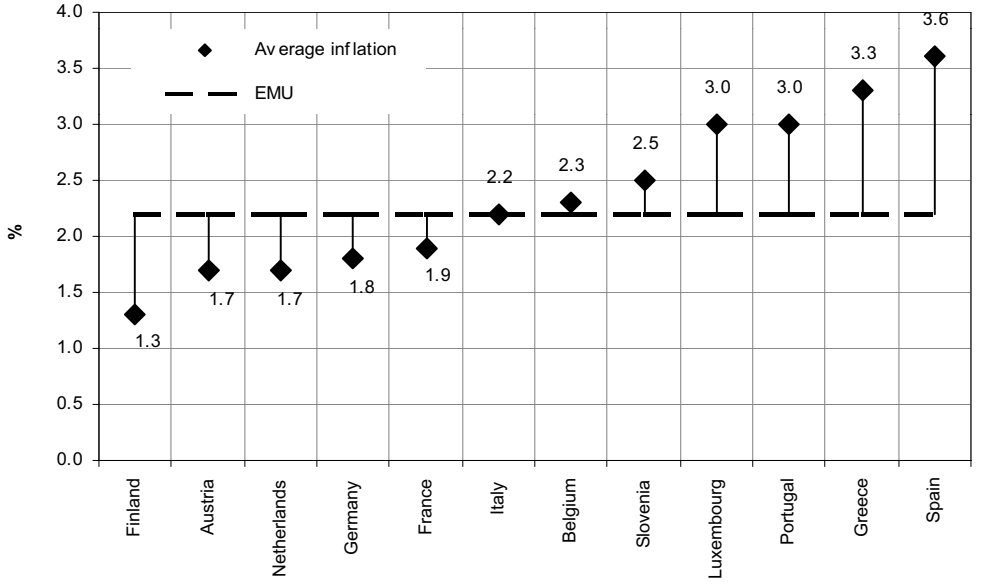
Among the countries of the euro area, price rises above the average and faster than in Slovenia were recorded by countries with a similar or slightly higher development level than Slovenia (Greece, Portugal), which might also be related to the impacts of the Balassa-Samuelson effect; the highest price rise was recorded in Spain, mostly in food and energy. Finland had the lowest average inflation within the EMU with its prices rising by 1.3%, followed by Austria and the Netherlands (1.7%).

Table: **Rises in consumer prices in Slovenia and the EU in 1995-2006**

	1995	2000	2001	2002	2003	2004	2005	2006
Slovenia, year-on-year growth rates, in %								
Consumer prices	9.0	8.9	7.0	7.2	4.6	3.2	2.3	2.8
Goods	7.1	8.8	6.2	6.4	3.9	2.5	2.0	2.1
Services	15.9	9.2	9.6	9.4	6.5	4.9	3.0	4.3
Administered prices	10.0	16.0	10.5	9.2	4.0	9.0	7.7	2.1
Energy	8.2	18.9	6.7	5.5	3.5	10.3	9.8	3.7
Other	11.4	12.0	17.0	14.7	4.8	6.1	3.0	- 2.1
Core inflation[1]	N/A	6.9	7.4	6.9	4.2	2.7	2.4	2.7
European Union[2], year-on-year growth rates, in %								
Consumer prices	2.5	2.5	2.0	2.4	2.0	2.3	2.2	1.9

Source: *SI-Stat data portal - Prices. Index of consumer prices, annual data* (SORS), January 2007, calculations by IMAD. *Economy and Finance - Prices* (Eurostat), January 2007.
Notes: [1]Trimmean. [2]Euro area.

Figure: **Average inflation (harmonised index of consumer prices) in the EMU in 2006**



Source: *Economy and Finance – Prices* (Eurostat), January 2007.

General government sector balance

Since EU accession, Slovenia has been obliged to comply with the provisions of the Stability and Growth Pact according to which the Excessive Deficit Procedure is applied when the general government sector deficit exceeds 3% of GDP. In order to monitor its fiscal position and identify excessive deficit and debt, Slovenia – similarly to other member states – must submit to the European Commission twice a year a »Report on Government Debt and Deficit«[1]. The upper ceiling of the allowed general government sector deficit, above which the Excessive Deficit Procedure applies (3% of GDP), equals the Maastricht convergence criterion which a member state must meet prior to entering the EMU. Slovenia fulfilled this criterion throughout the 2002-2006 period.

In 2006, the general government sector deficit was estimated[2] at 1.4% of GDP, which is 0.1% of GDP less than in 2005. Compared with 2005, the position of the general government sector improved only slightly as the share of revenue decreased along with a drop in the share of general government expenditure in GDP. Total general government sector revenue is estimated at SIT 3,196 bn, which is 6% more than in 2005 in nominal terms, with its share in GDP decreasing by 0.7 p.p. (from 45.5% of GDP in 2005 to 44.8% in 2006). Among the main categories of revenue, an increase was achieved in current taxes on income and wealth (by 0.4% of GDP), mostly owing to the faster growth of the calculated corporate income tax as a result of the changed tax legislation. Likewise, 2006 saw a decrease of 0.2% of GDP in the share of revenue from social contributions and 0.5% of GDP in the share of taxes on production and imports. The slower growth in revenue from excise duties compared with the growth of GDP that followed the restrictive trends in the rates of excise duty on mineral oils (from July 2005 to September 2006) at the minimum level still allowed by EU regulations could not make up for the slightly faster growth in revenue from VAT. The first effects of the reduced payroll tax were shown (by 0.3% of GDP). A drop of 0.2% of GDP was also recorded in property income. Total general government sector expenditure in 2006 was estimated at SIT 3,296 bn, rising in nominal terms by 5.9% and decreasing its share in GDP by 0.8 p.p. (from 47.0% of GDP in 2005 to 46.2% in 2006). In 2005 and 2006, minor changes in the structure of general government sector expenditure were achieved. The structural shares of intermediate consumption and subsidies remained unchanged. Higher shares were recorded in other current transfers (0.1% of GDP) owing to the contributions paid into the EU budget and gross fixed capital formation (0.2% of GDP), while lower shares were achieved in social benefits in cash and in kind (by 0.3% of GDP), the compensation of employees (by 0.3% of GDP), property income, payable (by 0.1% of GDP), other taxes on production (by 0.1% of GDP), and capital transfers (by 0.2% of GDP).

[1] The report was drawn up in line with the single methodology of the European System of Accounts of 1995 (ESA-95) that all member states are obliged to take into account.

[2] On 30 March 2007, the Statistical Office of the Republic of Slovenia published revised data on the basic categories of general government sector's revenue and expenditure and the current general government sector deficit for 2003-2006, representing a further methodological alignment with the European System of Accounts 1995 (ESA 1995) and a new estimation of general government aggregates in 2006. Compared with the previous estimates for 2005, the estimated annual general government deficit rose by 0.1 p.p. to 1.5% of GDP (estimated at 1.4% of GDP in October 2006). The expected increase of the general government deficit is mainly a result of the adjusted estimates of gross fixed capital formation and the estimated tax on household income.

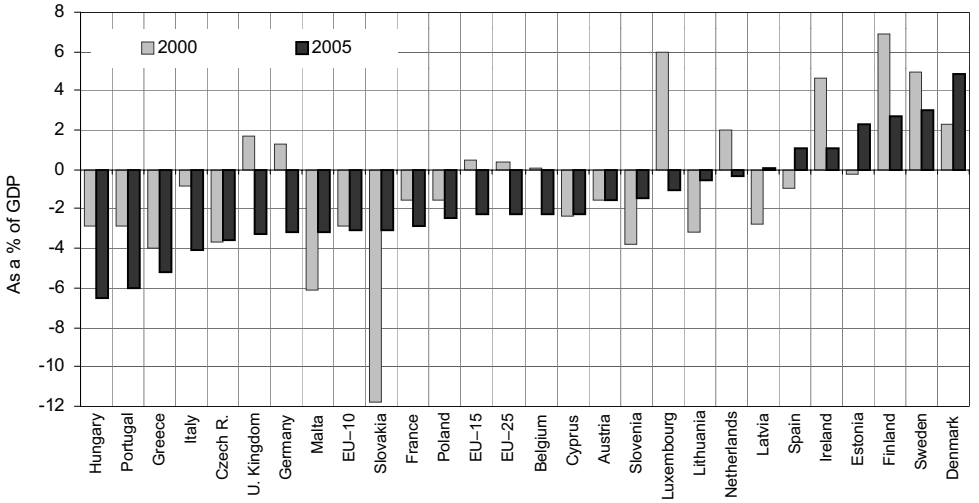
The general government sector deficit in Slovenia in 2005[3] was below the average in the EU-25. Compared with the average in EU member states, the share of the deficit in Slovenia (1.5% of GDP) was 0.8 p.p. lower (EU-25: 2.3% of GDP). In 2005, Slovenia achieved a narrower general government sector deficit as a share of GDP (0.8 p.p.) than the average of EU countries (0.4 p.p.). Slovenia was thus among those countries with lower shares of a general government sector deficit. Higher shares than in Slovenia were recorded in as many as 17 member states, with nine of them overshooting 3% of GDP. Hungary (6.5% of GDP), Portugal (6% of GDP), Greece (5.2% of GDP), Italy (4.1% of GDP), the Czech Republic (3.6% of GDP), the United Kingdom (3.3% of GDP), Malta and Germany (3.2% of GDP each), and Slovakia (3.1% of GDP) thus exceeded the reference value stipulated by the Stability and Growth Pact. In 2005, seven countries achieved a general government sector surplus, namely Denmark (4.9% of GDP), Sweden (3.0% of GDP), Finland (2.7% of GDP), Estonia (2.3% of GDP), Spain and Ireland (1.1% of GDP each), and Latvia (0.1% of GDP).

Table: **General government sector revenue and expenditure and deficits in 2000-2006 by sub-sector (ESA-1995 methodology), as a % of GDP**

	2000	2001	2002	2003	2004	2005	2006
General government sector revenue	44.3	44.8	45.5	45.3	45.1	45.5	44.8
General government sector expenditure	48.1	48.9	48.0	48.1	47.4	47.0	46.2
General government sector deficit	-3.8	-4.1	-2.5	-2.8	-2.3	-1.5	-1.4
Of which:							
Central government	-3.3	-4.0	-2.2	-2.6	-2.1	-2.3	-1.3
Local government	0.0	0.0	-0.2	-0.1	-0.1	0.0	-0.1
Social insurance funds	-0.5	-0.1	-0.1	-0.1	-0.1	0.8	0.0

Source: *National Accounts, Main aggregates of the general government sector, 2000-2006* (SORS), March 2007.

Figure: **General government sector deficit/surplus in EU countries, 2000 and 2005, as a % of GDP**



Source: *Economy and Finance – Government Statistics* (Eurostat), January 2007.

[3] For EU countries data for 2005 are the latest data available.

General government debt

General government debt as a share of GDP fell by 0.6 of a percentage point in 2006 to total 27.8 % of GDP at the end of the year. In nominal terms, general government debt increased by SIT 105.2 bn in this period, amounting to SIT 1,983.3 bn at the end of 2006 (see Table 1). As a result of the debt consolidation among general government sub-sectors (excluding debts among the general government sub-sectors) which was first implemented in September 2006, the total debt level decreased by 0.6% of GDP on average compared with the hitherto published values.

General government sector debt was largely generated at the central government level. Central government units' debt rose by SIT 121.5 bn in 2006 and amounted to SIT 1,955.9 bn at the end of the year. In 2005, the total debt of the HIIS and PDII in the amount of SIT 49.4 bn was transferred to the national budget. At the end of 2005, central government units' debt nevertheless remained at the same level as at the end of 2004 (27.7% of GDP) and was lower than in 2002, when it totalled 28.3% of GDP. The main fact contributing to such a decrease was the early repayment of the RS06 bond in 2005 covered by assets from the sale of NLB d.d. in the amount of SIT 82.9 bn. The debt of social insurance funds amounting to 0.1% of GDP in 2005 was thus solely due to the debt of the national capital fund (KAD). In 2006, this debt decreased by a further SIT 3.3 bn or 0.05% of GDP. The total local government units' debt rose from 0.6% of GDP at the end of 2002 to 0.9% of GDP at the end of 2005 and remained at this level at the end of 2005.

Long-term debt predominates in the structure of general government debt in terms of maturity. At the end of 2006, long-term debt comprised 95.3% of the total general government debt (see Table 2). 2006 also saw a continuation of the established trends in debt structure changes in terms of debt instruments. The proportion of securities rose again in 2006 and represented 88.2% of the total general government debt at the end of the year.

Compared with other EU countries, Slovenia's levels of debt and interest payments relative to GDP are among the lowest. The only countries with lower debt levels are Luxemburg, Ireland, Estonia, Latvia, and Lithuania. According to the criterion of the proportion of interest to GDP, Slovenia was ranked 7th among the EU countries (data for 2005, also see the Figure). Slovenia also fulfilled the Maastricht convergence criterion on the general government debt position throughout the period.

Table 1: **Position of general government debt by sub-sector in 2001-2006**

	SIT m	2001	2002	2003	2004	2005	2006
1	**GENERAL GOVERNMENT SECTOR, TOTAL**	**1,324,697**	**1,567,743**	**1,666,316**	**1,816,724**	**1,879,018**	**1,983,321**
1.1	Central government	1,296,205	1,515,584	1,597,604	1,738,567	1,834,415	1,955,896
1.2	Local government	15,850	31,086	36,643	43,411	57,269	62,570
1.3	Social insurance funds	22,826	30,512	40,058	45,750	3,988	713
	% of GDP	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
1	**GENERAL GOVERNMENT SECTOR, TOTAL**	**27.6**	**29.3**	**28.7**	**29.0**	**28.4**	**27.8**
1.1	Central government	27.0	28.3	27.5	27.7	27.7	27.4
1.2	Local government	0.3	0.6	0.6	0.7	0.9	0.9
1.3	Social insurance funds	0.5	0.6	0.7	0.7	0.1	0.0

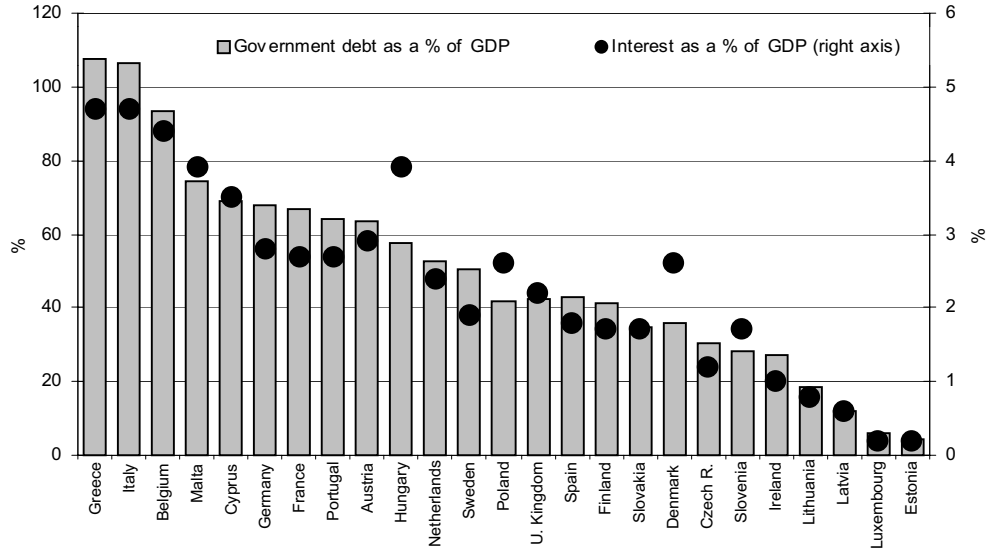
Source: *National accounts, Main aggregates of the general government sector, 2003-2006* (SORS), March 2007.

Table 2: **Position of general government debt by instrument and maturity in 2002-2006**

	SIT m	2002	2003	2004	2005	2006
	GENERAL GOVERNMENT SECTOR, TOTAL	1,567,743	1,666,316	1,816,724	1,879,018	1,983,321
1.	Currency and deposits	1,375	1,868	2,790	3,469	3,602
2.	Securities excluding shares, less financial derivatives	1,277,955	1,393,367	1,522,167	1,579,180	1,749,528
2.1.	short-term	86,795	72,384	71,043	62,095	70,886
2.2.	long-term	1,191,160	1,320,983	1,451,124	1,517,085	1,678,642
3.	Loans	288,413	271,081	291,766	296,369	230,191
3.1.	short-term	32,391	42,232	19,471	10,286	19,262
3.2.	long-term	256,022	228,849	272,295	2,856,082	210,929

Source: *National accounts, Main aggregates of the general government sector, 2003-2006* (SORS), March 2007.

Figure: **General government debt in Slovenia and the EU countries in 2005, as a % of GDP**



Source: *AMECO database* (ECFIN), 2006; *National accounts, Main aggregates of the general government sector, 2003-2006 (SORS)*, March 2007.

Balance of payments

In 2000-2005 the balance of Slovenia's current account recorded a deficit (1.2% of GDP) but was still retained within the limits of long-term sustainability and caused no pressure on the growth of the gross external debt. Following a period of relatively high deficit in 2000 (2.8% of GDP), the current account balance of Slovenia recorded a surplus in 2001 and 2002 and again a deficit in 2003–2005. The surpluses achieved in 2001 and 2002 were driven by the favourable trends in the trade in goods and services, both in terms of volume and improved terms of international trade, as well as by the surplus in the current transfers balance. In 2003 the current account ran a slight deficit (0.8% of GDP) which was, given the balanced international trade, largely caused by the deficit in factor incomes. The deficit widened in 2004 chiefly due to the bigger trade deficit since despite the surge in real export growth driven by the stronger economic growth in the EU and partly by the trade creation effect caused by Slovenia's entry to the EU, real growth of imports, propelled by the robust growth of domestic consumption and exports, accelerated as well. An additional impulse for this development came from the deteriorated terms of trade. In 2004 the current account deficit accounted for 2.7% of GDP. In 2005 the current account deficit of the balance of payments again decreased. In relative terms (as share of GDP), the trade balance deficit recorded a slight decrease; at the same time the services balance increased its surplus and the factor incomes balance reduced its deficit. Thus, the current account deficit narrowed to the level of 2% of GDP.

According to preliminary data, the deficit on the current account of the balance of payments in 2006 totalled EUR 772.8 m (2.6% of GDP). Compared to 2005 when it amounted to EUR 547.5 m, the deficit growth was largely underpinned by a higher deficit in the trade balance as well as in the current transfers balance and factor incomes. As a result of the favourable impacts in the international environment, the exports of goods in 2006 rose in nominal terms by 16.1% compared to 2005. A similar growth was recorded by the imports of goods which rose in nominal terms by 15.5% owing to changes in the volume of exports and a faster increase of domestic demand as well as to the rise in import prices (rising prices of oil, higher prices of other commodities and industrial products). It is estimated that given a somewhat faster growth of import prices over export prices, the implicit commodity terms of trade only slightly deteriorated on a year-on-year basis (index 99.9). Compared to 2005, the trade balance deficit rose by EUR 85.4 m and totalled EUR 1,111.2 m. The trade in services recorded an insignificant surplus growth (from EUR 855.6 m in 2005 to EUR 857.0 m). The increase of net exports of transport roughly compensated for a lower surplus in the trade in travel and a larger deficit in other services. The exports of services recorded a nominal 9.3% growth compared to 2005, owing mostly to increased exports of transport and other services (all other services except for transport and travel). The import of services grew by 12.6%, mostly in other services and transport which was a result of a high economic activity and increased merchandise imports. The increase of the deficit in factor incomes (EUR 347.3 m in 2006, EUR 283.1 m in 2005) was mostly due to the higher net capital expenditure. Among the receipts, the fastest growth was achieved in interest received in domestic banks, underpinned by increased financing from abroad by means of loans and capital exports in the form of investment into debt securities. Among the expenditures, significant bank borrowings caused a rise in interest payment for external debt. A noteworthy increase was also recorded in the payment of dividends and undistributed profits to foreign investors, mostly in July and partly in September. The surplus in the labour income balance was on a year-on-year decline. The higher deficit in the current transfers balance (EUR 171.3 m in 2006, EUR 94.1 m in 2005) was largely due to the increased

deficit in private sector transfers. The latter was largely affected by the deficit in other transfers (the surplus in legacies, annuities and disability grants was not able to make up for the deficit in tax on income and property and social contributions). According to data provided by the Ministry of Finance, the cumulative surplus of Slovenia's state budget in relation to the EU budget totalled EUR 62.2 m in 2006. Slovenia received EUR 350.2 m (78% of the expected resources) from the EU budget and contributed EUR 287.9 m (92% of the expected contributions).

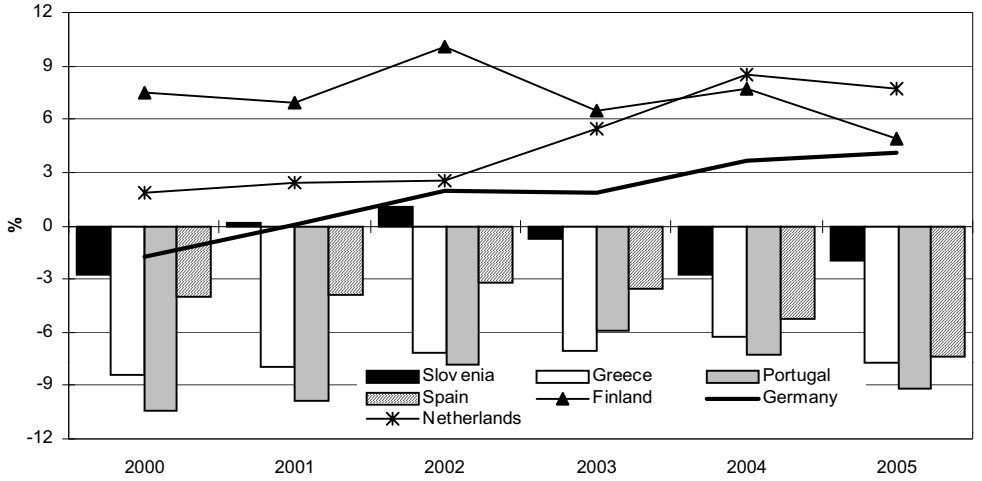
Compared to other EU countries, Slovenia records on the average a relatively low current account deficit. There are considerable differences in the position of current account in the countries of the euro area, which increased at the end of the Nineties mostly due to larger deficits in Greece, Portugal and Spain on one hand and higher surpluses in Germany, the Netherlands and Finland on the other (see Figure). The average current account deficit as share of GDP in other new member states in 2000–2005 was considerably higher than in Slovenia, particularly in the Baltic countries.

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

	1995	2000	2001	2002	2003	2004	2005	2006
Current account, % of GDP	-0.3	-2.8	0.2	1.0	-0.8	-2.7	-2.0	-2.6
Trade balance	-4.7	-5.9	-3.1	-1.1	-2.2	-3.8	-3.7	-3.7
Services balance	2.9	2.3	2.4	2.6	2.2	2.6	3.1	2.9
Labour and investment income balanc	1.0	0.1	0.2	-0.7	-0.9	-1.2	-1.0	-1.2
Current transfers balance	0.5	0.6	0.6	0.3	0.1	-0.3	-0.3	-0.6
Real growth rates of trade in goods and services, %								
Exports of goods and services	1.1	13.2	6.3	6.7	3.1	12.5	10.5	10.0
Imports of goods and services	11.3	7.3	3.0	4.8	6.7	13.4	7.0	10.4

Source: *National accounts, Gross domestic product, main aggregates of national accounts and employment, 2001-2006* (SORS), March 2007; *Financial Accounts, External economic relations* (Bank of Slovenia), 2007; calculations by IMAD.

Figure: **Current account balance in some countries of the euro area and in Sloveniain 2000–2005, % of GDP**



Source*: Economy and finance – Balance of Payments* (Eurostat), 2007; calculations by IMAD.

Gross external debt

In 2000-2005, gross external debt rose from 45.3% to 71.0% of GDP. In this period, Slovenia's gross external debt rose by EUR 10,124 m. Private sector debt went up by EUR 9,259 m, public and publicly-guaranteed debt by EUR 939 m, while liabilities to affiliated entities decreased by EUR 74 m. Excluding liabilities to affiliated entities, which are not tracked for maturity and instruments, long-term debt accounted for 78.0% and short-term debt for 22.0% of GDP. In 2000–2005, the share of gross external debt or external liabilities in debt instruments amounted to around four-fifths of the total gross external debt; the other fifth comprised equity capital and reinvested earnings on foreign direct investment.

Slovenia's gross external debt has been on the increase since 2000 mostly due to the heavier borrowing of the banking and other sectors. The debt of the government sector was slightly more modest, particularly after 2001 when the state implemented the debt management strategy and redirected its borrowing to the domestic financial market. A slowdown was also noticed in the borrowing of affiliated entities, i.e. subsidiaries to affiliated parent enterprises abroad. The proportion of the government sector thus gradually decreased and contributed 10.8% to the total external debt in 2005. At the end of the year, the gross external debt of the banking sector, whose proportion has been rising steadily since 2001, accounted for 43.1% of the total debt. In 2002–2004, the external debt of the banking sector was stimulated by the improved conditions underpinned by the reduction of interest rates on international financial markets and the gradual stabilisation of the tolar's exchange rate relative to the euro. Given the easier and cheaper access to foreign financial sources, the banks were able to provide funds to satisfy the increased demand for loans driven, among other things, by the preference given by other sectors (particularly the corporate sector) to borrowing from domestic commercial banks instead of foreign banks, mostly owing to the shrinking differences between domestic and foreign interest rates. 2005 saw an additional rise in the external debt of the banking sector. The increased supply of foreign currency loans in the domestic market was also underpinned by foreign banks' deposits. The direct financing of the corporate sector with external loans was predominantly replaced with foreign exchange loans granted by domestic commercial banks. Affiliated entities recorded the weakest borrowing. Their proportion to total gross external debt remained low and accounted for 6.3% at the end of 2005.

According to dynamic debt indicators, Slovenia was among those countries that encountered no problems regarding short-term liquidity in 2000–2005. Despite the increase in short-term and, particularly, long-term external debt, the level of foreign exchange reserves was sufficient to cover short-term debt by remaining maturity along with the current account deficit throughout the observed period. On average, all dynamic debt indicators (see Table 2) were above the referential values[1].

2006 saw a slowdown in the growth of gross external debt. Borrowing was still most pronounced in the banking sector, moderate although slightly heavier than the year before in other sectors (enterprises and NFI), and modest in the government sector. Compared to the end of 2005, Slovenia's gross external debt rose by EUR 4,104 m to EUR 23,718 m (79.7% of GDP). Domestic commercial banks contributed EUR 2,606 m or 63.5% (in 2005 EUR 3,562 m of the total increase of EUR 4,271 m or 83.4%). Commercial banks' borrowing mostly comprised long-term loans and, to a lesser extent, also currency and deposits of non-residents. Although the terms of financing for domestic

[1] The reference value for all indicators is 1.

enterprises abroad did not differ considerably from those in domestic banks and interest rates had been showing upward trends since the last quarter of 2005, enterprises borrowed extensively abroad throughout the year. Enterprises and NFI contributed EUR 1,436 m or 35.0% (17.7% in 2005) to the increase in debt. The government sector's debt rose slightly more than in the previous years, owing to increased foreign investment into long-term government securities, while borrowing in the form of foreign long-term loans further decreased both in nominal terms and in debt structure. The gross external debt of affiliated entities, predominantly debt liabilities to direct investors, decreased by EUR 198 m.

Over the last few years, the dynamic debt indicators have been deteriorating but they remain within sustained limits. Indicators used to estimate foreign exchange reserves have been worsening since 2002. The total foreign exchange in 2006 exceeded short-term debt by remaining maturity and could not be covered due to insufficient international monetary reserves[2]. Likewise and similarly to 2005, external assets in debt instruments were insufficient to cover gross external debt. Divergences from reference values were still limited yet a continuation of such trends in the following years might lead to a significant deterioration of Slovenia's net debt position.

Table 1: **Slovenia's gross external debt position by maturity and by liability to affiliated entities, EUR m**

	1995	2000	2001	2002	2003	2004	2005	Nov. 2006
Total gross external debt	4,275	9,490	10,386	11,524	13,225	15,343	19,614	22,518
Short-term debt	1,470	2,283	2,213	2,327	2,475	2,659	3,603	3,680
Public and publicly-guaranteed debt	0	0	15	99	70	57	70	68
Private non-guaranteed debt	1,470	2,283	2,198	2,227	2,405	2,603	3,533	3,611
Long-term debt	2,083	5,895	7,369	8,229	9,590	11,552	14,773	17,415
Public and publicly-guaranteed debt	1,178	2,883	3,095	3,142	3,461	3,689	3,752	4,442
Private non-guaranteed debt	905	3,012	4,274	5,087	6,129	7,863	11,021	12,973
Liabilities to affiliated entities	722	1,312	804	969	1,160	1,132	1,238	1,423
Public and publicly-guaranteed debt	0	0	0	0	0	0	0	0
Private non-guaranteed debt	722	1,312	804	969	1,160	1,132	1,238	1,423

Source: *Bulletin of the Bank of Slovenia,* January 2007.

Table 2: **Dynamic debt indicators, end-year position, EUR m**

	1995	2000	2001	2002	2003	2004	2005	Nov. 2006
A. Short-term debt by the remaining maturity[1]	1,866	4,382	4,569	4,484	4,590	5,358	6,573	6,805
B. International monetary reserves of the BS	1,421	3,436	4,986	6,781	6,879	6,542	6,894	5,872
C. Foreign exchange	2,703	4,705	6,513	7,842	7,703	7,484	8,832	8,006
D. Gross external assets in debt instruments[2]	5,325	8,700	11,813	14,079	14,941	16,225	19,203	20,669
E. Gross external debt[3]	4,275	9,491	10,386	11,524	13,225	15,343	19,614	22,518
Debt indicators								
- international reserves to short-term debt (B/A)	0.76	0.78	1.09	1.52	1.50	1.22	1.05	0.86
- foreign exchange to short-term debt (C/A)	1.45	1.07	1.43	1.76	1.68	1.40	1.34	1.18
- gross external assets in debt instruments / gross external debt (D/E)	1.25	0.92	1.04	1.10	1.13	1.06	0.98	0.92

Source: *Bulletin of the Bank of Slovenia,* January 2007.
Notes: [1]Short-term debt includes short-term debt and the long-term debt falling due within one year. [2]Gross external assets in debt instruments include all assets from Slovenia's balance of assets, except equity. [3]Gross external debt includes all debt liabilities from Slovenia's balance of assets.

[2] After 2006, the showing of short-term debt by remaining maturity together with international reserves and foreign exchange among dynamic indicators no longer makes sense since with the adoption of the euro the international monetary reserves in euro have been reallocated under other balance of payments items, depending on the form of the instrument.

Labour productivity

Labour productivity growth rebounded in 2006. According to the latest revised national accounts statistics[1], labour productivity (expressed as GDP per employed person according to the national accounts methodology) in 2006 grew at a real rate of 4.0%, which is 0.3 p.p. more than in 2005 and 0.1 p.p. more than in 2004 when it rebounded following its weak growth in 2003. Productivity growth in 2006 was above the average annual growth in 2000–2005 (3.3%), yet below the average recorded in the second half of the 1990s (4.5%). The most significant increase was achieved in manufacturing where labour productivity grew by 9.3% in 2006, which is considerably more than the average annual growth rate in 2000-2005 (5.5%) and above the relatively high growth seen in the second half of the 1990s (on average 7.3% per year). High productivity growth was also achieved in mining (7.0%), construction (4.0%) and certain services.

Slovenia's lagging behind the average level of labour productivity in the European Union has continued to improve. In 2005, average labour productivity in Slovenia amounted to SIT 7.226 m or EUR 30,168 of GDP per employed person, which equals 56.2% in current prices (55.0% in 2004) or 76.8% in purchasing power standards (75.4% in 2004) of the EU-25 average. Owing to the considerably lower growth of labour productivity in most of the more advanced EU countries, the gap between Slovenia's productivity and the EU average is closing. This gap narrowed by 11.3 p.p. (current prices) from 1995 to 2005 and by 13.4 p.p. (purchasing power standards) compared to 1996 (see the table). Slovenia still has the second highest labour productivity among the new EU members (after Malta). The average productivity growth in the EU in 2005 was low, at just 0.7%. Only ten member states achieved a productivity growth of over 2%. Higher productivity growth than Slovenia was recorded by the Baltic states (particularly Latvia with 8.5%), Slovakia, the Czech Republic and Hungary (see the figure).

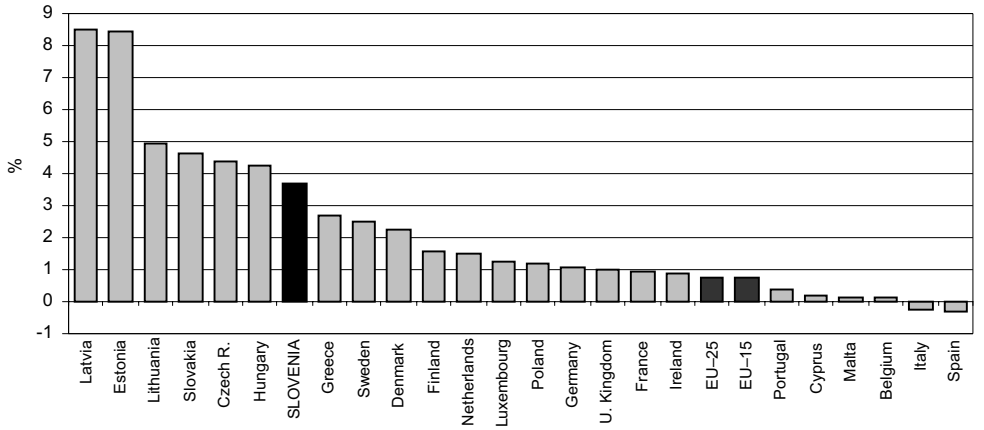
[1] Published on 9 March 2007.

Table: **Labour productivity[1] in Slovenia and the EU in 1996-2005[2], EU-25 = 100**

	1996	2000	2001	2002	2003	2004	2005
EU-25	**100**	**100**	**100**	**100**	**100**	**100**	**100**
EU-15	**108.4**	**107.5**	**107.2**	**106.8**	**106.6**	**106.1**	**106.0**
EU-10	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Belgium	127.5	125.8	126.2	127.5	128.3	129.0	127.8
Czech Republic	57.93	58.1	59.0	60.2	61.5	63.5	65.8
Denmark	101.3	104.9	104.4	102.0	103.2	104.2	106.5
Germany	106.5	101.2	100.1	99.6	100.2	99.7	101.4
Estonia	33.03	43.5	45.0	47.4	50.0	52.8	58.6
Greece	83.4	90.43	91.73	96.93	100.43	98.63	98.43
Spain	102.8	97.5	97.5	98.7	99.6	98.1	97.3
France	122	122.0	122.2	120.3	120.4	119.0	119.0
Ireland	115.1	121.8	123.3	127.0	127.9	128.3	127.4
Italy	123.6	121.2	118.6	115.0	111.6	110.3	108.0
Cyprus	75.63	76.8	78.6	77.2	73.6	75.5	75.6
Latvia	32.23	38.3	39.4	40.2	41.3	42.7	46.3
Lithuania	31.13	40.8	44.8	44.8	47.1	49.6	53.1
Luxemburg	134.4	159.2	148.0	149.5	156.0	157.0	160.9
Hungary	57.33	61.7	65.4	67.7	67.8	69.0	69.7
Malta	N/A	90.2	85.5	86.9	84.4	81.7	80.4
Netherlands	103	105.0	107.0	105.7	106.2	107.4	107.8
Austria	105.7	N/A	N/A	N/A	N/A	N/A	N/A
Poland	44.73	58.03	50.3	51.5	59.5	62.1	63.1
Portugal	68.2	71.9	71.4	71.3	65.93	65.93	65.53
Slovenia	**63.43**	**69.7**	**71.2**	**70.9**	**72.5**	**75.4**	**76.8**
Slovakia	46.83	54.5	55.9	58.9	58.8	60.3	62.1
Finland	105.6	110.8	111.8	110.3	108.4	109.4	108.3
Sweden	103.8	106.6	102.5	101.4	103.9	106	104.3
United Kingdom	100.3	103.4	104.9	107.3	107	107.2	106.6

Source: *Key indicators on EU policy - Economy and Finance - National Accounts* (Eurostat), 2006.
Notes: [1]GDP per employee in purchasing power standards; [2]Data are available since 1996; [3]Eurostat's estimate.

Figure: **Real annual productivity growth in EU countries in 2005, in %**



Source: *Key indicators on EU policy - Economy and Finance - National Accounts* (Eurostat), 2006.

Market share

In 2006, Slovenia's aggregate market share continued to grow (3.9%) for the sixth consecutive year. The relatively strong rise in Slovenia's merchandise exports observed since 2000 (in 2001-2006 by an average 8.4% a year in real terms) was underpinned by the improved export competitiveness of the Slovenian economy[1]. The importance of EU markets for the growth of Slovenia's aggregate market share was further enhanced after Slovenia's entry to the EU. The contraction of Slovenia's market share in Germany – the most important market – slowed down, and its drop in the French market was less pronounced relative to the fast growth witnessed in 2005. In the other EU markets important for Slovenian exporters, 2006 saw a rapid growth of Slovenia's market share in Austria as well as a slight increase in Italy after growth had been more modest in 2005. In the first nine months of 2006, Slovenia also achieved considerable increases in market share in hitherto less significant EU markets such as the United Kingdom and Spain as well as Hungary and Poland. Outside the EU, Slovenia's market share rebounded in the USA after a two-year period of decrease. In Croatia and Russia, Slovenia's market shares in the first eleven months of 2006 were lower than the year before due to stagnation and a significant drop in 2005, respectively.

In the first nine months of 2006, Slovenia was ranked sixth among EU members in terms of their market share growth despite a slowdown in the year-on-year growth compared to 2005 (from 8% to 4.5%). On average, Slovenia was ranked seventh in 2004–2005 and tenth in 2001–2003. Market shares expanded more rapidly in Luxemburg, the United Kingdom, Slovakia, Poland, and Greece, and more slowly in the Czech Republic, Finland, and Lithuania. The other member states recorded lower EU market shares in the first nine months of 2006 than the year before.

Within the trade classification (SITC), the Slovenian EU market share recorded a slowdown of the year-on-year growth in industrial products (5-8) and food and beverages (0, 1) in the first nine months of 2006, while the market share in raw materials (2-4) grew more rapidly. As a result of a drop in the exports of road vehicles, the sluggish growth of the market share which is by far the most significant for Slovenia, i.e. industrial goods (to 4.9%), was underpinned by the heavily decelerated growth of the market share in machinery and transport equipment and by the decrease of the market share of miscellaneous goods (prefabricated buildings, furniture, clothing, footwear, and other finished products). The market shares of chemical products and manufactures classified by material (leather, rubber, paper, wood, textile, and metals) were growing rapidly. The still high (43%) growth of the otherwise much smaller market share in food and beverages slowed down owing to a decelerated market share growth in food and live animals. On the other hand, the more rapid growth of the market share in raw materials (38%), which compared with the market share in industrial goods was also much smaller, resulted from a strong rise in the market share of mineral fuels[2].

Following EU accession, the market position of Slovenian goods exporters recorded a more visible improvement in EU markets than in markets outside the EU. The average

[1] Conversely, the fall in Slovenia's market share from 0.58% in 1996 to 0.48% in 2000 shows that the otherwise vibrant aggregate growth of Slovenian merchandise exports in that period (up by an average of 9.6% a year in real terms) was linked to growth in export markets rather than to an improvement in the Slovenian economy's export competitiveness.

[2] Mineral fuels include: coal, coke, and briquettes, oil and oil derivatives, natural and manufactured gas, and electricity.

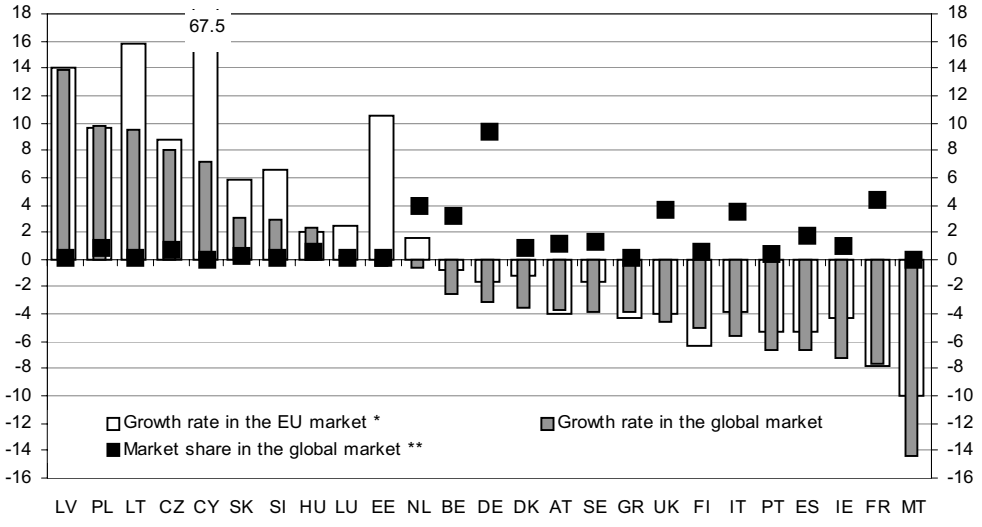
annual growth of Slovenia's market share in EU markets (6.6%) in 2004–2005 was, compared to its growth in the international market (3%), much higher, which also occurred in most of the other new members (see the figure). Contrary to that, prior to EU accession, namely in 2001–2003, the market position of Slovenian exporters in markets other than the EU strengthened more rapidly than in the EU (the average annual growth of the Slovenian market share was 3.3% in the EU and 7.4% in the international market).

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

	1996	2000	2001	2002	2003	2004	2005	2006
Total (15 countries)	0.583	0.478	0.499	0.527	0.528	0.542	0.561	0.589
Austria	0.816	0.911	0.928	0.935	0.940	0.991	1.133	1.303
Belgium	0.046	0.055	0.056	0.046	0.045	0.061	0.062	0.065
Czech Republic	0.536	0.477	0.464	0.467	0.448	0.435	0.521	0.529
France	0.206	0.183	0.191	0.211	0.181	0.217	0.292	0.268
Croatia	10.980	8.733	8.741	8.428	8.025	8.744	8.740	8.680
Italy	0.537	0.499	0.489	0.506	0.562	0.583	0.588	0.627
Hungary	0.665	0.525	0.466	0.490	0.527	0.511	0.531	0.626
Germany	0.562	0.478	0.500	0.523	0.488	0.480	0.458	0.460
Netherlands	0.067	0.069	0.074	0.079	0.084	0.074	0.071	0.071
Poland	0.386	0.462	0.484	0.521	0.515	0.477	0.446	0.500
Russia	0.443	0.433	0.526	0.495	0.517	0.536	0.464	0.473
Slovakia	0.621	0.550	0.565	0.753	0.813	0.727	0.750	0.752
Spain	0.037	0.054	0.058	0.066	0.089	0.094	0.111	0.127
United Kingdom	0.057	0.055	0.075	0.070	0.071	0.076	0.087	0.098
USA	0.031	0.022	0.021	0.024	0.037	0.034	0.022	0.025

Sources: *SI-stat data portal - economy* (SORS), March 2007; *Eurostat External trade*, March 2007, *Countries in Transition* (WIIW), 2006; *The Vienna Institute Monthly Reports*, February 2007; *Foreign Trade Statistics* (U.S. Census Bureau), February 2007.
Notes: [1]Market shares are calculated as the weighted average of Slovenia's merchandise exports in the imports of its main trading partners determined by the size of their shares in Slovenia's exports. The shares of individual trading partners in Slovenia's merchandise exports are also used as weights in calculating the weighted average (using Fisher's formula).

Figure: **Market shares of EU member states and their average annual growth in 2004–2005**



Sources: *WTO Statistics Database*, December 2006, *Eurostat External trade*, December 2006; calculations by IMAD.
Notes: *a member state's export shares in EU imports (intra and extra). **In 2005.

Unit labour costs

Estimates for 2006 show that the downward trend relating to the competitiveness of the Slovenian economy compared to the EU-25 average stopped while it continued in comparison with the euro area. With similar labour costs per employee growth in nominal terms as in 2005[1] and slightly faster nominal growth of GDP per employee, unit labour costs in the Slovenian economy fell again in 2006 (by 0.3%) after having increased for two years. This drop was slightly higher than in the EU-25 and lower than in the euro area (see the table). Since data on manufacturing's unit labour costs are still unavailable for 2006, a detailed analysis of this indicator is only possible until 2005.

In 2005, like in the previous year, the ratio of labour costs per employee to GDP per employee[2] in the Slovenian economy saw a slight deterioration (by 0.1%, in 2004 by 0.2%; see the table). The slight increase in labour costs relative to GDP was – even to a greater extent that in 2004 – underpinned by the deteriorated terms of trade[3]. In nominal terms, the growth of labour costs per employee actually slowed down in 2005 (from 7.6% in 2004 to 5.3%) but was accompanied by a deceleration of the nominal growth of GDP per employee (from 7.4% to 5.2%). Among the factors helping to keep the favourable trend throughout 2005, mention needs to be made of the changes in the tax system[4] that reduced taxes on wages and led to lower costs related to work and other personal remuneration which had seen a significant rise in 2004 due to the expected tax changes. After a rapid fall in the second half of the 1990s, the unit labour costs in the last six years have hovered above the level achieved in the late 1990s.

The ratio of labour costs per employee to value added per employee in Slovenian manufacturing deteriorated considerably in 2005. While stagnating in the Slovenian economy as a whole (following the 0.1% drop recorded in 2004), the unit labour costs in 2005 saw a rapid increase in manufacturing (by 3.3% compared to 1.3%). The deterioration in the terms of trade in 2004 and particularly in 2005 was in fact much more pronounced in manufacturing than in the economy as a whole[5]. Given a slightly more modest deceleration in the nominal growth of labour costs per employee (from 8.1% to 6.2%) compared to the total economy, the nominal growth of value added per employee in manufacturing slowed down significantly (from 6.7% to 2.8%, compared to the slowdown from 7.7% to 5.3% in the economy as a whole). Despite the oscillations recorded in the last six years, both in manufacturing and in the total economy, unit labour costs in 2005 were slightly below the level achieved in the late 1990s.

Comparisons with other EU countries show that for the second consecutive year the competitiveness of the Slovenian economy, measured by the ratio of labour costs to GDP, deteriorated slightly in 2005 after the strong improvement seen in the second half

[1] Compensation per employee does not include payroll tax which has started to be gradually abolished on 1 January 2006 and should, in the three years pending its final abolition (1 January 2009), reduce taxes on wages and consequently result in slightly slower labour cost growth than indicated by the compensation per employee.

[2] In current prices.

[3] The GDP implicit deflator lagged behind domestic inflation by 1 p.p. (by 0.3 p.p. in 2004).

[4] New Personal Income Tax Act.

[5] The value added implicit deflator in manufacturing lagged behind domestic inflation by 2.3 p.p. in 2004 (by 0.1 p.p. in the economy) and by 4.2 p.p. in 2005 (0.8 p.p.).

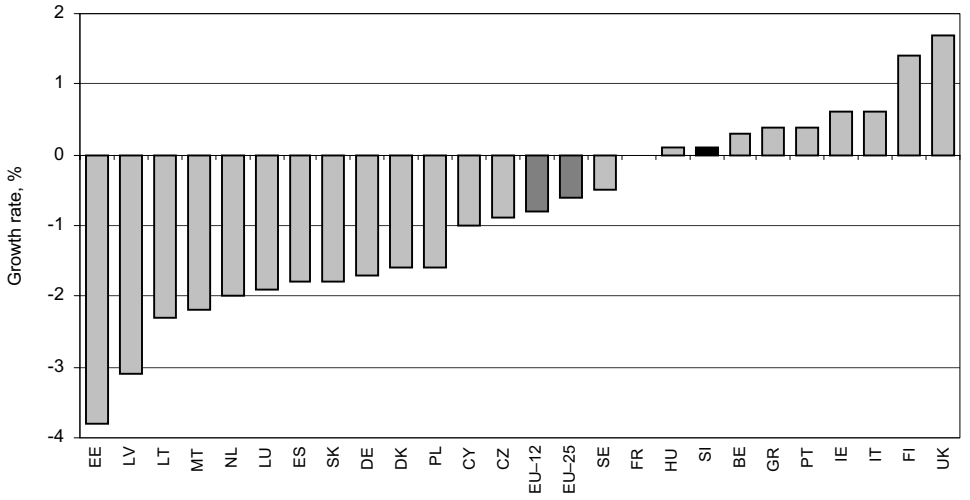
of the 1990s and the slower pick-up recorded in 2002–2003. While unit labour costs in 2005, like in 2004, fell by an average of 0.6% in the EU-25 and by 0.8% in the euro area, the Slovenian economy registered a slight, 0.1% rise (see the table). More than a quarter of EU countries recorded higher growth in unit labour costs than Slovenia. Compared with all other member states, the competitiveness of the Slovenian economy deteriorated (see the figure).

Table: **Unit labour costs in Slovenia and the EU in 1996-2005**

Annual growth rates, %	1996–1999	2000	2001	2002	2003	2004	2005	2006[3]
Unit labour costs[1]								
Slovenia	-2.7	3.2	0.5	-0.9	-2.0	0.2	0.1	-0.3
EU-25	-0.5	0.2	0.2	-0.4	-0.5	-1.0	-0.6	-0.2
EU-12 (euro area)	-0.7	-0.4	-0.2	-0.2	-0.3	-1.1	-0.8	-1.0
Unit labour costs[2] - Slovenia								
Total	-2.8	1.8	0.0	-0.4	-2.3	-0.1	0.0	-0.2
Manufacturing	-4.8	1.2	-0.6	-1.4	-4.4	1.3	3.3	N/A

Sources: *SI-stat data portal, economy* (SORS), December 2006; *Eurostat Economy and finance,* December 2006; *Eurostat Structural Indicators, General Economic Background,* December 2006.
Notes: [1]compensation per employee in current prices divided by GDP per employee in current prices; [2]compensation per employee in current prices divided by value added per employee in current prices; [3]estimate.

Figure: **Growth of unit labour costs[1] in Slovenia and the EU in 2005**



Source: *Eurostat Structural Indicators, General Economic Background*, December 2006. Note: based on GDP.

Structure of merchandise exports according to factor intensity

The structure of Slovenia's merchandise exports according to the technological intensity of products deteriorated in 2005 for the second consecutive year, representing a departure from the objectives of Slovenia's Development Strategy. The share of *high-tech products*[1] in Slovenia's merchandise exports (16.0% in 2005) was modest compared to the EU average (27.9%) and the average in new member states (19.4%) and in 2005 contracted for the second consecutive year. The 1.2 p.p. lower proportion of high-tech products in the 2005 export share was (similarly as in 2004) underpinned by a lower export share in pharmaceutical products and telecommunications equipment. Among the new EU member states, higher export shares in high-tech products than Slovenia were achieved by Malta, Hungary, Estonia, Cyprus and the Czech Republic. Compared with the first three countries, Slovenian technological competitiveness deteriorated already in the second half of the 1990s, compared with the Czech Republic in 2002 and Cyprus in the last two years. The *total proportion of medium-tech and high-tech products* in Slovenia's merchandise exports rebounded in 2005 (from 55.5% in 2004 to 56.3% in 2005) while the gap between Slovenia and the EU narrowed (from 2.9 to 1.8 p.p.). It should be emphasised that this group largely consists of *medium-tech products*[2] where Slovenia's advantage over the EU increased considerably in 2004 and 2005, mostly owing to greater exports of cars (see the table).

The proportion of low-tech and labour-intensive products[3] has been falling steadily since 2000 yet it is still considerably higher than in the EU-25 and EU-10 on average. In 2005, these products made up 25.8% of Slovenian merchandise exports (15.7% in the EU-25 and 22.3% in the EU-10). Their share has contracted by 5.7 p.p. since 2000, 2.8 p.p. of which was recorded in 2005. The importance of these products in the Slovenian merchandise exports decreased more significantly in 2005, mostly due to a lower export share in paper and cardboard, furniture and sanitary items. Nevertheless, six new members of the EU achieved an even lower share than Slovenia in 2005 (Hungary, the Czech Republic, Malta, Cyprus, Estonia, Lithuania). Compared to the averages of the EU and the new member states, Slovenia has a comparatively high *share of labour-intensive products* (see the table). The only countries with higher shares were Portugal and Italy.

The downward tendency in natural-resource-intensive products[4] observed in 1995-2004 came to a halt in 2005. The proportion of these products in merchandise exports

[1] According to the UN methodology, high-tech products comprise export goods with the most dynamic growth of world exports such as chemicals, pharmaceutical products, computer equipment, telecommunications equipment, equipment for medical and scientific purposes, cameras, and photographic equipment; given the technological complexity of production, these products are characterised by high investments in R&D; the group has great potential for innovation and long-term productivity growth (Trade and Development Report, 2002).

[2] Medium-tech products comprise plastic and rubber products, machinery and equipment, electronic equipment, and cars (Trade and Development Report, 2002).

[3] Low-tech and labour-intensive products comprise products with the lowest value added per employee, such as: clothing, textile products, footwear, furniture, glass and glass products, flat-rolled iron products, and base metal products.

[4] These include food, beverages, raw materials, mineral fuels, animal and vegetable oils and fats, leather, veneers and other manufactured wood (boards), and ferrous and non-ferrous metals. The main groups of resource-intense products in Slovenia's merchandise exports are: aluminium, finished mineral manufactures,

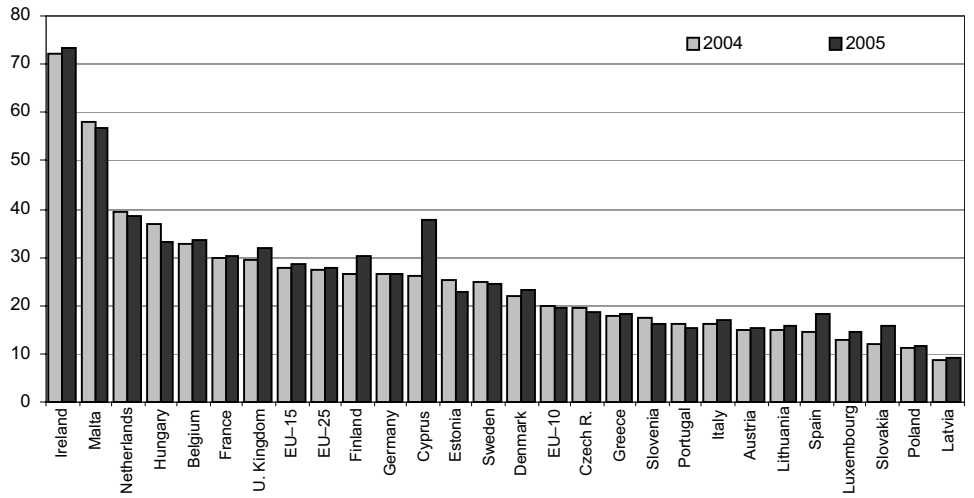
is lower in Slovenia than in the EU, and the difference between the two, which accounted for 4.2 p.p. in 2004, fell to 2.4 p.p. during 2005 (see the table). The available figures for 2005 show a significant increase in the export share of manufactured wood, animal feed, electricity and aluminium.

Table: **Structure of merchandise exports by factor intensity1 in Slovenia and the EU-25 in 1995-2005**

		1995	2000	2001	2002	2003	2004	2005
Resource-intensive	EU-25	20.1	18.1	17.6	17.7	17.6	18.2	17.8
	EU-15	19.8	18.0	17.5	17.7	17.6	18.2	17.8
	EU-10	28.2	19.6	19.0	18.1	17.6	18.1	18.1
	Slovenia	16.6	15.3	15.1	14.6	14.6	14.0	15.4
Labour-intensive	EU-25	12.1	10.5	10.5	10.4	10.2	9.6	8.8
	EU-15	11.8	10.1	10.1	10.1	9.8	9.3	8.6
	EU-10	19.7	16.7	16.6	16.4	15.1	13.6	12.1
	Slovenia	25.6	21.6	21.3	20.0	18.7	17.8	17.0
Low-tech	EU-25	8.2	6.9	6.9	7.0	7.2	7.7	6.9
	EU-15	7.9	6.6	6.7	6.7	6.9	7.4	6.6
	EU-10	14.1	10.4	10.9	10.9	10.9	11.3	10.2
	Slovenia	9.7	9.9	9.9	9.9	10.1	10.8	8.8
Medium-tech	EU-25	29.7	29.9	30.5	30.7	31.0	31.1	30.2
	EU-15	30.1	29.8	30.3	30.5	30.7	30.8	29.8
	EU-10	21.4	32.6	32.8	33.8	35.4	35.4	35.1
	Slovenia	31.9	36.2	36.2	37.3	37.3	38.3	40.2
High-tech	EU-25	24.1	28.8	28.8	28.9	27.7	27.3	27.9
	EU-15	24.5	29.4	29.4	29.5	28.3	27.9	28.5
	EU-10	14.6	18.9	18.2	18.9	19.1	20.0	19.4
	Slovenia	14.8	15.5	16.0	16.7	17.9	17.2	16.0

Sources: *Handbook of Statistics 2005* (United Nations). 2006; *Trade and Development Report* (United Nations). 2002; IMAD's calculations.
Note: [1]The classification of products into groups is based on the UN methodology (Trade and Development Report. 2002). This classification does not comprise all products. therefore the sum of the five product groups does not necessarily equal 100.

Figure: **Share of high-tech products in merchandise exports of the EU in 2004 and 2005. %**



Source: *United Nations Commodity Trade Statistics Database*. 2006.

electricity, rough and worked wood, veneer and other manufactured wood, wood manufactures, and non-alcoholic and alcoholic beverages (Trade and Development Report, 2002).

Exports and imports as a share of GDP

Slovenia's economy's openness[1] to ***foreign trade rebounded in 2006.*** The average share of trade in goods and services relative to GDP expanded to 69.6%, which is 4.7 p.p. higher than the year before and 12.3 p.p. higher than in 2000. Like in the previous years, the openness of the economy generally increased thanks to the increased integration of goods trade into international trade flows, whereas the share of services trade in GDP remained comparatively modest. The share of merchandise exports and the share of merchandise imports in GDP both rose by 4.4 p.p. in 2006, while the increases in the shares of exports and imports of services were considerably lower (0.3 p.p. and 0.4 p.p., respectively). Given the import flows that were growing faster in real terms than export flows and a similar trend in foreign trade prices, the share of imports in GDP exceeded the share of exports in 2006 (see the table).

Slovenia's level of trade integration in goods and services was appreciably higher than the average EU openness rate, which was expected in view of Slovenia's small economy. The highest levels of trade integration in 2006 were found in Malta, Estonia, Slovakia, Hungary and the Czech Republic (among new members), and the Benelux countries and Ireland (among old members). After a period of constant increasing in 1995-2000, the openness of the economy went down in 2001–2003 in both the EU countries and Slovenia due to the decelerated growth of the European economy and partly as a result of the dynamics of the euro exchange rate. In 2003-2005, however, the EU countries again saw an increase in trade to GDP ratio, mostly as a result of the strong global economy which had a positive effect on the business cycle of the EU economy.

2006 saw a lower share of technology-intensive industries in merchandise exports and an increase in the export share of services based on knowledge and higher value added. Within merchandise exports, the strongest growth was seen in exports of medium-low-tech industries[2], namely from 20.8% in 2005 to 22.9% of the total merchandise exports in 2006. The export share of high- and medium-high-tech industries, otherwise prevailing in Slovenia's merchandise exports, contracted (from 55.1% in 2005 to 54.2% in 2006). This was mostly due to the lower exports of road vehicles that followed the exceptional rise in 2005. The export share of low-tech industries contracted as well (from 21.4% to 19.5%). In services exports, the biggest rise was again (after 2005) observed in services based on knowledge and higher value added (insurance, financial, other business services, licences, patents and copyrights, computer services) although their proportion in the total services exports was still below the EU average (26.9% compared to the 56.5% EU average in 2005). The accelerated growth in merchandise exports also contributed to strengthening in the share of transport services while the share of travel in the export of services shrank.

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

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

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

	1995	2000	2001	2002	2003	2004	2005	2006
Trade-to-GDP ratio in Slovenia	**52.1**	**57.3**	**57.6**	**56.4**	**55.9**	**60.6**	**64.9**	**69.6**
Goods	43.4	48.6	48.9	47.4	47.0	51.2	54.7	59.1
Services	8.7	8.7	8.7	9.1	8.9	9.4	10.2	10.5
Exports of goods and services	**51.2**	**55.6**	**57.2**	**57.1**	**55.8**	**60.0**	**64.6**	**69.2**
Goods	41.0	45.7	47.3	46.8	45.9	49.3	52.8	57.2
Services	10.2	9.9	9.9	10.3	9.9	10.7	11.7	12.0
Imports of goods and services	**53.0**	**59.1**	**57.9**	**55.8**	**55.9**	**61.2**	**65.1**	**69.9**
Goods	45.7	51.6	50.4	47.9	48.1	53.1	56.6	60.9
Services	7.3	7.5	7.5	7.8	7.8	8.1	8.6	9.0
Trade-to-GDP ratio in EU-25	**28.9**	**36.0**	**35.8**	**34.6**	**34.1**	**35.3**	**37.0**	**39.7**
Goods	22.8	28.0	27.6	26.6	26.2	27.2	28.6	31.1
Services	6.1	8.0	8.2	8.1	7.9	8.1	8.4	N/A

Sources: *SI-Stat data portal - National Accounts* (SORS), 2006; *Eurostat Portal Page - Economy and Finance,* 2007; calculations by IMAD.
Note: [1]The ratio between the average value of total exports and imports according to the balance of payments statistics and GDP in current prices.

Foreign direct investment

The trend of growing outward FDI continued in 2006 but inward FDI decreased compared to the previous year. In 2000-2005, inward FDI stock in GDP expressed in relative terms rose from 14.8% to 21.9% of GDP (EUR 5,980.17 m), while outward FDI stock rose from 3.9% to 10.9% of GDP (EUR 2,969.9 m). In 2005, the inward and outward FDI stock to GDP ratios increased by 0.6 and 2.4 p.p., respectively. The current level of FDI in Slovenia is largely the result of the increased inflows recorded since 2000, although they have been highly uneven. Following the record-high level seen in 2002 totalling EUR 1,721.7 m[1], the annual inflows in the following years did not exceed EUR 700 m. In 2006 FDI inflows amounted to EUR 264.2 m which is much lower than in 2005. Outward FDI is increasing steadily and rapidly – it rose from the low EUR 71.7 m recorded in 2000 to EUR 503.4 m in 2005 and EUR 567.9 m in 2006. In 2006, Slovenia thus registered the highest net FDI outflows ever, namely EUR 303.6 m.

Slovenia has the lowest inward FDI stock to GDP ratio among the new EU member states, but it performs better in outward FDI. Among the old EU members, only Germany, Italy, Greece and Austria had lower ratios of inward FDI stock to GDP, while among the new members Slovenia had the lowest ratio. The highest ratios in the new member states group were recorded in Estonia (93.6%), Malta (77.3%), Hungary (55.9%), Cyprus (52.7%), and the Czech Republic (48.1%). The analysed countries generally substantially increased their ratios of FDI stock to GDP in 2000-2005: this ratio rose by 7.2 p.p. in the EU-25 as a whole, by an average of 13.6 p.p. in the new member states, and by 7.1 p.p. in Slovenia (UNCTAD 2005). Compared with other new EU members, Slovenia performs better in outward FDI. According to this indicator, only Cyprus, Malta, and Estonia outperformed Slovenia in 2005. As expected, however, Slovenia was far behind the old EU member states (except Greece) in terms of its outward FDI stock as a share of GDP.

The internationalisation of the Slovenian economy is mostly accomplished through trade flows and less through FDI. The analysis of the Slovenian economy's rate of internationalisation also enables a look at Slovenia's shares in various global macroeconomic aggregates. In 2005, these shares were as follows: (i) global FDI inflows (2003–2005): 0.0758% (a decrease of 0.0642 p.p. over the year before); (ii) global inward FDI stock: 0.0796% (a decrease of 0.0054 p.p.); (iii) global FDI outflows (2003-2005): 0.0739% (an increase of 0.0154 p.p.); (iv) global outward FDI stock: 0.0338% (an increase of 0.0026 p.p.); (v) global GDP: 0.07617% (a decrease of 0.00373 p.p.); and (vi) global exports: 0.1745% (a decrease of 0.0022 p.p.). Particularly notable is the large differential between Slovenia's high share in exports and its substantially lower share in inward and outward FDI. After the steady rising trend in Slovenia's shares since 2000, 2005 saw a decrease for the first time in the share of inward FDI, GDP, and exports, while the shares of outward FDI rebounded.

Slovenia's performance in attracting FDI is far below its potential. The performance of a country in attracting FDI is measured by how successfully the country uses its potential to attract FDI. This is seen from a comparison between the FDI potential index and the FDI performance index[2]. In 2005 Slovenia was ranked in a high 29th place among 141 countries according to the FDI potential index while it was ranked much lower, 92nd, according to the FDI performance index. This hints at the poor investment climate in Slovenia and the low efficiency of policies aimed at attracting FDI. Slovenia does much better according to the outward FDI performance index, where it was ranked 44th in 2005, climbing up from the 56th place it achieved in 2000. The latter reflects the increasing internationalisation of Slovenian firms through outward investment.

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

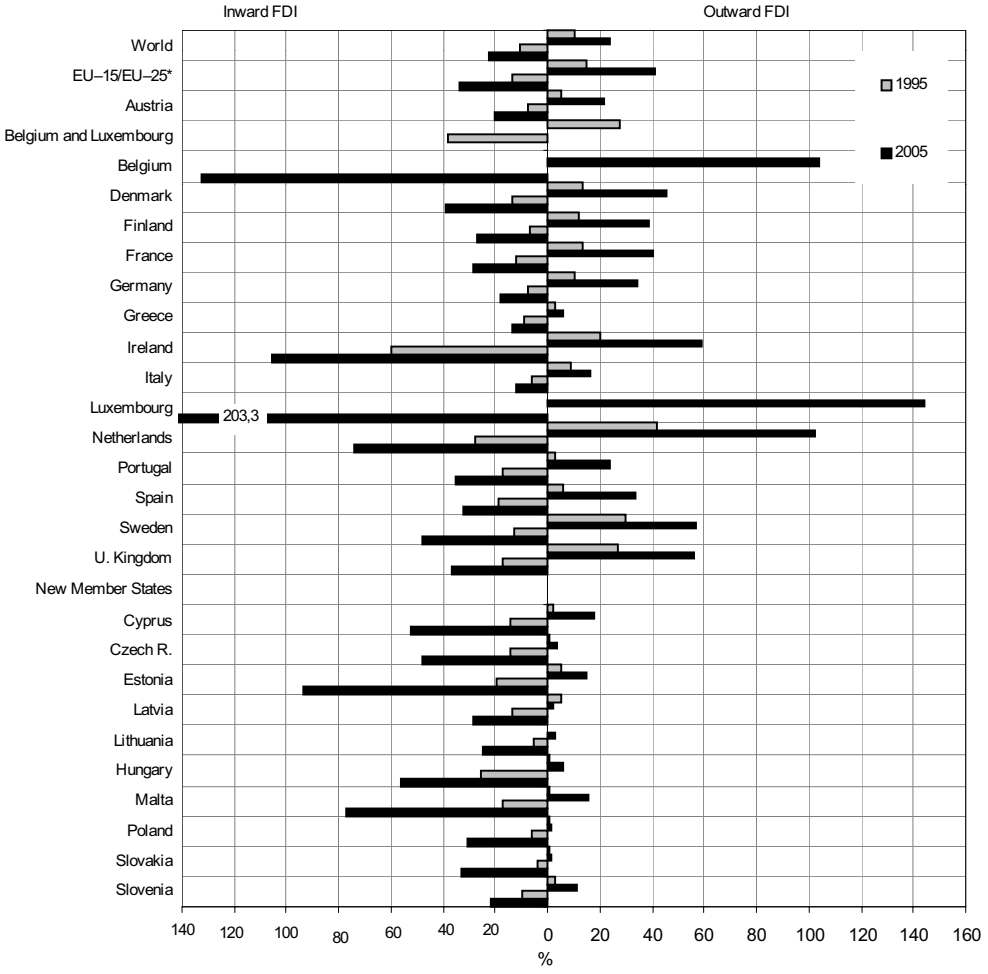
[2] For the definition of these indices, see the UNCTAD World Investment Report, 2004.

Tabela: **Flows and stocks of inward and outward FDI[1] in Slovenia in 1995-2006[2], EUR m**

	1995	2000	2001	2002	2003	2004	2005	2006
Inward FDI								
Year-end stock	1,376.0	3,109.8	2,940.0	3,947.9	5,046.8	5,579.6	5,980.1	N/A
Annual inflow[3]	117.4	149.1	412.4	1,721.7	270.5	665.2	444.9	264.2
Stock as a % of GDP	9.5	14.8	13.3	16.7	20.3	21.3	21.9	N/A
Outward FDI								
Year-end stock	382.3	825.3	1,120.4	1,445.2	1,880.3	2,224.0	2,969.9	N/A
Annual outflow[4]	7.8	-71.7	-161.2	-165.8	-421.3	-441.0	-503.4	-567.9
Stock as a % of GDP	2.6	3.9	5.1	6.1	7.6	8.5	10.9	N/A

Sources: *Financial Accounts. Balance of Payments and External Position* (Bank of Slovenia), 2007. *Direct investment 2005* (Bank of Slovenia), 2006; 2006 *Spring Report* (IMAD), 2006.
Notes: [1]FDI whereby a foreign investor holds a 10% or higher share in a company. [2]Since 1996 the foreign direct investment of companies in second affiliation are included. [3]Inflows are generally lower than changes in stock because international payment transactions cover only part of the changes in stock. The main difference is that inflows do not cover changes in net liabilities to a foreign investor, and also do not include data on companies in second affiliation. From 1995 onwards data on reinvested earnings are included in inflows and thus in the balance of payments. 4 A minus sign denotes an outflow.

Figure: **Inward and outward FDI stock relative to GDP in the EU in 1995, 2000 and 2005, %**



Sources: *UNCTAD World Investment Report*, 2004 and 2006 (for the EU); www.bsi.si (for Slovenia).
Note: *EU-15 for 1995 and EU-25 for 2000 and 2005.

Entrepreneurial activity

According to the GEM, Slovenia's overall early entrepreneurial activity rate improved for the second consecutive year in 2006 after having declined for two years. However, it remains relatively low in comparison with other countries. After it fell between 2002 and 2004, the TEA index[1] first rebounded in 2005, by 1.8 p.p. In 2006, it rose further to 4.6%, thus reaching its value from 2002 (the estimated average of the 16 EU countries that participated in the GEM project in 2006 totalled 5.5%; also see the figure). The share of early-stage entrepreneurs rose from 2005 to 2006 due to the increase in the share of the population engaged in entrepreneurial activity to exploit a business opportunity (by 0.2 p.p. to 4.0%). Meanwhile, the necessity-driven early entrepreneurial activity rate stagnated at the 2005 level. These changes are positive with regard to the improved quality and survivability of nascent businesses in Slovenia. In comparison with necessity entrepreneurs, opportunity entrepreneurs tend to invest more in the growth and development of their businesses and consequently stand better chances of surviving in the market.

That last year's developments in the early-stage entrepreneurial process were favourable is indicated by the decrease in the mortality rate of nascent firms and the improved ratio between opportunity- and necessity-driven entrepreneurs. The mortality rate of nascent firms declined from 2.1 to 1.6, which means that 10 out of 16 nascent enterprises survived in the market. This is the best ratio recorded in the analysed period. The second ratio increased from 7.8 to 8.6, likewise reaching its most favourable level thus far. In both cases, the ratios are better than the average of the 16 EU countries that were included in the GEM project in 2006 (mortality rate: 1.8; ratio TEA opportunity/TEA necessity: 7.4).

Established businesses and overall entrepreneurial activity experienced less favourable development in 2006. The share of established entrepreneurs fell by 1.9 p.p. (to 4.4%; average of 16 EU countries: 5.2%), which resulted in a decline of total entrepreneurial activity from 10.1% to 9.0% (average of the 16 EU countries: 10.4%). The number of entrepreneurially active people in Slovenia thus dropped by 10% to approximately 121,000, which is somewhat surprising given the favourable macroeconomic conditions. Considering the changes that took place in 2006 it should be noted that while the increase in the share of entrepreneurially active population is important in terms of (self-) employment, the development orientation of entrepreneurs is even more relevant to the competitiveness of the economy.

Data from the structural statistics on enterprises confirm an upturn in entrepreneurial activity. In 2005, the number of firms grew by 4.3% for the second consecutive year. The AJPES' data show that among the size classes of enterprises (commercial companies and sole proprietors) classified by number of employees, the number of micro and small enterprises rose the most in 2003-2005, by a respective 9.1% (7,925 enterprises) and 6.3% (304), while the number of all companies increased from 93,233 to 101,477[2]. The increase in the number of enterprises seen in the analysed period was much faster than in the preceding three-year period when the number of firms generally stagnated. This increase can be attributed to the favourable macroeconomic conditions, new opportunities

[1] For methodological explanations of the indicators of entrepreneurial activity see the notes under the table.

[2] The dynamics of the changes in entrepreneurial activity based on the structural statistics differ from the dynamics presented by the GEM indexes, which indicates that the two sets of data are not comparable.

arising from EU membership, the lowering of interest rates and, lately, the popularisation of entrepreneurship and improvement of the administrative environment for businesses (e.g. the one-stop-shop project).

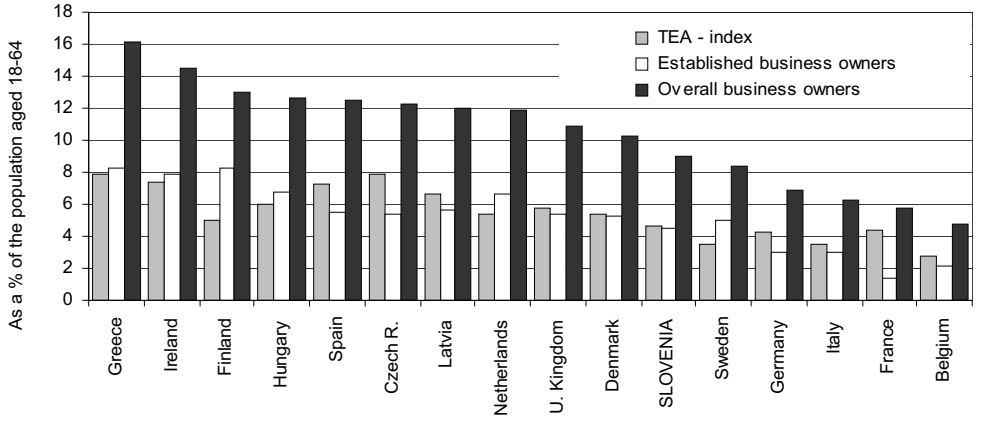
Entrepreneurial activity is primarily on the rise in services, which is favourable with regard to structural changes in the Slovenian economy. According to the AJPES, 4,497 or 54.5% of all new enterprises established between 2003 and 2005 sprang up in production and business services, while 2,441 or 29.6% new businesses emerged in industry and construction. A breakdown by activity shows that most new firms were set up in real estate, renting and business services (3,134), construction (2,219), other community, social and personal services (855), and distributive trades (680). An increase of more than 300 enterprises was also recorded in hotels and restaurants and in financial intermediation.

Tabela: **Selected indicators of entrepreneurial activity in Slovenia, 2002-2006**

% of adults aged 18-64	2002	2003	2004	2005	2006
TEA index[1]	4.6	4.1	2.6	4.4	4.6
TEA nascent entrepreneurs[2]	3.3	3.0	1.9	3.0	2.9
TEA new entrepreneurs[3]	1.5	1.1	0.7	1.4	1.8
TEA opportunity[4]	3.3	3.1	2.2	3.8	4.0
TEA necessity[5]	1.4	0.8	0.4	0.5	0.5
Established business owners[6]	-	-	-	6.3	4.4
Overall business owners[7]	-	-	-	10.1	9.0

Sources: Rebernik et al., 2003; Rebernik et al., 2004; Rebernik et al., 2005; Rebernik et al., 2006; GEM, 2007.
Notes: [1]TEA index is the rate of total early entrepreneurial activity measuring the share of the population engaging in entrepreneurship. It comprises individuals that have started setting up new businesses or engaging in new business activities, including self-employment ([2]TEA - nascent entrepreneurs that have paid wages or salaries for no more than three months). In addition to that, it also includes individuals employed as owners/managers of new businesses and who have been paying salaries for no longer than 42 months ([3]TEA new entrepreneurs). [4]TEA opportunity measures the share of the population who engage in entrepreneurial activity to exploit a perceived business opportunity. [5]TEA necessity measures the share of the population who have set up a business out of necessity. [6]Established business owners represent the share of people who own a firm that has been operating for more than 42 months. [7]The overall business owners rate includes the TEA index and the share of established business owners.
A certain number of individuals is entrepreneurially engaged in more than one business and could therefore be included in several indices simultaneously. In order to avoid double counting, individuals covered in the TEA index and in the index of overall entrepreneurial activity are counted only once according to the GEM methodology. For this reason, the TEA index for a given country is smaller than or equal to the index of nascent and new entrepreneurs combined (TEA nascent plus TEA new), and the overall business owners rate is smaller than or equal to the TEA index plus the established businesses index. Furthermore, the sum of nascent and new entrepreneurs does not equal the total early entrepreneurship rate (TEA index) since some individuals are engaged in both nascent and new enterprises but are only counted once in the sum (see Minniti et al., 2006).

Figure: **Selected indicators of entrepreneurial activity in Slovenia and other EU countries included in the GEM project, 2006**



Source: Global Entrepreneurship Monitor – GEM, 2007.

Non-financial market services

In Slovenia, the proportion of non-financial market services in value added has been gradually increasing, with a particularly significant rise in 2005. In 2005, non-financial market services[1] generated 38.3% of value added[2] in the Slovenian economy and employed 31.7% of all persons in employment. Since 2000, their share in value added has increased by 3.1 p.p. (in employment by 3 p.p.[3]), mostly (1 p.p.) in the last year. In the five-year period as well as last year, the share in value added rose in all non-financial market services except in *hotels and restaurants* (H) where it remained practically unchanged (2.2% in 2005). Since 2000 the activity contributing the most to value added (by 1.3 p.p.) has been *real estate, renting, and business activities* (K), which rose by 0.3 p.p. to 16.2% in the last year. Under activity K, the rise has been most pronounced in knowledge-based business services[4]. Their share in the value added totalled 8.7% in 2005 which was 1.8 p.p. higher than in 2000. On the other hand, the share of other activities under K, i.e. real estate[5], has been falling year by year (from 8.0% in 2000 to 7.4% in 2005). High value added growth after 2000 was also recorded in *transport, storage, and communications* (I), rising by 1.2 p.p. in the five-year period and by 0.5 p.p. last year. The part of transport activities belonging to knowledge-based activities, i.e. post and telecommunications services[6], grew by 0.5 or 0.2 p.p. The contribution of *wholesale and retail trade, and the repair of motor vehicles* (G) to value added increased by 0.7 in the last five years and by 0.3 p.p. in 2005.

2005 saw a further narrowing of the gap between Slovenia and the EU average in the share of non-financial services in value added, although Slovenia still lags considerably behind in real estate, renting, and business activities where more than half of all services are knowledge-based business services. The average EU share of non-financial market services accounted for 43.8% of value added in 2005. According to this indicator, Slovenia lagged behind the EU average mostly in 2001 (7.7 p.p.) but the gap has been narrowing since 2002. Efforts to reach the EU average were particularly intense in the past year when the gap went down to 5.4 p.p., mostly owing to the increasing share of value added in wholesale and retail trade, the repair of motor vehicles, and transport, storage, and communications, i.e. activities that have a higher share in the structure of value added in Slovenia than in the EU. In hotels and restaurants and real estate, renting, and business activities, the gap has not been reduced. Slovenia lags behind the EU mostly in the value added of activity K where (given the intense growth of such services in the

[1] SITC activities from G to K (J excluded): wholesale and retail trade, repair of motor vehicles, personal and household goods (G), hotels and restaurants (H), transport, storage, and communications (I), and real estate, renting, and business activities (K).

[2] Gross value added.

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

[4] According to the OECD definition, knowledge-based services under activity K include the following SITC activities: renting machinery and equipment (71), computer and related activities (72), research and development (73), and other business activities (74).

[5] Real estate business mostly consists of dwelling activities of households characterised by relatively low constant value added growth rates. Housing activity made up 94% of value added in real estate business in 2000 and 91% in 2005.

[6] According to the OECD definition, knowledge-based services under activity I include post and telecommunication services (74).

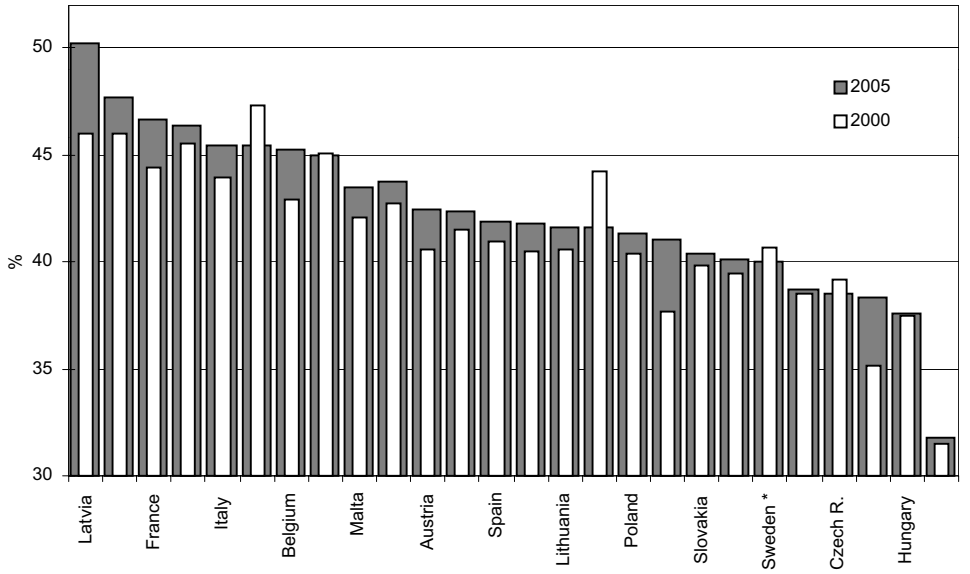
EU) no significant closing of the gap has been achieved: the differential in 2000 was 6.2 p.p. compared to 6.1 p.p. in 2004 and 2005. The latest available figures for EU countries for 2002 (STI Scoreboard, 2005) indicate that Slovenia lagged behind the EU average both in business activities and real estate activities. In 2000-2002, the gap in business activities that belong to knowledge-based services narrowed slightly (from 4.1 to 3.1 p.p.) but widened in real estate activities (from 2.5 p.p. to 3.4 p.p.). Since the share of business activities has been increasing over the last few years along with a decrease in the share of real estate activities, it may be assumed that, compared with the EU, similar trends continued after 2002.

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

	1995	2000	2001	2002	2003	2004	2005
Slovenia	35.0	35.2	35.6	36.4	36.8	37.3	38.3
EU-25	40.1	42.7	43.3	43.4	43.5	43.5	43.8
EU-15	40.2	42.9	43.4	43.5	43.6	43.7	44.0
EU-10	36.7	39.9	40.9	41.4	40.7	40.0	40.2

Sources: *SI-stat data portal - National Accounts* (SORS), 2006. *Economy and finance - National accounts data* (Eurostat), 2006.

Figure: **Share of non-financial market services in value added in Slovenia and the EU in 2000 and 2005 (%)**



Sources: *SI-stat data portal - National Accounts* (SORS), 2006. *Economy and finance – National accounts data* (Eurostat), 2006.
Notes: * Data for 2004. ** Data for 2003.

Total assets of banks

In 2005 the total assets of banks compared to GDP rose by a remarkable 15.3 percentage points and achieved the level of 105.4%. For the third consecutive year, the growth of this indicator was mainly underpinned by banks' robust lending activity: the volume of loans to the non-banking sector grew by over a quarter in nominal terms and accounted for 54.6% of the total assets of banks at the end of the year. These loans contributed 13.6 p.p. to the 23.6% increase in the total assets of the Slovenian banking sector. In the currency structure of loans, the highest growth rate was recorded in foreign currency loans which had been more favourable than tolar loans until the end of the third quarter of the year. Contrary to 2004, non-tradable securities rebounded and rose by 14.4% in the above period, largely due to the increase in short-term government securities. On the sources' side, banks continued to face low growth rates in household deposits, once the main source of financing, which forced the banks to finance their robust lending activity through external borrowing that had been growing for four years in a row and totalled SIT 562.8 bn in 2005, which was 1.5-times higher than the year before. Another important source are bank deposits of foreign banks (particularly parents) which rose by 3.3-times compared to the same period last year and totalled SIT 242.6 bn.

The growth of total assets of banks moderated somewhat in 2006 to total 15.8%. The indicator of banks' total assets relative to GDP thus rose by 8.1 p.p. compared with the year before and reached 113.5%. It should be noted, however, that data for 2006 are not entirely comparable with the year before due to the changeover to the international financial reporting standards. It is nevertheless evident that banks' robust lending activity continued in 2006, although it relied less on external borrowing and foreign banks' deposits, as evidenced by the net flows recorded in the first eleven months of 2006, which reached only two-thirds of the level recorded in the same period of 2005.

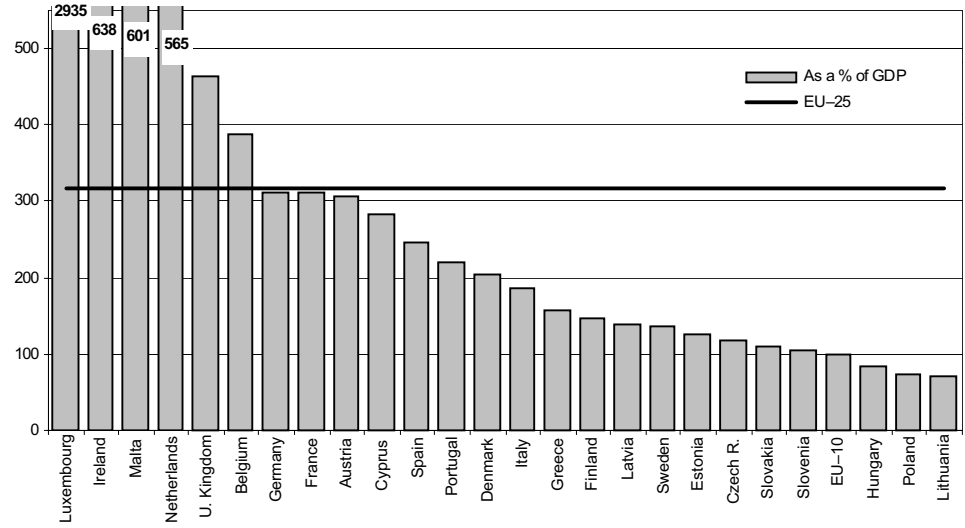
Despite the high increase in this indicator, the relative lag of Slovenia behind the EU average did not decrease substantially. In 2005 the total assets of banks achieved 33.2% of the EU average (32.8% in 2004). Banks also significantly increased their lending activity in other EU member states: the year-on-year growth in the volume of loans in the EU was 15.9%, which is the highest rise in the last five years. Total assets thus grew by 15.7% on a year-on-year basis. Having already been 2.7-times higher than GDP, the value of this indicator in the EU rose by a remarkable 43.1 p.p., thus achieving 317.9%. A slightly higher rise (18.5%) of the total assets of banks was recorded by the new members; the indicator for these countries increased by 15.7 p.p. compared with 2004, which is close to Slovenia's level. In total banks' assets as a share of GDP, Slovenia continues to rank in the second half of the EU-10. Lower levels were only recorded by Lithuania (71.7%), Poland (74.6%), and Hungary (84.4%).

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

	1995	2000	2001	2002	2003	2004	2005	2006
Assets	6,156.5	13,041.6	16,177.5	19,000.2	21,104.4	23,555.1	29,126.7	33,742.1
as a % of GDP	62.4	74.2	80.8	85.1	87.0	90.0	105.4	113.5
Loans to banking sector	1,058.1	1,520.6	1,653.5	1,557.1	1,440.4	2,087.1	2,848.0	3,063.3
Loans to non-banking sector	2,536.2	6,823.7	7,986.6	9,065.7	10,591.2	12,691.3	15,905.1	20,082.1
Securities	1,730.5	3,309.9	4,629.1	6,454.3	7,176.1	6,852.6	8,155.9	10,596.7
Other assets	586.3	975.9	1,047.7	1,319.6	1,306.3	1,335.3	1,618.3	33,742.1

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

Figure: **Total assets of banks in selected EU member states in 2005, as a % of GDP**



Sources: *Bank of Slovenia's Annual Report*, 2005; *European Banking Federation*, 2006; *First release – national accounts* (SORS), September 2006.

Insurance premiums

In 2005, insurance premiums relative to GDP remained unchanged for the first time after 1999 and amounted to 5.6%. The volume of insurance premiums[1] totalled EUR 1,549.2 m and was 6.6% higher than the year before. In this period, the growth of insurance premiums accounted for only half of the average annual growth recorded in the last ten years. Such a slowdown was mainly due to the significant decrease in life insurance premiums which at 8.6% recorded the lowest growth rate in the last ten years after peaking at 43.8% in 2004. Life insurance premiums growth decelerated largely as a result of the significantly slower growth of insurance premiums tied to investment funds; these rose by only over a fifth in 2005 although their volume nearly tripled in 2004. Moreover, a slowdown was also recorded in the premiums of other life insurance. For the fourth consecutive year, growth has also been slowing down in non-life insurance premiums which rose by 5.7% in 2005. A lower rate was only recorded in 1997 (4.9%).

After decreasing for three years in a row compared with the EU average, the volume of insurance premiums relative to GDP rose by 0.2 p.p. to total 8.5% in 2005. Although the volume of premiums in new member states grew at a much faster pace (18.0%) than in the old members (6.5%), the volume of premiums relative to GDP in the new member states rose by only 0.1 p.p. in absolute terms (owing to the relatively low significance of the insurance sector and higher GDP growth) and totalled 3.4%, while in the old EU members it was 0.3 p.p. higher and amounted to 8.8%. Slovenia had the highest volume of insurance premiums relative to GDP among the new members and also exceeded Greece and Spain.

In comparison with other indicators of the development of the financial sector, the gap between Slovenia and the EU is the narrowest in the area of insurance, however the difference is higher in the premiums structure. Non-life insurance premiums continue to amount to more than 70.0% of total premiums, the most important categories here being motor vehicle liability insurance and health insurance which, combined, amount to more than half of all non-life insurance premiums. In 2005, they achieved 3.9% of GDP for the fourth consecutive year, which is one of the highest levels in the EU and 0.6 p.p. above the EU average. On the other hand, the volume of life insurance premiums that include advanced forms of financial services was only 1.7% of GDP, which is only 0.2 p.p. above the average in the new member states and only a third of the average value in the EU.

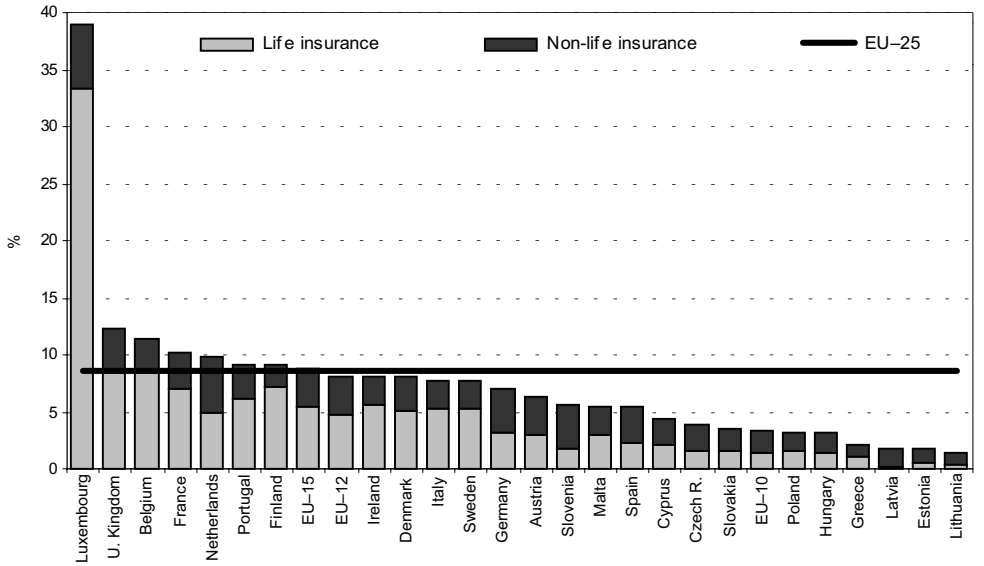
[1] Including institutions that do not yet operate under the Insurance Act (Capital Fund, Fund for Craftsmen and Entrepreneurs).

Table: **Insurance premiums by type of insurance in Slovenia in 1995-2005**

	1995	2000	2001	2002	2003	2004	2005
As a % of GDP							
Insurance premiums, total	4.3	4.5	4.8	5.0	5.1	5.6	5.6
Life insurance	0.6	0.9	1.0	1.1	1.2	1.6	1.7
Non-life insurance	3.6	3.6	3.8	3.9	3.9	3.9	3.9
Structure, %							
Insurance premiums, total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Life insurance	14.8	19.4	21.4	22.7	23.9	29.4	30.0
Non-life insurance	85.2	80.6	78.6	77.3	76.1	70.6	70.0
Year-on-year nominal growth rates, %							
Insurance premiums, total	62.6	12.5	19.3	16.1	11.7	16.8	6.6
Life insurance	67.8	20.9	31.5	23.2	17.8	43.8	8.6
Non-life insurance	61.7	10.7	16.3	14.1	9.9	8.3	5.7

Source: *Statistical Insurance Bulletin 2006* (Slovenian Insurance Association), 2006.

Figure: **Total insurance premiums, life and non-life insurance premiums relative to GDP in EU member states in 2005 %**



Sources: *Statistical Insurance Bulletin 2006* (Slovenian Insurance Association). 2006; *Annual Report 2005-2006* (The Comité Européen des Assurances). 2006.

Market capitalisation

In 2005, the market capitalisation of shares (excluding investment companies) relative to GDP decreased for the first time and amounted to 24.2%, which is 3 p.p. less than in the previous year. The relatively significant fall in this indicator was underpinned by the 5.9% decrease in the volume of market capitalisation on the Ljubljana Stock Exchange and the relatively high 4% real GDP growth achieved in 2005. The value of shares listed on the official market went down by 4.1% and the value of shares listed in the semi-official market by over a tenth. The main contributor to the decrease in market capitalisation was the general reduction of the value of listed shares on the official market; the main index on the Ljubljana Stock Exchange (SBI20) fell for the first time after 1996 and was by 5.6% lower than at the end of 2004. Another reason for the decreased market capitalisation was the lower number of shares listed on the Ljubljana Stock Exchange in 2005. The value of the total turnover on the Ljubljana Stock Exchange, including block trades and trading in the Market Making Trading Segment (MMTS), amounted to EUR 2,741.2 m in 2005, almost two-thirds more than in the previous year and by far the highest value so far. Excluding trading in the MMTS, the turnover on the Ljubljana Stock Exchange would only rise by slightly more than a tenth. The turnover in bonds recorded a 1.5-fold rise whereas the turnover in shares was up marginally, by just 1%. Liquidity on the Ljubljana Stock Exchange remained low. The turnover ratio of shares, measured as the ratio between the turnover value and the market capitalisation of shares, rose by only 0.01 compared to 2004, mostly owing to the lower value of market capitalisation of shares rather than to an increase in the trading volume. The bond turnover ratio was 0.20, almost twice the level of the previous year. This higher value was underpinned by the increased trading in the new Market Making Trading Segment.

A comparison of the financial sector's development reveals that the development gap between Slovenia and other EU countries is the largest in the capital market and grew further in 2005 following an increase in this indicator's value in most member states. In 2005, due to favourable trends in most capital markets, the market capitalisation of shares in the EU rose by 13.1 p.p. and totalled 79.7% of GDP, the highest value since 2001. Slovenia thus achieved only slightly more than 30% of the EU average value. After constantly achieving or even exceeding the average value of the new member states in the previous years, Slovenia lagged behind the average of these countries in 2005 (32.9% or 5.7 p.p. more than in 2004) as well. Lower values were only recorded by Slovakia (10.6%) and Latvia (17.0%).

We estimate that in 2006 Slovenia narrowed the development gap with the EU average in terms of the volume of market capitalisation relative to GDP. The prices of securities on the Ljubljana Stock Exchange began to pick up in 2006, and a company still majority-owned by the state joined the stock exchange. The market capitalisation of shares thus grew by 72.0%, which is far above the other EU countries. Despite the exceptionally high GDP growth, the value of the market capitalisation of shares relative to GDP rose by as much as 14.5 p.p. (the highest increase thus far) to total 38.7%. A much smaller growth rate was seen in the market capitalisation of bonds, which picked up by less than 10% in 2006, achieving only around a quarter of the average annual growth recorded in the last ten years. The value of the total turnover on the Ljubljana Stock Exchange (including the MMTS) amounted to EUR 3,579.8 m in 2006, close to a quarter more than in 2005. The increase was in large part underpinned by the trading in shares, excluding investment funds, which rose by a good half (EUR 1,451.5 m), and partly by the trading in short-term securities on the MMTS, which increased by close to two-thirds (EUR

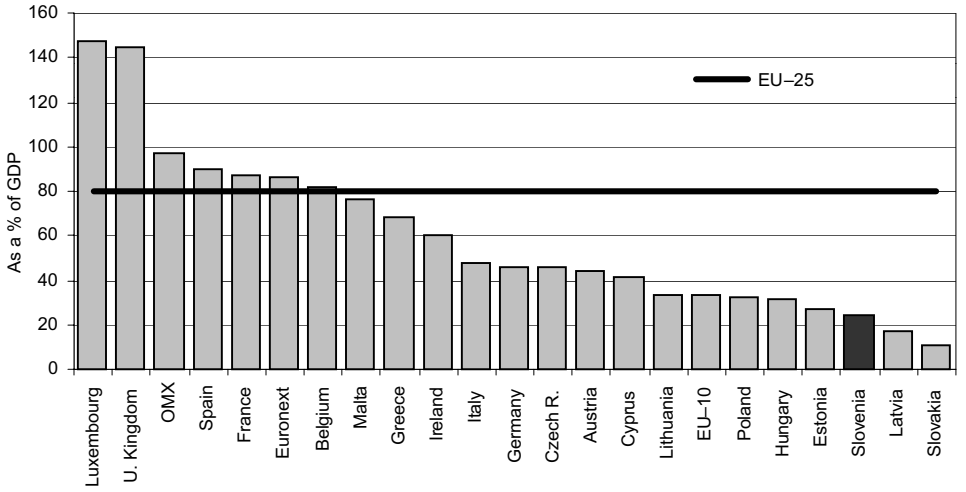
739.3 m). On the other hand, turnover in bonds increased by a mere 1.1% (EUR 1,218.9 m), the lowest value recorded thus far. However, trading in bonds also witnessed major structural changes as a large proportion of turnover in government bonds moved from the official market to the MMTS. Although the value of turnover in shares rose considerably in 2006, the turnover ratio of shares, measured as the ratio between the turnover and the volume of market capitalisation, decreased again in 2006 by 0.01 of a point to total 0.13, as a result on the remarkably high increase in the market capitalisation of shares listed on the Ljubljana Stock Exchange. In addition to the volume of market capitalisation, the further development of the Slovenian capital market will also depend on an increased volume of trading on the Ljubljana Stock Exchange, which would ensure sufficient liquidity of securities, which is also very important for the further development of the capital market.

Table: **Selected capital market indicators in Slovenia in 1995-2006**

	1995	2000	2001	2002	2003	2004	2005	2006
Market capitalisation of shares, excluding investment funds, EUR m[1]	171.6	2,942.3	3,546.9	5,145.7	5,590.4	7,118.3	6,694.8	11,513.1
Market capitalisation of shares, excluding investment funds, as a % of GDP	1.7	16.4	17.7	23.0	23.0	27.2	24.2	38.7
SBI20	1.448	1.808	2.152	3.340	3.932	4.904	4.630	6.383
BIO	111	109	109	111	117	122	123	119
PIX	-	1.521	1.588	2.730	3.372	4.513	3.962	5.084
Number of securities	49	267	270	265	254	254	227	202
Shares	27	197	193	172	162	153	128	109
of which investment funds' shares	0	44	37	33	26	11	10	7
Bonds	22	68	76	92	92	101	99	93
Pension coupons	0	1	1	1	0	0	0	0

Sources: *Annual Statistical Report* (Ljubljana Stock Exchange), 2005; *First Release - National Accounts* (SORS), 2006.
Notes: SBI - Slovenian stock exchange index, BIO - bond index, PIX - index of shares of authorised investment companies; [1] own calculations in EUR.

Figure: **Market capitalisation in selected EU member states in 2005, as a % of GDP**



Sources: *Annual Statistical Report* (Ljubljana Stock Exchange), 2005; *First Release – National Accounts* (SORS), 2006; *Stock market capitalisation* (Eurostat), 2006.
Note: From January 2001 onwards, Euronext comprised the Stock Exchanges of Paris, Amsterdam and Brussels. In February 2002, the Lisbon Stock Exchange joined in. OMX comprises the Scandinavian (Denmark, Finland, Sweden) and the Baltic Stock Exchanges (Estonia, Latvia, Lithuania).

The second priority:

Efficient use of knowledge for economic development and quality jobs

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

Share of the population with a tertiary education

The population's education structure in Slovenia is improving rapidly and the share of the population having completed tertiary education is approaching the average EU level. The share of the population aged 25-64 with a tertiary-level education reached 21.5% in the second quarter of 2006 according to the labour force survey, which is 5.8 p.p. more than in the second quarter of 2000 and 7.3 p.p. more than in the second quarter of 1995. In the last year, it increased by 1.5 p.p. (which is the same as in the five-year period 1995-2000). In the EU, the average shares of the population aged 25-64 with a tertiary-level education totalled 23.3% in the EU-25 and 24.4% in the EU-15 in Q2 of 2006, which is a respective 1.8 and 2.9 p.p. more than in Slovenia. Compared to 2005, this gap has been reduced substantially (see the table).

The fastest growth is seen in the share of university level graduates, which more than doubled in the ten-year period from 1995 to 2005, while the share of the population with a post-secondary vocational education is on the decrease. According to annual data from the labour force survey, the share of the population in Slovenia aged 25-64 with university level education reached 12.3% in 2005 (7.7% in 2000, 6.1% in 1995), with a post-secondary education 6.4% (7.4% in 2000, 7.5% in 1995), and with a postgraduate education 1.4% (0.9% in 2000, 0.7% in 1995).

The share of the population with completed secondary school continues to rise; the share of the population with completed vocational education remains more or less steady, while the share of people with a lower vocational education is decreasing. The share of the population aged 25-64 that have completed secondary education (general, vocational, or technical programmes) stood at 31.9% in 2005 (the same as the year before). The percentage rose considerably (from 25.7% to 31.2%) in the 1995-2000 period while in 2000 its growth began to soften for the benefit of the accelerated growth of the population with a higher education. The share of the population with a vocational education has hovered around 29% for some time. The share of the population aged 25-64 having completed vocational education totalled 28.3% in 2005. The population having completed primary school accounted for 17.2% (20.6% in 2000 and 24.1% in 1995), while 2.5% of the population of this age group (3.9% in 2000, 7.2% in 1995) had not completed any education.

The percentage of youth enrolled in secondary education continues to rise while the number of adults participating in primary and secondary education has been dropping for the past two years. In the 2004/2005 academic year, 77.6% of the generation aged 15-19 were enrolled in secondary schools (72.5% in 2000/2001 and 67.2% in 1994/1995) while in 2005/2006 this percentage exceeded 80%[1], thus achieving the Lisbon Strategy target. At the same time, the share of pupils enrolled in grammar schools and technical secondary schools rose, while enrolment in secondary vocational schools declined. The share of the generation having passed the final examination continues to climb (71.4% in 2005 and 56.0% in 2000[2]); by contrast, the share of the generation having completed a vocational school continues to fall (24.0% in 2005 and 28.0% in 2000). The number of adults enrolled in formal primary and secondary education, which had already exceeded 25,000 in 2002/2003 (10,115 in 1994/1995), has been declining for two years. In the 2004/2005 academic year, a total of 21,069 people were enrolled in adult primary and secondary education programmes,

[1] The final figures will probably be lower (like every year).

[2] Estimated in comparison with the generations aged 15 prior to the theoretical duration of education at specific types of secondary schools.

while 6,862 people completed their education (2.9-times more than in 1994/1995).

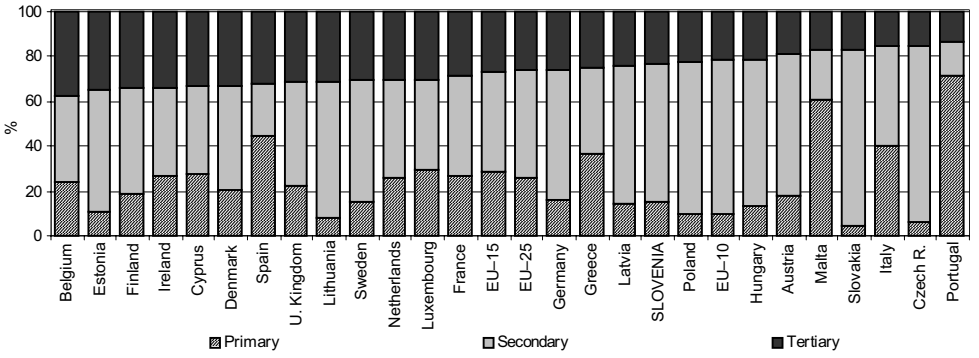
The number of students and university graduates is rising steadily. In the 2005/2006 academic year, a total of 114,794 students were enrolled at all three tertiary education levels; of which 14,246 were enrolled in post-secondary vocational colleges, 92,204 in university programmes and 8,344 in postgraduate programmes.

Table: **Share of the population aged 25-64 having attained a tertiary education in Slovenia and the EU-25, 1995-2006 (second quarter), %**

	1995	2000	2001	2002	2003	2004	2005	2006
EU-25	**n.p.**	**19.3**	**19.6**	**19.9**	**20.8**	**21.9**	**22.7**	**23.2**
EU-15	**16.6**	**20.4**	**20.8**	**21.1**	**21.9**	**23.0**	**23.8**	**24.2**
EU-10	**n.p.**	**13.9**	**13.1**	**13.5**	**14.7**	**15.9**	**17.0**	**17.9**
Belgium	23.3	27.2	27.8	27.9	28.2	29.8	30.7	31.0
Czech Republic	N/A	11.5	11.6	11.8	11.9	12.3	13.1	13.5
Denmark	27.2	25.2	28.1	29.0	31.8	32.3	32.9	34.8
Germany	21.1	22.5	22.4	21.4	22.9	23.8	24.5	24.1
Estonia	N/A	28.9	29.8	29.7	30.4	31.5	33.6	32.9
Greece	14.3	16.9	17.2	17.9	18.6	20.6	20.5	21.3
Spain	16.4	22.5	23.6	24.6	25.0	26.4	28.2	28.4
France	N/A	21.6	22.6	23.5	23.5	23.9	24.6	25.4
Ireland	19.9	21.1	22.8	24.5	26.3	27.8	28.3	29.9
Italy	7.4	9.4	10.0	10.4	10.8	11.4	11.9	12.7
Cyprus	N/A	25.2	26.9	29.1	29.6	29.3	27.8	29.9
Latvia	N/A	18.0	18.1	19.6	18.2	19.4	21.5	21.4
Lithuania	N/A	21.8	22.4	21.9	23.2	24.2	26.5	27.2
Luxembourg	15.4	18.1	17.6	18.4	19.9	23.6	26.6	26.5
Hungary	N/A	14.0	13.9	14.0	15.2	16.6	17.0	17.8
Malta	N/A	5.4	9.6	8.6	9.0	10.8	12.2	12.3
Netherlands	N/A	24.0	23.8	24.7	27.1	29.0	29.9	29.8
Austria	N/A	14.5	15.2	15.1	15.2	18.4	17.6	17.7
Poland	N/A	11.4	11.7	12.2	13.9	15.3	16.5	17.8
Portugal	11.3	9.0	9.3	9.5	10.5	12.6	12.7	13.4
Slovenia	**14.2**	**15.7**	**13.8**	**14.5**	**17.8**	**18.8**	**20.0**	**21.5**
Slovakia	N/A	10.3	10.6	10.8	11.6	12.8	13.9	14.4
Finland	21.0	32.3	32.5	32.4	32.8	34.0	34.5	34.1
Sweden	26.1	29.5	25.4	26.2	27.0	27.9	29.3	30.3
United Kingdom	21.0	24.3	24.9	25.6	26.6	27.9	28.2	29.2

Source: *Statistics of population and education* - SORS (different issues); *Population and social conditions* - Eurostat (2006).

Figure: **Education structure of persons in employment in the EU-25, %**



Source: *Population and social conditions – Labour Market,* Eurostat, 2006.

Average years of schooling

The average years of the population's completed education have been growing along with the share of generations with attained secondary and tertiary education. However, they are still below the level of this indicator measured in developed countries. According to the labour force survey, the population aged 25-64 completed 11.6 years of schooling[1] (0.4 of a year more than in 2000, or 0.9 of a year more than in 1995). In comparison with the average of the OECD countries, which attained 11.9 years of completed schooling according to the latest data available for 2004, the value of this indicator in Slovenia is low (11.5 years in 2004). The highest value of this indicator among the OECD countries was recorded in the Netherlands (13.9), while within the EU-25 Denmark (13.4) and Luxembourg (13.3) attained the highest scores.

The average number of schooling years attained by the working population was slightly higher but still falling behind the developed countries. According to the labour force survey, people in employment in Slovenia in 2005 attained on average 11.9 years of completed schooling (0.4 of a year more than in 2000, or 0.8 of a year more than in 1995). In comparison with the average of the OECD countries, the value of this indicator in Slovenia is still low[2]. The average years of schooling attained by people in employment are usually higher than in the total population aged 25-64 for which it is typical that the lower the education level the higher the share of the inactive or unemployed people[3]. Nevertheless, the gap of average years of schooling between the two populations has been gradually reduced (0.35 of a year in 1995, 0.25 of a year in 2005) due to the rapid improvement in the education structure of the population aged 25-64.

The average years of schooling attained by people in employment according to the statistical employment register are lower than that reported by the labour force survey, and the gap has been widening. The Statistical Register of Employment covers employed and self-employed persons with a formal status. In 2005, these persons attained an average of 11.6 years of schooling, which is 0.3 of a year less than according to the survey. The difference in the value of this indicator according to both sources has been increasing[4], which is probably due to the fact that the labour force survey also covers persons in informal employment[5], who have attained a higher education level than the average attained by employed and self-employed people. A possible reason for this gap is the fact that among persons in informal employment there is a relatively high number

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

[2] In 2003 (the only available data), men completed 0.9 of a year less and women 0.7 of a year less than the OECD average (12.7 and 12.5 years, respectively) and a respective 2.5 and 2.4 years below the highest average years of schooling among people in employment, which was then recorded in Norway and the USA (14.0 years for men and 14.2 years for women). In comparison with Slovenia, only employees in Greece, Italy and Portugal completed fewer years of schooling, and in Slovakia as regards women.

[3] See the indicator *Unemployment rate*.

[4] According to data from the Statistical Register of Employment, the average years of schooling attained by the working population in 1995 were 0.1 of a year lower than the value of this indicator reported by the labour force survey. This difference grew to 0.2 of a year in 1999 and to 0.3 of a year in 2005.

[5] See the indicator *Employment rate*.

of students, retired, registered unemployed, and other persons with a higher education level who are only temporarily employed.

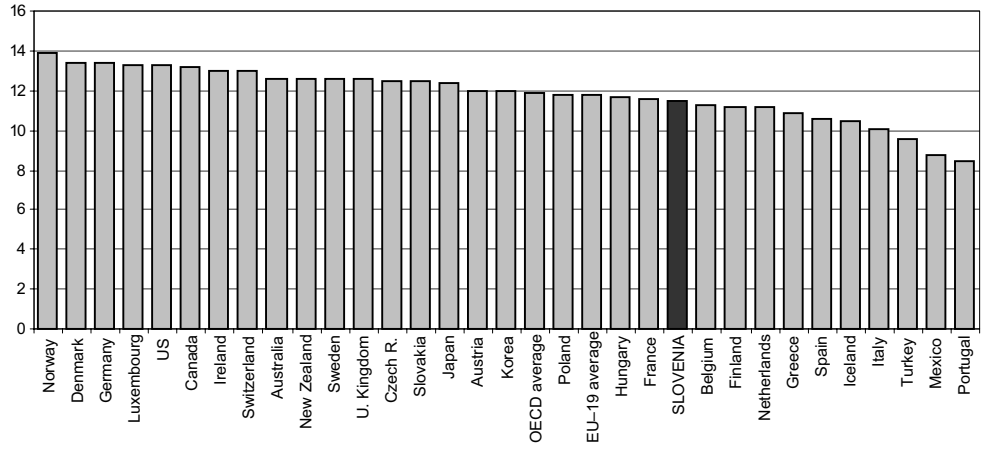
Broken down by activity and in comparison with 2005, the education level of Slovenia's working population in 2006 remained almost unchanged. The highest level is still achieved in the education sector and the lowest in the construction sector (see the table). The highest and most rapidly rising shares of employed people with a higher and university education are found in those activities that also have the highest average years of schooling.

Table: **Average years of schooling attained by persons in employment in Slovenia in 1995-2006**

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

Source: *SORS, Statistical Register of Employment;* 2006; calculations by IMAD.

Figure: **Average years of schooling attained by the population aged 25-64 in OECD members and Slovenia, 2004**



Source: *Education at a Glance* (OECD), 2006.

Ratio of students to teaching staff

The ratio of students[1] to teaching staff[2] is an indicator of the quality of education since a lower ratio usually implies greater possibilities for improving the quality of the teaching process. It is also an indicator measuring the relative scope of human resources allocated by the state for tertiary education. The number of teaching staff, besides the level of salaries, has a significant influence on the level of expenditure earmarked by the state for education. Given the financial means that the state earmarks for education, the state may choose between a smaller number of students per teacher (a lower ratio between students and teaching staff) and between higher salaries of teachers, increased investment in their professional development, and teaching technology and other expenditure.

Although the Slovenian ratio of students to teaching staff in tertiary education[3] has improved, it is still ranked among the lowest compared with other European countries. Between the academic years of 2004/2005 and 2005/2006, this ratio improved; in the 2005/2006 academic year, there were 21.3 students per one teacher (22.6 students in 2004/2005). Despite showing a positive trend, the indicator value in Slovenia still lags behind the majority of European countries. The latest data available for other European countries for the 2003/2004 academic year indicate that only Greece and Italy had a higher number of students per teaching staff than Slovenia (21.5). In the 2000-2004 period, the gap in the indicator value between Slovenia and the OECD average narrowed, however in comparison with other countries the situation in Slovenia remains the same.

The ratio of students to teaching staff in Slovenia is lower in type B[4] programmes than in type A programmes. Similar to other European countries, the ratio of students to teaching staff is also more favourable in type B programmes in Slovenia. In case of the latter, the gap behind the OECD average narrowed as well: in the 2003/2004 academic year, the ratio concerned in type A programmes in Slovenia stood at 24.1 (with the OECD average being 16.3), while the ratio in type B programmes amounted to 17.0 (with the OECD average being 16.3).

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[1] Students include: full-time students + 1/3 (part-time students + graduation candidates + postgraduate students) (Rapid Reports No 160, SORS, 2006).

[2] The teaching staff includes: instructional and professional support staff at vocational colleges (vocational college lecturers, exercise instructors, and lab assistants) and teaching faculty (assistant professors, associate and full professors, lecturers and senior lecturers, and lectors). Research faculty members and faculty assistants (assistants, librarians, specialist advisors, senior researchers, researchers, and skills teachers).

[3] Tertiary education includes post-secondary vocational studies, higher undergraduate studies, and postgraduate studies

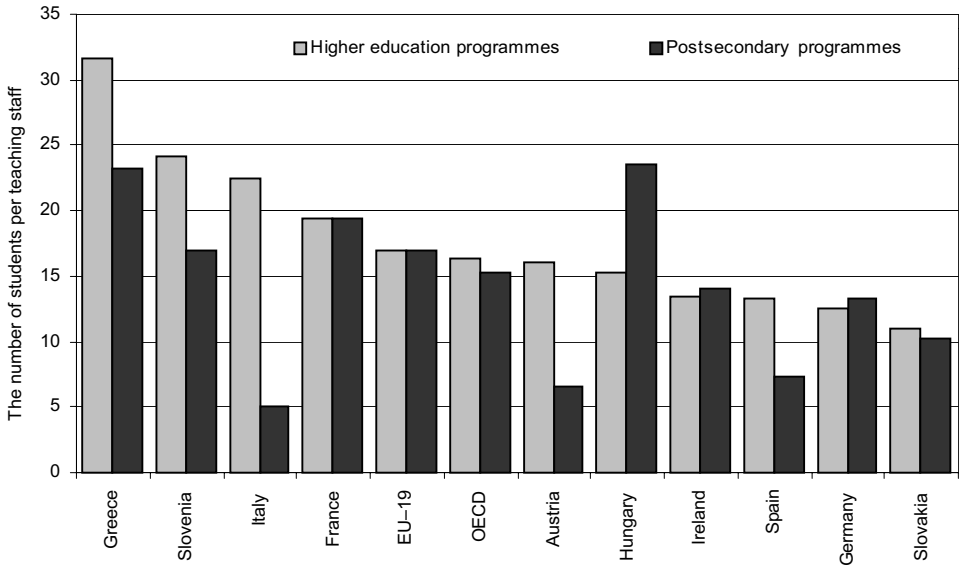
[4] The study programmes of type B are programmes within post-secondary vocational education, while the study programmes of type A include university study programmes. The type B programmes are vocationally-oriented and shorter than the type A programmes and convey practical skills and knowledge directly applicable at work. In Slovenia, the type B programmes are classified as post-secondary vocational education.

Table: **Ratio of students to teaching staff in tertiary education**

	1997/1998	1999/2000	2001/2002	2002/2003	2003/2004
OECD	**14.8**	**14.7**	**15.4**	**14.9**	**15.5**
EU-19[1]	**N/A**	**N/A**	**N/A**	**N/A**	**15.7**
Austria	N/A	N/A	13	12.9	14.8
Belgium	N/A	19.9	18.7	19.2	19.4
Czech Republic	13.5	13.5	16.1	17.3	17.9
Finland	N/A	N/A	12.6	12.3	12.4
France	N/A	18.3	17.9	17.6	17.8
Greece	26.3	26.8	32.2	29.6	28.1
Ireland	16.6	17.4	16.3	15	13.7
Italy	N/A	22.8	23.1	21.9	21.6
Hungary	11.8	13.1	13.8	14.8	15.6
Germany	12.4	12.1	12.6	12.5	12.7
Poland	N/A	14.7	18	18.3	N/A
Slovakia	N/A	10.2	10.5	10.8	10.9
Slovenia	**N/A**	**23.8**	**22.5**	**22.9**	**21.5**
Spain	17.2	15.9	13	11.8	11.7
Sweden	9	9.3	9.1	9	9
United Kingdom	17.7	17.6	18.3	18.2	17.8
Iceland	9.3	7.9	8.7	9	10.9
Japan	11.8	11.4	11.2	11	11
Norway	13	12.7	13.2	11.9	12
USA	14.6	13.5	17.1	15.2	15.8

Sources: OECD. Education at a glance. issues 2002-2006; Rapid Reports Nos. 114 and 160 – Education (SORS).2006; calculations by IMAD.
Note: [1]Data are only available for those EU countries that are also members of the OECD.

Figure: **Ratio of students to teaching staff in higher education programmes and post-secondary vocational programmes in the OECD and several EU[1] countries, 2003/2004**



Sources: *Education at a Glance* (OECD), 2006; Rapid Reports Nos. 114 and 160 - Education (SORS), 2006; calculations by IMAD.
Note: [1]The graph shows the countries with data available on the students to teaching staff ratio for both types of study programmes.

Total public expenditure on education

The percentage of total public expenditure on education as a share of GDP is relatively high[1,2]. The volume of total public expenditure on education is influenced by several factors including the demographic structure, the rates of inclusion in education, the level of teaching staff's salaries, the organisation of the education system and the financing system for education. In Slovenia, total public expenditure on education as a share of GDP totalled 6.02% in 2003, while provisional data for 2004 indicate a slight decrease to 5.96%. The corresponding share in most European countries is between 4% and 6% of GDP (on average 5.2% in the EU-25), while in some northern European countries, notably Denmark, Sweden, and Norway, the average level exceeds 7-8% of GDP (see the table).

In 2000-2004 (latest available data), the most substantial increase in Slovenian total public expenditure for education was noted at the level of pre-primary and primary education; while at the average EU-25 level the expenditure in 2000-2003 was the highest for secondary and tertiary education. Between 2000 and 2003, the percentage of total public expenditure on education expressed as a share of GDP increased in most EU countries. The EU-25 average increased by 0.50 p.p., notably at the levels of secondary and tertiary education (by 0.15 p.p. and 0.12 p.p.), which is in line with the Lisbon strategy goals. Slovenia's total public expenditure as a share of GDP grew by only 0.07 p.p. from 2000 to 2003; the main increase was recorded in public expenditure on pre-primary and primary education – by 0.08 p.p. at both levels; there was a decrease of 0.02 at the secondary level, and an increase of only 0.03 p.p. of GDP at the tertiary level. According to the SORS' provisional estimates, similar trends were recorded in 2004; there was again an increase in public expenditure on primary education (from 2.66% of GDP in 2003 to 2.73% in 2004) and a slight increase in expenditure at the tertiary level (by 0.01 p.p. of GDP). Within total public expenditure on education in Slovenia, the percentage of public expenditure on primary education amounted to 45.8% in 2004 (43.3% in 2000). Such investment in primary education in the given period was mainly due to increased employment and investment upon the introduction of the nine-year primary school[3]. Although more recent statistics on education expenditure are unavailable, we can infer, based on employment data for 2006 when employment growth only rose substantially in higher education, that a structural shift towards stronger tertiary education did finally begin last year, reflecting, among other things, the increase in the number of higher education institutions that year and the launching of the reform process and new study programmes.

The fairly high share of public expenditure on education allocated in Slovenia for transfers to households and/or financial assistance to secondary-school and university students decreased significantly in the 2000-2004 period. In 2000, the corresponding share amounted to 13.5%, in 2004 to 9.2% of the total public expenditure on education, which still exceeds the average of the EU-25 for transfers (in 2003 it totalled 5.8%). At the secondary level, the share of financial and other forms of assistance shrank from 28.6% in 2000 to 16.3% in 2004, which was mainly due to the decreasing number of enrolled pupils. Compared to other EU countries, Slovenia's share of transfers and other social benefits for students at the tertiary level is still relatively high; in the reported period, the share dropped slightly (from 26.6% in 2000 to 23.7% in 2004), however, it still significantly exceeds the average of the EU-25 (16.1% in 2003). High transfers at the tertiary level are also characteristic of the Scandinavian countries.

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[1] Financial data for Slovenia are collected using internationally comparable methodology based on the UOE questionnaire (the common questionnaire of **U**NESCO, **O**ECD and **E**urostat). The data only cover formal education.

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

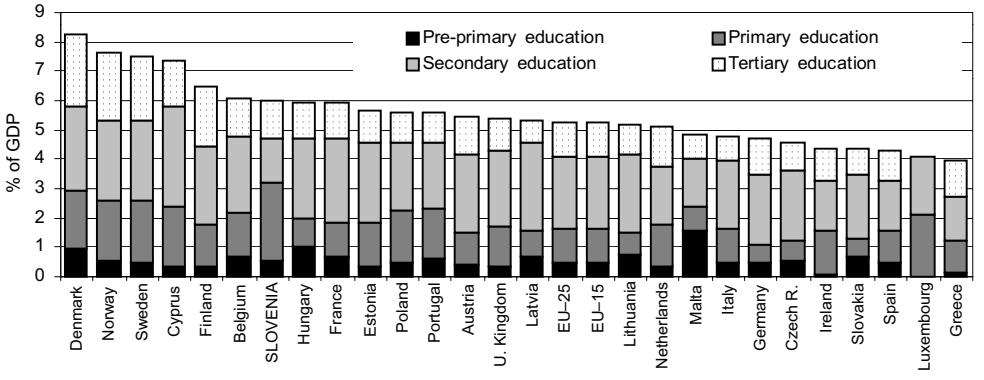
[3] There was a substantial rise in public financing at the pre-primary level as municipalities took over the bulk of the burden relating to the increase in prices of public kindergarten programmes.

Table: **Total public expenditure on education, by levels of education[1] and by purpose**

	Total public expenditure, % of GDP							Breakdown by purpose, in %	
	Total			Pre-primary ed.	Primary ed.	Secondary ed.	Tertiary ed.	Directly to educational institutions	Transfers to households and private institutions
	2000	2002	2003	2003	2003	2003	2003	2003	2003
EU-25	**4.71**	**5.14**	**5.21**	**0.50**	**1.17**	**2.41**	**1.15**	**94.4**	**5.8**
EU-15	**4.73**	**5.13**	**5.20**	**0.49**	**1.16**	**2.41**	**1.16**	**94.0**	**6.0**
Austria	5.66	5.67	5.48	0.41	1.08	2.70	1.29	94.7	5.1
Belgium	N/A	6.11	6.06	0.71	1.45	2.58	1.31	94.9	5.1
Cyprus	5.44	6.61	7.36	0.36	2.06	3.38	1.56	88.0	12.0
Czech Republic	4.04	4.41	4.55	0.54	0.71	2.35	0.94	95.4	4.6
Denmark	8.28	8.44	8.28	0.98	1.95	2.87	2.48	80.4	19.6
Estonia	5.57	5.69	5.67	0.35	1.49	2.73	1.09	94.0	5.8
Finland	6.08	6.34	6.51	0.35	1.41	2.67	2.08	92.2	7.8
France	5.83	5.81	5.91	0.7	1.11	2.90	1.20	96.3	3.7
Greece	3.71	3.90	3.94	0.13	1.13	1.47	1.22	98.0	2.0
Ireland	4.29	4.28	4.40	0.07	1.50	1.73	1.09	93.2	6.8
Italy	4.47	4.62	4.74	0.45	1.22	2.30	0.78	95.6	4.6
Latvia	5.64	5.71	5.32	0.69	0.91	2.98	0.74	92.1	7.9
Lithuania	5.63	5.85	5.18	0.74	0.77	2.68	1.00	92.9	7.1
Hungary	4.50	5.45	5.94	0.99	1.00	2.72	1.23	93.3	6.7
Malta	4.52	4.47	4.84	1.59	0.78	1.63	0.84	90.7	9.3
Germany	4.45	4.70	4.71	0.46	0.66	2.39	1.19	92.4	7.4
Netherlands	4.86	4.86	5.07	0.36	1.42	1.97	1.33	89.0	11.0
Poland	4.87	5.42	5.62	0.48	1.79	2.32	1.03	99.1	0.9
Portugal	5.42	5.54	5.61	0.6	1.70	2.30	1.01	98.6	1.4
Slovakia	4.15	4.35	4.38	0.65	0.65	2.21	0.86	97.0	3.0
Slovenia[2]	**5.95**	**5.98**	**6.02**	**0.56**	**2.662**	**1.46**	**1.34**	**90.3**	**9.7**
Spain	4.28	4.25	4.29	0.46	1.10	1.73	1.00	97.2	2.8
Sweden	7.31	7.59	7.47	0.5	2.06	2.75	2.16	87.7	12.3
United Kingdom	4.64	5.24	5.38	0.35	1.37	2.60	1.06	95.0	5.0
Norway	6.81	7.64	7.62	0.53	2.03	2.75	2.32	84.6	15.4
USA	4.94	5.36	5.43	0.32	1.80	2.08	1.50	N/A	N/A

Source: *Population and social condition - Eurostat Queen Tree*. 2006; calculations by IMAD.
Notes: [1]Pre-primary education - ISCED 0 (estimated share of expenditure for children older than three years enrolled in kindergartens in Slovenia); Primary education - ISCED 1; Secondary education - ISCED 2-4; Tertiary education - ISCED 5-6. [2]Besides the ISCED level 1. primary education in Slovenia also includes the ISCED level 2. As a result. the corresponding share is higher than in other countries. while the share of the secondary level is lower as it only includes ISCED levels 3-4.

Figure: **Total public expenditure on education, by level of education, in 2003**



Source: *Population and social condition – Eurostat Queen Tree*. 2006.
Notes: For levels of education. see the notes below the table. * Besides the ISCED level 1. primary education in Slovenia includes the ISCED level 2. Consequently. this share is higher than in other countries and is not comparable.

Expenditure on educational institutions per student

According to the indicator of the annual expenditure on educational institutions per student the situation in Slovenia is relatively favourable at all levels of education together. However, in 2003 (latest available comparable data) Slovenia still significantly lagged behind the EU with regard to per capita expenditure on tertiary education students. In 2003, Slovenia spent 4,967 EUR PPS[1] per pupil/student at all levels of education together, which is more than in all new member states and close to the EU-25 average (5,518 EUR PPS). However, the lag is greater at the tertiary level: in 2003, the expenditure per student amounted to 5,743 EUR PPS (6,139 EUR PPS in 2002); the EU-25 average totalled 8,060 EUR PPS, while the Scandinavian countries spent more than double the Slovenian amount per student (e.g. Sweden 13,171 EUR PPS). It should be noted that expenditure per pupil/student in EUR PPS has risen in most EU and OECD countries over the last few years, particularly at the primary and secondary levels where the number of enrolled children/pupils is decreasing and school classes are shrinking due to demographic changes. Slovenia is in a similar position; however the growth rate of expenditure per student at the primary and secondary level in the period referred to was also due to a significant rise in public expenditure on educational institutions[2]. At the tertiary level, amid the rapid increase in enrolments in 2001-2003 coupled with the weak growth of public expenditure on tertiary education institutions, annual expenditure per student dropped sharply in Slovenia (the EU-25 recorded a slight increase). The trends of expenditure per student at the tertiary level vary substantially in different countries and depend largely on the increase in the number of enrolled students (Education at a Glance, 2006).

Similar results are shown by the indicator of annual expenditure on educational institutions per student, expressed in GDP per capita, allowing for international comparisons by taking into account a country's economic development. This indicator shows that investment per student can be roughly equal even in countries with substantial differences in their GDP per capita (e.g. Finland and Latvia with 25% of GDP/cap.) (Statistics in focus, 18/2005). The proportion of expenditure per pupil/student for all levels of education together in 2003 totalled 30.1% of GDP per capita, which ranked Slovenia well above the EU-25 average (25.1%) or in second place among European countries, immediately behind the first-placed Cyprus. As regards the tertiary level, this indicator showed a considerably less favourable picture. The share of expenditure per student in 2003 totalled 34.8% of GDP per capita (48.7% in 2001), which is a noticeable deterioration in comparison with the two previous years (38.3% in 2002 and 48.4% in 2001); furthermore, Slovenia significantly lagged behind the EU-25 average in 2003 (36.7%). The gap between the relatively high total expenditure on tertiary education institutions[3] on one hand and the low annual expenditure per student in tertiary education, when compared with other European countries, is closely related to the high participation rate in tertiary education[4].

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[1] Purchasing power standards - PPS. The basis for calculations into PPS is EUR, which means that the data are first converted from national currencies into EUR and then, by using special converters or purchasing power standards (PPS), from EUR into purchasing power standards. This is a common fictional currency enabling comparisons of economic aggregates, taking into account differences in price levels among countries.

[2] See the indicator *Public expenditure on education*.

[3] Total (public and private) expenditure on tertiary education institutions in 2004 amounted to 1.39% of GDP (1.03% of public and 0.33% of private expenditure), which is at the level of the EU-15 and OECD averages (for further information on public and private expenditure on educational institutions, see Development Report 2006 – Indicators, and Social Overview, IMAD 2006).

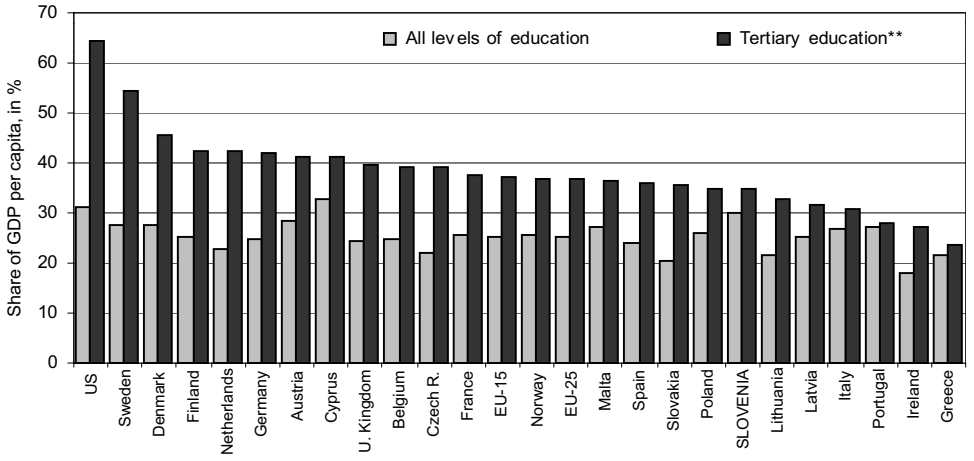
[4] The participation rate in tertiary education relative to the population aged 20-24 amounted to approximately 68% in 2002/2003 in Slovenia (EU average 56%) (Statistics in Focus 19/2005).

Table: **Annual expenditure on educational institutions per student; in purchasing power standards (EUR PPS) and in comparison with GDP per capita**

	In EUR PPS				Share in GDP per capita[1], in %					
	All levels of education		Tertiary education[2]		All levels of education			Tertiary education[2]		
	2001	2003	2001	2003	2001	2002	2003	2001	2002	2003
EU-25	**5151**	**5518**	**7702**	**8060**	**24.5**	**24.9**	**25.1**	**36.7**	**36.7**	**36.7**
EU-15	**5638**	**6002**	**8267**	**8868**	**24.8**	**25.1**	**25.3**	**36.4**	**36.5**	**37.4**
Austria	7095	7481	9770	10838	27.9	29.6	28.5	38.4	41.6	41.3
Belgium	6331	6396	10254	10091	25.9	25.7	24.9	42	41.0	39.3
Cyprus	4852	5690	8322	7150	28.1	30.4	32.8	48.2	48.1	41.2
Czech Republic	2755	3279	5031	5782	20.4	20.9	22.2	37.2	37.6	39.2
Denmark	7527	7251	12953	11960	28.9	28.1	27.6	49.8	50.2	45.5
Finland	5566	6139	8248	10282	23.7	24.8	25.4	35.1	42.1	42.5
France	5947	6248	7819	9135	25.2	25.6	25.8	33.1	33.8	37.8
Greece	3179	3848	3787	4202	20.8	21.0	21.8	24.8	24.6	23.8
Ireland	4749	5299	8701	7972	17.7	17.5	18.2	32.4	29.6	27.4
Italy	6400	6251	7295	7241	27.4	25.1	26.7	31.3	30.5	30.9
Latvia	2016	2234	2779	2810	26.1	26.9	25.2	35.9	35.0	31.6
Lithuania	1901	2129	3022	3245	22.7	22.4	21.6	36.1	35.5	33.0
Malta	3304	4280	5881	5773	21.4	21.7	27.1	38.1	44.1	36.5
Germany	5784	5861	9292	9895	25.2	25.7	24.9	40.5	40.6	42.0
Netherlands	5713	6234	11479	11474	21.6	22.4	23.0	43.3	41.9	42.3
Poland	2232	2657	3438	3568	23.2	25.4	26.0	35.8	41.8	34.9
Portugal	4398	4307	4599	4450	26.4	26.6	27.2	27.6	25.3	28.1
Slovakia	1808	2305	4669	3992	18.1	18.5	20.6	46.7	37.8	35.7
Slovenia	**4689**	**4968**	**7451**	**5743**	**30.4**	**30.3**	**30.1**	**48.4**	**38.3**	**34.8**
Spain	4537	5117	6593	7632	23.4	23.6	24.2	34	33.8	36.1
Sweden	6200	6916	13440	13717	25.8	27.8	27.5	56	55.5	54.5
U K	5266	6281	9300	10123	22.6	24.2	24.6	40	41.4	39.6
Norway	8338	8207	11928	11754	25.8	27.3	25.8	36.9	37.6	37.0
USA	9359	10005	19444	20649	30	30.0	31.2	62.4	56.7	64.4

Source: *Population and social condition - Eurostat Queen Tree,* 2007; calculations by IMAD.
Notes: [1]GDP per capita in PPS; [2]Tertiary education: ISCED 5-6 also includes expenditure on R&D in tertiary education institutions.

Figure: **Expenditure on educational institutions per student compared to GDP per capita* in 2003**



Source: *Population and social conditions – Eurostat Queen Tree*, 2007.
Notes: *GDP per capita in EUR PPS, **Tertiary education: ISCED 5-6 also includes expenditure on R&D in tertiary education institutions.

Gross domestic expenditure on research & development

Gross domestic expenditure on R&D activities in GDP in Slovenia points to a downward trend in the period 2001-2005. According to the SORS' first estimates for 2005[1], gross domestic expenditure on R&D as a share of GDP amounted to 1.49%, which was 0.04 p.p. higher than the previous year but less than in 2001 and 2002 (see the table). The SORS' final data on R&D for 2003 and 2004, if compared with the first estimates[2], indicate a lower share of gross domestic expenditure on R&D activities expressed in GDP, amounting to 1.32% and 1.45%, respectively. In 2003, such trends considerably increased the lag behind the share that the EU-25 earmarked for R&D activities. In 2005, this gap narrowed slightly, amounting to 0.36 p.p. Gross domestic expenditure on R&D activities as a share of GDP ranks Slovenia first among the new member states and it also exceeds five old member states (see the table); however, after 2001 some of these countries sharply increased their expenditure on R&D (e.g. the Czech Republic, Estonia, Latvia, Spain). The pace of the rise in expenditure on R&D activities from 2001 to 2005 was too slow to allow Slovenia to reach the Barcelona target aiming at 3% of GDP for R&D expenditure by 2010. The EU-25 underwent similar changes in expenditure on R&D as in Slovenia; the biggest share in GDP was reached in the 2001-2002 period; ever since then expenditure has been declining. This indicates that the adoption of various political documents and commitments to increase investment in R&D in both Slovenia and the EU has so far proved to be insufficient for their actual implementation and that the pursuit of such goals is a long-term process which requires the co-ordination of activities related to different policies and the co-operation of various players.

In real terms, expenditure on R&D was 6.0% higher in 2005 compared to 2004. The biggest rises in expenditure on R&D were seen in the higher education sector (by 135%) and in the government sector (29%), while foreign funds for R&D declined (by 32%). In 2005, the business sector increased its expenditure on R&D only by 0.7% in real terms; however, in the period from 2001 to 2005 the expenditure on R&D grew the fastest in business sector (at the annual average of 2.8%), even they declined in real terms after 2002[3]. Higher education expenditure on R&D in 2002-2005 rose by an average annual rate of 2.6% in real terms, which is mainly due to a significant increase in expenditure in 2005, while in 2003 and 2004 this expenditure halved compared with 2002.[4]

Although the business sector remains the most important segment of domestic investment within the financing sources for R&D, itsr share also fluctuates considerably because

[1] SORS, First Release, 19 January 2007.

[2] The Development Report 2006 data indicated considerably higher gross domestic expenditure on R&D as a share of GDP in 2003 and 2004 (1.53% and 1.61%); these figures were based on the first estimates of the Statistical Office of the RS, obtained by the trend extrapolation method. The final data on gross domestic expenditure on R&D activities are lower than the first estimates. A significant divergence from the final data on the gross domestic expenditure on R&D activities as a share of GDP for 2003 and 2004 occurred due to the revision of the GDP data. Given that in 2003 and 2004 some reporting units failed to send in their reports on R&D activities, it is likely that the final data for 2003 and 2004 are underestimated.

[3] The expenditure on R&D by the business sector increased mainly in 2002, while in 2003 the expenditure declined substantially (by 22.6% in real terms). The data available for the last two years (2004 and 2005) show that the real value of funds earmarked for R&D by the business sector has not yet reached the level of 2002.

[4] Such a fluctuation in higher education sector expenditure is probably due to the failure of reporting units in the higher education sector in 2003 and 2004.

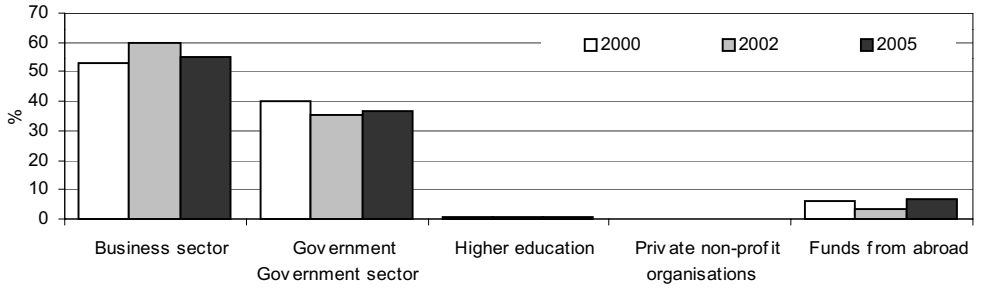
of the slowdown in investment growth after 2000. As a consequence of the different growth rates of R&D expenditure between sources of finance, their structure has been changing considerably (see the figure). In 2000-2005, the share of the government sector shrank most significantly, even though it increased again in 2005. The share of foreign funds[5] for R&D has been rising, with the share of the business sector being the most significant in the mentioned period and reaching the highest value of 60% of total sources of finance for R&D already in 2002; the corresponding share dropped to 55.3% in 2005. This equalled 0.83% of GDP, while the financing of R&D by the business sector in the EU-25 accounted for 1% of GDP on average. Such a level of investment in R&D activities means that the business sector in both Slovenia and the EU is far behind the 2% share of GDP for R&D expenditure as envisaged by the Barcelona targets.

Table: **Gross domestic expenditure on R&D in Slovenia and other EU-25[1] member states, in % of GDP**

	1996	2000	2001	2002	2003	2004	2005[2]
EU-25	**1.77**	**1.87**	**1.88**	**1.89**	**1.88**	**1.85**	**1.85**
Austria	1.59	1.91	2.04	2.12	2.21	2.23	2.36
Belgium	1.77	1.97	2.08	1.94	1.89	1.89	1.82
Czech Republic	0.97	1.21	1.20	1.20	1.25	1.26	1.42
Denmark	1.84	2.24	2.39	2.51	2.56	2.48	2.44
Finland	2.52	3.34	3.3	3.36	3.43	3.46	3.48
France	2.27	2.15	2.20	2.23	2.17	2.14	2.13
Ireland	1.30	1.23	1.10	1.10	1.16	1.21	1.25
Italy	0.99	1.05	1.09	1.13	1.11	1.10	N/A
Latvia	0.42	0.44	0.41	0.42	0.38	0.42	0.57
Lithuania	0.5	0.59	0.67	0.66	0.67	0.76	0.76
Hungary	0.65	0.78	0.92	1.00	0.93	0.88	0.94
Germany	2.19	2.45	2.46	2.49	2.52	2.50	2.51
Poland	0.65	0.64	0.62	0.56	0.54	0.56	0.57
Portugal	0.57	0.76	0.8	0.76	0.74	0.77	0.81
Slovakia	0.90	0.65	0.63	0.57	0.58	0.51	0.51
Slovenia	**1.33**	**1.43**	**1.55**	**1.52**	**1.32**	**1.45**	**1.493**
Spain	0.81	0.91	0.91	0.99	1.05	1.06	1.12

Sources: *Science and technology: Research and development* - Eurostat. January 2007; *Rapid Reports No. 206* (SORS). December 2006.
Notes: [1]The table only includes those countries with data available for all the years. [2]For the majority of countries the data are provisional or estimated. SORS - first release. 19 January 2007.

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



Source: *Rapid Reports No. 206 (SORS), December 2006;* SORS – first release, 19 January 2007.

[5] Funds from abroad are of particular importance for R&D activities in the business sector and it is surprising that they mainly involve sources of foreign enterprises which do not belong to the same group of enterprises (in 2004 the business sector obtained as much as 80% of all funds from abroad and in 2005 this share accounted for 57% of all foreign R&D funds). In 2005, foreign sources of finance for R&D increased mainly in the government sector and higher education organisations.

Science and technology graduates

The number of science and technology graduates[1] in Slovenia increased in 2005. One of the key factors for the development of the business sector and knowledge-based society[2] is a sufficient supply of experts in the science and technology field. In 2005, Slovenia had 2,900 science and technology graduates (2,800 in 2004). An increase in the number of science and technology graduates in Slovenia was characteristic of the 2003-2005 period but not of the 2000-2003 period; in 2000, the number of science and technology graduates was the same as in 2003. The increase in the number of science and technology graduates in Slovenia also reflects the rising number of graduates in this field over the last few years. In 2005, there were 23,800 graduates (22,900 in 2004), although their number increased by 20.8% in the 2000-2005 period. Even so, we still have a wide gender gap among science and technology graduates with a significant predominance of men. The share of female graduates[3] stood at 27.6% in 2005 (25.0% in 2004) and is below the EU-25 average (30.8% in 2004).

In 2004, the increase in the number of science and technology graduates was greater than in the EU; consequently, the significant gap between Slovenia and the EU average in the number of graduates per 1,000 inhabitants aged 20-29 narrowed slightly. In 2005, Slovenia had 9.9 science and technology graduates[4] per 1,000 inhabitants aged 20-29 (9.3 in 2004); despite recording a positive trend, the lag behind the EU-average (12.7 in 2004 and 12.3 in 2003) remains significant. The situation is more favourable compared to the average of the new EU member states (8.8 in 2004) and less favourable compared to the EU-15 (see the table). Ireland is ranked at the top of the EU-25 with 23.1 science and technology graduates per 1,000 inhabitants aged 20-29. In 2000-2004, Slovenia increased the number of science and technology graduates per 1,000 inhabitants aged 20-29, however, the increase was considerably smaller than the corresponding increase in some other EU-25 countries (Sweden, Denmark, Belgium and some other countries).

The share of science and technology graduates in the total number of graduates decreased slightly in 2005. In 2005, the share of science and technology graduates in the total number of graduates stood at 18.4% (18.7% in 2004), which is considerably less than the EU average (23.6% in 2004).

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[1] Science and technology indicators according to ISCED 97 comprise two broader fields, i.e. the fields 'science, mathematics, and computing' (ISC 42, 44, 46 and 48) and 'engineering, manufacturing, and construction' (ISC 52, 54, 56). Within this framework, the International Standard Classification of Education ISCED 97 and the Eurostat Fields of Education and Training Manual, 1999 were taken into consideration. The indicators cover the number of all tertiary education graduates in the field of science and technology who completed their graduate and postgraduate level studies at a public or private university in the calendar year under observation.

[2] Progress towards the Lisbon objectives in education and training. (2006). Brussels: European Commission.

[3] One of the goals set by the Education Council of the European Commission is to reduce the gender gap among science and technology graduates, in other words, to boost the number of women among all graduates.

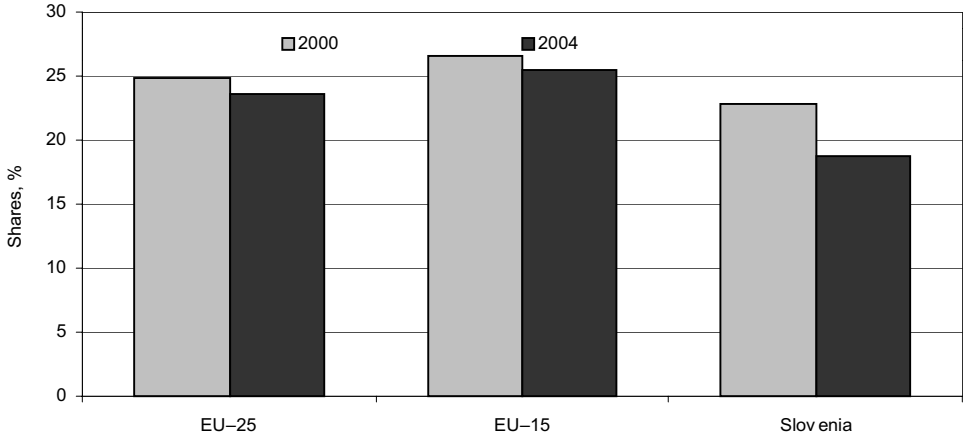
[4] Account has been taken of all tertiary education graduates (ISCED levels 5 and 6) who completed their studies at public or private higher educational institutions in the current calendar year. Tertiary education includes post-secondary vocational studies, higher undergraduate studies and postgraduate studies.

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

	1998	2000	2001	2002	2003	2004
EU-25	**N/A**	**10.2**	**11**	**11.5**	**12.3**	**12.7**
EU-15	**10.3**	**11**	**11.9**	**12.4**	**13.3**	**13.6**
EU-10	**N/A**	**6.4**	**7**	**7.6**	**8.2**	**8.8**
Austria	7.9	7.2	7.3	7.9	8.2	8.7
Belgium	N/A	9.7	10.1	10.5	11	11.2
Cyprus	N/A	3.4	3.7	3.8	3.6	4.2
Czech Republic	4.6	5.5	5.6	6	6.4	7.4
Denmark	8.1	11.7	12.2	11.7	12.5	13.8
Estonia	N/A	7	7.3	6.6	8.8	8.9
Finland	15.9	16	17.2	17.4	17.4	N/A
France	18.5	19.6	20.2	N/A	22	N/A
Greece	N/A	N/A	N/A	N/A	N/A	8
Ireland	22.9	24.2	22.9	20.5	24.2	23.1
Italy	5.1	5.7	6.1	7.4	9	10.1
Latvia	6.1	7.4	7.6	8.1	8.6	9.4
Lithuania	9.3	13.5	14.8	14.6	16.3	17.5
Luxembourg	1.4	1.8	N/A	N/A	N/A	N/A
Hungary	5	4.5	3.7	4.8	4.8	5.1
Malta	N/A	3.4	2.7	3.1	3.6	N/A
Germany	8.8	8.2	8	8.1	8.4	9
Netherlands	6	5.8	6.1	6.6	7.3	7.9
Poland	4.9	6.6	7.6	8.3	9	9.4
Portugal	5.2	6.3	6.6	7.4	8.2	11
Slovenia	**8**	**8.9**	**8.2**	**9.5**	**8.7**	**9.3**
Slovakia	4.3	5.3	7.5	7.8	8.3	9.2
Spain	8	9.9	11.2	11.9	12.6	12.5
Sweden	7.9	11.6	12.4	13.3	13.9	15.9
United Kingdom	15.5	16.6	20	20.3	21	18.1

Source: *Population and social conditions - Education and training* (Eurostat), 2006.

Figure: **Share of science and technology graduates in the total number of graduates**



Source: *Population and social conditions – Education and training* (Eurostat), 2006.

Internet use

The use of the Internet continued to grow in 2006, when the share of users exceeded half of the population aged 16-74. The share of the population using the Internet in Q1 of 2006 rose to 51% of the population aged 16-74, which is taken into account by the Eurostat methodology. Compared with the previous year, the share was 4 p.p. higher, a rise lower than that seen in 2005 when after several years of steady growth robust growth in the share of Internet users was recorded. The 2006 data also reveal that the use of the Internet is by far the most widespread and increasing among young people. Thus, 86% of the population aged 16-24 used the Internet in Q1 of 2006. However, the percentage was even higher in the population aged 10-15 (reaching as much as 92% compared to 85% in 2005), which is not included in the Eurostat definition of Internet users. If young people aged 10-15 are included, the use of the Internet in Slovenia totalled 54%.

In terms of Internet use, Slovenia has been gradually approaching the average level of the EU-25. In Q1 of 2006, 54% of the EU-25 population aged 16-74 used the Internet. Slovenia's lag of 10 p.p. behind the European average in 2004 decreased to 3 p.p. in 2006. Slightly larger (5 p.p.) is the lag behind the group of old EU member states (EU-15), which has also significantly decreased over the past two years. Compared with other countries joining the EU in 2004, only Estonia has a higher percentage of Internet users; Slovakia has the same figure (51%). While the spread of Internet use in Slovenia still lags slightly behind, the percentage of frequent Internet users (once per week) in 2006 already caught up with the European average (47%). International comparisons of the spread of Internet use broken down into different population groups indicate that, compared to the EU, in Slovenia the Internet is used considerably less by people who have completed lower or secondary education and those aged over 45 years, which is a challenge to the future creation of appropriate policies. Among the young and the population who have completed higher education, the share of Internet use is higher than in the EU.

The 2006 data point to a significant shift in household access to the Internet, whereby Slovenia exceeded the European average. In the first three months of 2006, 54% of Slovenian households had access to the Internet (48% in the previous year), which is three percentage points more than the EU-25 average and equal to the EU-15 average. The growth in the share of households having access to the Internet was the result of the penetration of broadband Internet access. The share of households with a broadband connection jumped from 19% in Q1 of 2005 to 34% in the same period of 2006. As regards broadband connections, Slovenia exceeded the EU-25 average for the first time (32%) and equalled the level of the EU-15 average. The robust growth in the share of households with broadband access is attributed to the strengthening of competition in the broadband access market[1], which is reflected in the growing number of providers and lower prices of services. In 2006, such a ratio of narrowband to broadband users changed for the first time in favour of broadband connections (Kačič, 2006). Insufficient skills and equipment and access costs have ceased to be among the major obstacles to Internet access listed by households without access. As a result, the share of households without the Internet has been increasing due to the absence of need or desire[2]. An increasingly important question which needs to be addressed in the future is how to bring the benefits of the information society closer to this group of people which (as established above), as a rule, includes older and less educated inhabitants.

[1] This is due to the unbundling of the ISDN-ADSL loop in September 2005.

[2] Among those households without Internet access, in 2005 as many as 59% refused to have access, while the corresponding percentage rose to 69% in 2006.

An important factor of developing the information society is the introduction of e-government services, where a major shift has been made as regards both the supply and use of these services. In 2005[3] all indicators of the e-government services used by the inhabitants revealed a lag behind the European average; however, Slovenia has recently recorded better results than the EU member states on average. The improvement may be attributed to progress in the introduction of e-government in Slovenia, which is supported by statistical data revealing that availability of e-government[4] services in the 2004-2006 period rose considerably (from 45% to 65%, in the EU-25 from 41% to 50%). In Q1 of 2006, 28% of the inhabitants obtained information (20.5% in the EU-25) and 17.3% of the population downloaded forms (13.0% in the EU-25) from government websites. Still, the share of persons dealing with the government only through electronic means was much lower than the average of the EU-25 (6.3% compared to 8.1% in the EU-25).

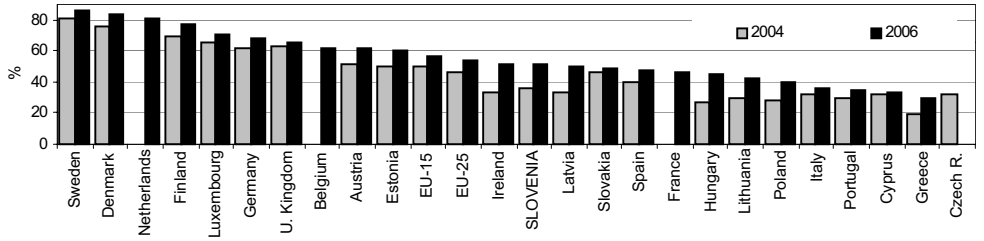
Compared with the EU the Internet is even more frequently used by enterprises than by households, however, Slovenian enterprises still lag behind the European average in online shopping/selling. In the first quarter of 2006, 96% of enterprises had access to the Internet (93% in the EU-25), and 75% had a broadband connection (the same as in the EU). Compared to the previous year, the share of enterprises with access to the Internet did not increase, which could be expected due to the high penetration rate. Enterprises use the Internet predominantly in the field of e-banking and e-government services, which puts them ahead of the EU average. The share of enterprises engaged in e-commerce in the field of online shopping, accepting orders, and selling is smaller than in the EU and has not changed significantly in the last few years, which points to the fact that the benefits of information and communication technologies (ICT) in doing business are not being fully taken advantage of. On one hand, this is due to the insufficient standardisation of such business operations and, on the other, due to the fact that the efficient use of ICT requires a series of organisational changes and better-qualified staff (Stare, Bučar, 2005).

Table: **Internet use in Slovenia in 2004-2006**

	2004[1]	2005[1]	2006[1]
Internet users[2] (aged 16-74)	37	47	51
Enterprises[3] with Internet access	93	96	96
Households with Internet access	47	48	54

Sources: *Household Internet use* - SORS (2005, 2006), *Enterprise Internet use* - SORS (2005, 2006).
Notes: [1]Data refer to the first quarter of the year. [2]The share of users who used the Internet in the past three months. [3]Enterprises with 10 or more employees.

Figure: **Internet users[1] in Slovenia and EU countries in 2004[2] in 2006[2]**



Sources: Industry, trade and services: Information society statistics - Eurostat (February 2006); Household Internet use – SORS (November 2006); calculations by IMAD.
Notes: [1] The share of users who used the Internet in the past three months; [2] Data refer to the first quarter of the year.

[3] Data refer to the first quarter of the year.

[4] Indicator of the accessibility of e-government measures the number of basic public services available in full by electronic means.

The third priority:

An efficient and more economical state

- Expenditure by institutional sector – general government
- Public expenditure according to the Classification of the Functions of Government (COFOG)
- Economic structure of taxes and contributions
- State aid
- Aggregate competitiveness indices
- Court backlogs

Expenditure by institutional sector – general government

In 2006, the amount of the general government sector's expenditure[1] in relation to GDP was 46.2%, having decreased by 0.8 p.p. compared with 2005; the largest drop was recorded in the compensation of employees and social benefits. The structural shares of intermediate consumption and subsidies remained unchanged. The share of other current transfers increased (0.1% of GDP) owing to the payment of contributions to the EU budget; a higher share was also recorded in gross capital formation (0.2% of GDP), while the shares of social benefits in cash and in kind (by 0.3% of GDP), the compensation of employees (by 0.3% of GDP), property income payable (by 0.1% of GDP), other taxes on production (by 0.1% of GDP), and capital transfers (by 0.2% of GDP) decreased.

Significant structural changes in the general government sector's expenditure have been present for a while. In 2000-2006, the most significant decrease was recorded in the share of expenditure in GDP on capital transfers (2000: 1.8% of GDP, 2006: 0.8% of GDP); the latter were particularly high at the beginning of the above period when, in addition to other investment grants, they included all war damage claims covered by the issue of bonds, as well as expenditure for the debts of the *Slovenske železnice d.d.* public company (Slovenian railways) and net payments for matured government guarantees ensuing from loans taken out by companies. After 2000, the share of expenditure for payable property income was decreasing gradually due to lower interest rates and lower inflation (2000: 2.5% of GDP; 2006: 1.6% of GDP). The share of expenditure for intermediate consumption decreased (2000: 6.8% of GDP; 2006: 6.3% of GDP) owing to savings and reduction of expenditure on goods and services in both government bodies and public agencies. Likewise, the share of expenditure for social benefits in cash and in kind dropped (2000: 19% of GDP; 2006: 18.1% of GDP). With the gradual implementation of the pension reform after 2000, the share of expenditure for pensions as a percentage of GDP was decreasing by 0.1 to 0.2 p.p. annually. On the other hand, the shares of certain expenditures of the general government sector increased. The most pronounced increase was seen in the expenditure on other current transfers (2000: 1.3% of GDP; 2006: 2.3% of GDP), mostly due to the mandatory contributions to the EU budget since Slovenia's accession in 2004. The share of the compensation of employees increased by only 0.1 p.p. (2000: 11.6% of GDP; 2006: 11.7% of GDP). The increase was more evident at the beginning of the six-year period but has remained stable at the same level since 2004 given the quick growth in the number of employees in the public sector (around 2% on average annually) and the restrictive wage growth policy. At the beginning of the period under consideration the share of expenditure on subsidies increased as well but went down towards the initial levels at the end of this period (2000: 1.5% of GDP; 2006: 1.6% of GDP). The share of expenditure for gross capital formations increased by 0.4 p.p. (2000: 3.1% of GDP; 2006: 3.5% of GDP) but, if the decrease in the share of capital transfers (1.0 p.p.) is taken into account, the share of public funds investments relative to GDP actually decreased.

Total general government sector expenditure in Slovenia in 2005[2] accounted for 47.0% of GDP, which was 0.2 p.p. below the average in the EU-25. In 2005, nine EU countries

[1] Along with the Report on Government Debt and Deficit which the member states must submit twice a year to Eurostat and the European Commission, the Statistical Office of the Republic of Slovenia also publishes data on the basic categories of general government sector expenditure in line with the ESA-95 methodology. The data are adjusted and revised on an annual basis and are methodologically aligned with the European System of Accounts, which allows for international comparability of general government sector expenditure among the EU member states. General government expenditure in conformity with the ESA-95 includes four public finance funds (the central government and municipal budgets, and the pension and health funds), State-run funds including the pension fund (KAD) and the restitution fund (SOD), public institutes and public agencies.

[2] For EU countries, the data for 2005 are the latest data available.

recorded higher shares of total expenditure in their GDP than Slovenia (the Scandinavian – Sweden, Denmark, Finland, the continental – Belgium, France, Austria, Hungary, and the Mediterranean – Italy, Portugal). Malta had a similar share, while the other 13 countries had lower shares. The differences among the member states as regards the extent of the general government sector are significant, with the span between the country with the largest (Sweden: 56.5% of GDP) and smallest sector (Estonia: 33.2% of GDP) being 23.3 p.p.

In 2005, the share of total expenditure of the Slovenian general government sector decreased compared with the previous year by 0.4 p.p. While remaining unchanged at the EU average, the trends in individual member states differed considerably. Twelve countries increased their share of total expenditure in 2005, most significantly Hungary and Portugal (by 1.1 p.p. of GDP), the United Kingdom (by 0.9 p.p.), Poland and Cyprus (by 0.7 p.p.), France and Belgium (by 0.6 p.p.). In 13 member states including Slovenia, the share of total expenditure was relatively lower, mostly in Greece (by 3.1 p.p. of GDP), Denmark (by 2 p.p.), Slovakia (by 1.8 p.p.), and Estonia (by 1 p.p.).

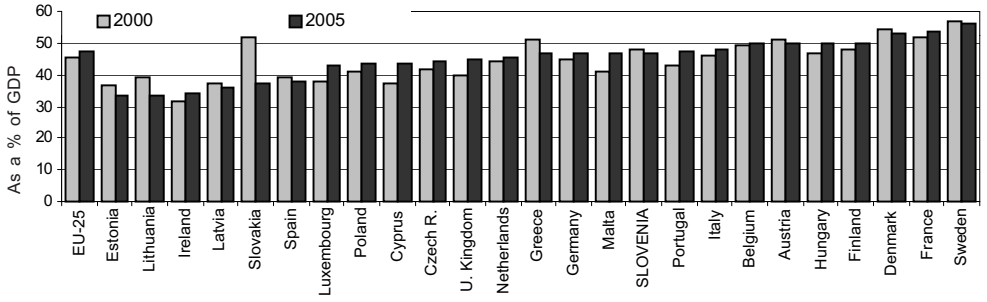
In Slovenia, the structure of the total general government sector's expenditure broken down by economic purposes differs slightly from the structure of the EU member states' average. In 2005, Slovenia allocated more than EU member states' average for the compensation of employees (SLO: 25.4%, EU-25: 22.9%), subsidies (SLO: 3.5% , EU-25: 2.4%), capital transfers and gross capital formation (SLO: 9.1%, EU-25: 7.6%), whereas it allocated less than the EU member states' average to property expenditure – interests (SLO: 3.5 %, EU-25: 5.9 %), social benefits in cash and in kind (SLO: 39.2%, EU-25: 42.4%), and slightly less to intermediate consumption (SLO: 13.3% of GDP, EU-25: 13.5% of GDP).

Table: **Breakdown of general government expenditure as a % of GDP in 2000-2006**

	2000	2001	2002	2003	2004	2005	2006
Total general government sector expenditure	48.1	48.9	48.0	48.0	47.4	47.0	46.3
Intermediate consumption	6.8	6.8	7.0	6.6	6.3	6.3	6.3
Compensation of employees	11.6	12.2	12.0	12.1	12.0	12.0	11.7
Other taxes on production	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Subsidies	1.5	1.5	1.3	1.7	1.8	1.6	1.6
Property income, payable	2.5	2.4	2.3	2.1	1.8	1.7	1.6
Social benefits in cash and in kind	19.0	19.1	19.1	19.1	18.6	18.5	18.1
Other current transfers	1.3	1.7	1.5	1.2	1.8	2.2	2.3
Capital transfers	1.8	2.1	1.2	1.5	1.2	1.0	0.8
Gross capital formation and acquisitions less disposals of non-produced, non-financial assets	3.1	2.6	3.0	3.3	3.4	3.3	3.5
Total general government sector revenues	44.3	44.8	45.5	45.3	45.1	45.6	44.8

Source: *National Accounts, Main Aggregates of the General Government Sector, 2000-2006* (SORS), March 2007.

Figure: **General government sector's expenditure by EU member states, as a % of GDP**



Source: *Government Statistics* (Eurostat), January 2007.

Public expenditure according to COFOG

The structure of public expenditure has an impact on economic growth. Economic policymakers can employ it to importantly influence the economic performance of a country, especially by allocating public spending towards expenditure that raises the potential of long-term growth and has a positive impact on the marginal productivity of labour and capital[1]. The structure of public expenditure and its share in GDP differ across the EU member states; on average, most funds are allocated for social protection, basic functions of the state, health, and education.

Slovenia allocated relatively more funds than the EU-15 for 'productive purposes' in 2000-2003 (the latest comparable data), however their level decreased during this period. According to revised data, compared with the EU-15[2] the percentage of so-called productive expenditure in GDP was higher in Slovenia[3] in the 2000-2003 period, but contrary to the EU-15 (2000: 15.7%, 2003: 16.7% of GDP) the percentage fell in our country (2000: 18.4%, 2004: 18.1% of GDP). In terms of the percentage of GDP, Slovenia allocated more public expenditure than the EU-15 for economic affairs, education and health. The EU-15 average expenditure for economic affairs was 3.9% of GDP, while in Slovenia it was much higher; however, in the observed period it decreased (see the table). Expenditure on education has increased both in Slovenia and in the EU-15 (2000: 5.1%; 2003: 5.3% of GDP)[4]. Health expenditure has increased in the EU-15 (2000: 6.0%; 2003: 6.4% of GDP), while in Slovenia it has been gradually falling since 2001[5]. Expenditure on housing and community amenities, for which the EU-15 allocated about 1.0% of GDP in 2000-2003, was 0.6 p.p. lower in Slovenia.

As regards other expenditure, a lower percentage of GDP is allocated for social protection in Slovenia. Expenditure on social protection in the EU-15 is on the rise (2000: 18.4%, 2003: 19.1% of GDP), while in Slovenia it is falling and has been, except in 2001, lower than in the EU-15[6]. For the basic functions of the state[7], Slovenia allocated a similar percentage as EU-15 countries, but the data fluctuate between the years.

The revision did not change the unfavourable comparison of the structure of expenditure with those countries that achieve the highest economic growth rates. Compared to countries that achieved above-average GDP growth rates in the past five years, Slovenia had a 10.2 p.p.

[1] Economic growth is mainly encouraged by so-called 'productive expenditure', i.e. expenditure on economic affairs, research and development, investment, education, housing development, transport and communication, and health (European Commission, 2002, p. 98; OECD 2003, pp. 67 and 83; Afonso et al., 2005, pp. 24-27). Naturally, the actual impact that expenditure for an individual division according to the COFOG has on the economic performance of a country also depends on the internal structure of expenditure allocated for individual divisions for which data are currently not yet available. In addition, the impact also depends on the specific institutional and other characteristics of an individual country and on the efficiency of public spending.

[2] Data for the EU-25 are available only for 2003; differences between the EU-15 and EU-25 averages are minimal.

[3] On 28 December 2006 the SORS first published data according to the functional structure of general government expenditure for 2005 and, due to a further methodological alignment, revised the data for 2000-2004. The greatest changes relate to lower expenditure on general public services as a share of GDP (from 7.9% of GDP to 6.7% of GDP in 2004) and social protection (from 18.7% of GDP to 17.9% of GDP in 2004) and higher expenditure on economic affairs (from 3.5% of GDP to 4.6% of GDP in 2004) and education (from 5.8% of GDP to 6.5% of GDP in 2004).

[4] The public expenditure data for education according to the COFOG are higher than the data on public expenditure on education according to the UOE (see the indicator *Expenditure on education*) by 0.5% of GDP. The main reasons are: first, according to the UOE methodology, data are shown on a cash basis and in the COFOG on an accrual basis; second, there are differences in the coverage of some supplementary services in education and some other education activities; and third, the COFOG public expenditure on education covers public expenditure on informal education (especially supporting services).

[5] The public expenditure data for health according to the COFOG are 0.2% of GDP higher than the data on public expenditure on health according to the SHA methodology (see the indicator *Expenditure on health*) because in the COFOG, public expenditure on health includes public expenditure on applied research and development in health, and expenditure allocated for some other health-related activities (food and drinking water control, etc.).

[6] The public expenditure data for social protection according to the COFOG are lower than the data according to the ESPROSS methodology (see the indicator *Expenditure on social protection*). In the ESPROSS public expenditure on social protection namely also covers public expenditure on health, while in the COFOG all public expenditure on health is shown separately (except for sickness benefits, which in the COFOG are also covered under public expenditure on social protection).

[7] Basic functions of the state include general public services, defence, and public order and safety.

greater share of public expenditure in GDP in 2004; Slovenia allocated more for social protection (by 6.6 p.p.), for basic functions of the state (by 1.8 p.p.), for health (by 1.6 p.p.), and for education (by 0.8 p.p.), the same for economic affairs, and less for housing and community amenities and for environmental protection (see the figure below and the Development Report, 2006, pp. 42-44 and 150)[8].

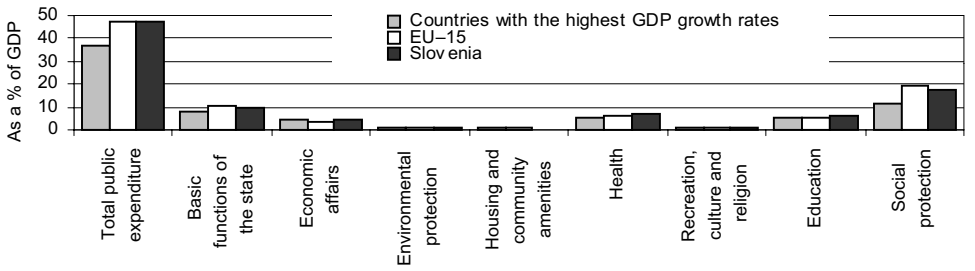
In 2005 public expenditure on economic affairs, social protection, and health decreased further, while public expenditure on education and for basic functions of the state increased. The country's structure of general government expenditure by function is relatively stable. Therefore, in 2005 Slovenia again allocated the greatest share of its expenditure on social protection (17.7% of GDP)[9], which was by 0.6 p.p. lower than in 2000. The greatest share of social protection expenditure was allocated for pensions and other social benefits. In 2005, expenditure on basic functions of the state represented 10.1% of GDP, of which the greatest share was allocated for public administration (6.9% of GDP) and a smaller share for public order and safety, and for defence. The share of expenditure on general public services was the highest in 2001 (7.8% of GDP) and it fell by 0.9 p.p. by 2005. The share of defence expenditure was rising between 2000 and 2005 (2000: 1.1%; 2005: 1.4% of GDP), while the share of expenditure on public order and safety was stable between 1.7% and 1.8% of GDP. Expenditure on education represented 6.6% of GDP in 2005 and was 0.3 p.p. higher than in 2000. The share of health expenditure was the greatest in 2001 (6.9% of GDP), but it later fell evenly to 6.5% of GDP in 2005. In 2005, Slovenia allocated 4.4% of its GDP for economic affairs, and of all divisions in the observed period this share dropped the most (by 0.7 p.p.). In 2005, Slovenia again allocated the lowest share of its GDP for housing and community amenities (0.3% of GDP), for environmental protection (0.5% of GDP), and for recreation, culture, and religion (1.1% of GDP).

Table: **General government expenditure by function, Slovenia, % GDP**

	2000	2001	2002	2003	2004	2005
Total public expenditure	**48.1**	**48.9**	**48.0**	**48.0**	**47.4**	**47.2**
Basic functions of the state	10.0	10.9	10.4	9.9	9.9	10.1
Economic affairs	5.1	4.4	4.3	4.7	4.6	4.4
Environmental protection	0.4	0.4	0.5	0.5	0.5	0.5
Housing and community amenities	0.4	0.4	0.4	0.4	0.4	0.3
Health	6.6	6.9	6.8	6.7	6.6	6.5
Recreation, culture and religion	1.0	1.1	1.1	1.1	1.1	1.1
Education	6.3	6.4	6.3	6.5	6.5	6.6
Social protection	18.3	18.4	18.3	18.2	17.9	17.7

Source: *General government expenditure by function, 2000-2005* (SORS), First Release, 28 December 2006), 2006.

Figure: **2004 public expenditure according to the COFOG as a % of GDP**



Sources: *Public expenditure according to the Classification of the Functions of Government* (Eurostat), 2006; *Public expenditure according to the Classification of the Functions of Government for Slovenia* (SORS), 2006
Note: Countries with the highest economic growth rates in the past five years are Estonia (8.3%), Latvia (7.4%), Lithuania (7.0%), Ireland (5.9%) and Hungary (5.1%).

[8] As regards the comparison with rapidly growing countries, the 2000-2004 data revision did not change the conclusions of the Development Report 2006 significantly (countries that had lower expenditure as a share of GDP and that earmarked more expenditure for so-called 'productive purposes' achieved greater economic growth).

[9] The data on social protection before 2004 have not yet been completely revised; therefore, they could be slightly overestimated.

Economic structure of taxes and contributions

In Slovenia, the total burden of taxes and contributions, expressed as a percentage of the gross domestic product, is slightly above the EU average. In 2004[1], the total tax burden[2] in Slovenia amounted for 39.7% of GDP, while the average in the EU-25 was 39.3% of GDP. Eight EU member states (the Scandinavian – Sweden, Denmark, Finland, the continental – Belgium, France, Austria, Luxembourg, and the Mediterranean Italy) recorded a higher burden of taxes and contributions than Slovenia, while in the other 16 members the total tax burden was lower than in Slovenia.

In 2000-2004, the burden of taxes and contributions in Slovenia increased while it decreased in the EU. In 2004, the total burden of taxes and contributions in Slovenia was 1.2 p.p. of GDP higher than in 2000, while the burden in the EU member states was 1.7 p.p. lower on average. In 2004 over 2003, the tax burden in Slovenia rose by 0.3 p.p. of GDP while it decreased by 0.2 p.p. of GDP on average in the EU.

In addition to the global analysis, a structural analysis of the tax systems is needed. For this purpose, different tax systems in individual countries are translated to a common denominator in the framework of national accounts[3]. Taxes and contributions are classified by economic activity as taxes on consumption, taxes on labour, and taxes on capital[4]. In Slovenia, the share of taxes on consumption in total taxes and contributions is above-average, amounting to 35.2% in 2004, which was 2.7 p.p. higher than the EU average (EU-25: 32.5%); higher shares were only recorded in Ireland (37.4%) and in all the new member states except the Czech Republic. The difference in the share of taxes on labour was even more significant. In 2004 it amounted to 54.4%, which was 3.8 p.p. higher than the EU average (EU-25: 47.9%); only Sweden (62.4%), Germany (58.7%), and Austria (55.2%) recorded a higher share. The share of taxes on capital in Slovenia is low. In 2004 it amounted to 10.6%, which was only a good half of the share reached on average in the EU-25 (19.8%). A lower share was only achieved in Estonia; Latvia and Lithuania had similar shares, while the share of Sweden, Germany, Finland, and Austria was only slightly above the Slovenian figure.

Calculations and comparisons of implicit tax rates[5] confirm that in Slovenia the tax burden on consumption as well as labour was above-average in the analysed period. In 2004, the calculated implicit tax rate on consumption in Slovenia amounted to 24.4%,

[1] Data for 2004 are the latest available data.

[2] In addition to taxes and contributions, total government sector revenue (45.1% of GDP in 2004) includes revenue from the sale of goods and services in the market, revenue from property and capital transfers.

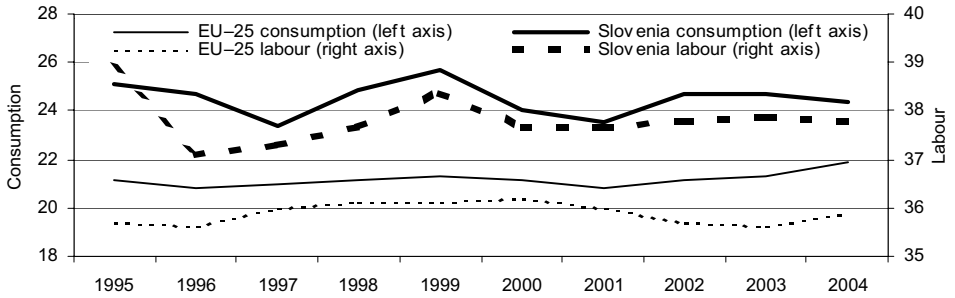
[3] Being an internationally comparable accounting framework for systematic and detailed description of the entire economy, its components and relations with other economies, the European system of national accounts (ESA-95) also enables an international comparison of tax systems. EU member states are obliged to notify the European Commission of the burden of taxes and social security contributions in compliance with a strictly defined methodology. The data were used by the European Commission as a basis for an overview of the tax systems of all member states.

[4] The tax classification is based on the classification of taxes according to ESA-95 and the common rules for their classification. Taxes on consumption are defined as taxes on transactions between consumers and producers and as taxes on final consumption. Taxes on labour are directly tied to salaries and paid by employees or employers. Taxes on capital relate to taxes on capital, corporate income, income from household capital (annuities, dividends, interests, other income from property), capital gains, on property, etc.

[5] Implicit tax rates compare taxes by economic activities based on national accounts. The implicit tax rate on consumption is defined as the ratio between taxes on consumption and the final household consumption in a country's territory in compliance with the national accounts methodology, while the implicit tax rate on labour is defined as the ratio between taxes on labour and the compensation of employees increased by payroll tax, in compliance with the national accounts methodology.

which is 2.5 p.p. above the EU-25 average (21.9%). Only Denmark (33.3%), Hungary (28.6%), Finland (27.9%), Sweden (27.6%), Ireland (26.5%), and Luxembourg (25.7%) had a higher implicit tax rate. In the same year, the calculated implicit tax rate on labour in Slovenia was 37.8%, which was 1.9 p.p. higher than the EU-25 average (35.9%). A higher implicit tax rate was recorded by Sweden (45.9%), Belgium (43.0%), France (42.4%), Italy (42%), Finland (41.9%), the Czech Republic (41.5%), Hungary (40.8%), Austria (40.7%), Germany (39.2%), and Greece (37.9%). Extremely low were the implicit tax rates on labour in the United Kingdom (24.8%), Ireland (25.2%), Luxembourg (29%), and Spain (29.4%).

Figure: **Implicit tax rate on consumption and on labour as a % of the tax base, 1995–2004**



Source: *Structures of taxation in the European Union* (European Commission), 2006.

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

	Total		Taxes on consumption		Taxes on labour		Taxes on capital	
	2000	2004	2000	2004	2000	2004	2000	2004
EU-25	**41.0**	**39.3**	**11.4**	**11.0**	**20.5**	**19.9**	**9.0**	**8.6**
Austria	42.8	42.6	12.1	12.2	23.7	23.5	6.9	7.0
Belgium	45.2	45.2	11.3	11.1	24.3	24.0	9.6	10.2
Cyprus	30.5	34.1	10.4	14.9	9.5	10.7	10.5	8.4
Czech Republic	34.4	36.6	10.8	11.4	17.4	18.0	6.3	7.1
Denmark	49.4	48.8	15.7	15.8	26.6	25.1	7.2	8.1
Estonia	33.9	34.6	12.1	12.3	18.3	17.6	2.3	2.9
Finland	47.7	44.3	13.7	13.9	23.9	23.3	10.0	7.1
France	44.1	43.4	11.6	11.3	23.0	23.1	9.9	9.1
Greece	37.9	35.1	12.9	12.3	13.6	13.9	11.5	8.9
Ireland	31.6	30.2	12.1	11.2	11.4	10.5	8.0	8.6
Italy	41.8	40.6	10.9	10.0	19.6	19.8	11.3	10.9
Latvia	29.5	28.6	11.0	10.9	15.3	14.6	3.3	3.1
Lithuania	30.0	28.4	11.8	10.6	16.3	14.7	2.3	3.1
Luxembourg	40.4	40.1	11.1	12.4	15.8	16.2	13.5	11.5
Hungary	39.2	39.1	15.8	15.4	19.5	19.4	4.6	5.0
Malta	28.3	35.1	10.7	13.0	10.4	12.2	7.3	9.9
Germany	41.9	38.7	10.5	10.1	24.3	22.7	7.0	5.8
Netherlands	41.5	37.8	11.4	11.4	21.2	18.4	8.9	8.2
Poland	34.2	32.9	11.5	11.8	15.0	13.8	7.6	7.6
Portugal	34.3	34.5	11.4	12.0	14.1	15.0	8.7	8.0
Slovakia	33.2	30.3	12.5	10.8	16.1	14.7	6.1	6.1
Slovenia	**38.5**	**39.7**	**14.2**	**14.0**	**21.3**	**21.6**	**3.1**	**4.2**
Spain	33.9	34.6	9.9	9.6	15.7	15.9	9.0	9.5
Sweden	53.4	50.5	12.5	12.8	32.3	31.5	8.5	6.1
United Kingdom	37.4	36.0	11.9	11.6	14.3	14.0	11.2	10.5

Source: *Structures of taxation in the European Union* (European Commission), 2006.

State aid

In 2005 the share of state aid in GDP dropped considerably. After the rapid drop seen between 1998 and 2002, the share of state aid in GDP was on the rise again until 2004; however, in 2005 it fell by 0.66 p.p. (2004: 1.64%; 2005: 0.98% of GDP; see Table 1) (Eighth Survey, 2006). There are two main reasons for this drop. The first one is administrative in nature. In 2005 state aid did not include almost half of the aid granted to agriculture (2004: 47.4% of aid granted to agriculture), i.e. measures based on the Common Agricultural Policy (CAP), which were no longer treated as state aid in 2005. The second reason is the actual decrease in state aid. State aid to transport, which was very high in 2003 and 2004, dropped the most as a result of the end of the restructuring of the Slovenian railway company Slovenske železnice, since only the human resource part of the reform was still implemented in 2005. Aid for rescue and restructuring almost completely dried out. On the other hand, aid for small and medium-sized enterprises and for regional objectives grew substantially.

The relatively high amount of aid for specific sectoral objectives in 2004 dropped in 2005. In 2004 aid to agriculture, fishing and other specific sectors represented 71.7% of total aid, while in 2005, when the total aid granted was much lower, it represented only 58.1%. Agriculture and fishing lost 6.9 points in the structure of state aid; transport lost 7.7 points and other specific sectors gained one point.

Aid for small and medium-sized enterprises and for regional development increased in 2005. With the drastic structural changes in 2005, Slovenia lowered its state aid and targeted it towards horizontal and regional objectives, which is in line with Slovenia's Development Strategy and the EU Lisbon Strategy. The reduced aid to specific sectors was reflected in higher aid for horizontal (2004: 25.6%; 2005: 26.5%) and regional objectives (2004: 2.7%; 2005: 15.3%). Even though compared to the year before the relative share of horizontal aid in total state aid increased in 2005, the absolute share dropped by as much as 35%. The largest drop was recorded in aid for rescue and restructuring, environmental protection, employment, and training. Aid for research and development was also slightly lower (by 2.8%); however, due to the lower share in the structure of total aid it gained 3.1 points. Aid for small and medium-sized enterprises increased strongly while aid for culture rose marginally. The large absolute and relative rise in regional aid is the result of much more aid being allocated according to the programme of measures to promote entrepreneurship and competitiveness, while part of the rise reflects the contribution of European structural funds and the implementation of an investment programme for the motor vehicles industry.

The horizontal focus of state aid differs across the EU member states. Because there are no international comparisons of the amount of state aid granted by EU member states for 2005, while comparisons for 2004 have already been presented (Development Report 2006), we will analyse the horizontal and regional focus of state aid (see Table 2). The decision to increase horizontal and regional aid and to decrease sectoral aid is not based so much on the greater efficiency of the former as on the established minor distortions in the competition in the single European market. This decision is slowly coming to life but, as a rule, in the old EU member states horizontal aid comprises greater shares in total state aid than in the new member states. Portugal, France, Ireland, and Spain deviate from this general rule as they use state aid to a larger extent to support individual sectors (excluding agriculture, fishing and transport). In Slovenia the horizontal focus of state aid in 2002 and 2003 was higher than the European average, while in 2004 it was slightly below the average, but higher than in other new member states and the mentioned old ones.

Table: **Indicators of state aid in Slovenia, 1998-2005**

Indicators of state aid / Years	1998	1999	2000	2001	2002	2003	2004	2005
State aid in SIT m, current prices	82,364	88,923	83,494	92,898	75,288	91,854	102,439	64,285
Share of state aid in GDP (%)	2.53	2.44	2.07	1.96	1.42	1.58	1.64	0.98
Share of state aid in government expenditure (as a % of general government expenditure)	5.79	5.52	4.68	4.57	3.23	3.59	3.70	2.19
State aid per employee (in 000 SIT)	110.53	117.24	108.69	119.21	96.09	100.9	112.0	69.8
State aid per resident (in 000 SIT)	N/A	N/A	N/A	46.57	37.74	46.0	51.3	32.1

Sources: for 1998-2000: Third Survey of State Aid in Slovenia, 2001; for 2001: Sixth Survey of State Aid in Slovenia, 2004; for 2002: Seventh Survey of State Aid in Slovenia, 2005; for 2003-2005: Eighth Survey of State Aid in Slovenia, 2006.

Table: **State aid for horizontal and regional objectives as a share of total aid (excluding agriculture, fishing and transport), %**

Country	1995	2000	2001	2002	2003	2004
EU-25	**54.1**	**65.8**	**64.8**	**60.7**	**67.6**	**76.4**
Austria	69.0	96.2	98.0	96.7	98.5	96.4
Belgium	69.5	100.0	99.7	100.0	100.0	100.0
Cyprus	N/A	27.7	26.0	32.0	22.4	46.3
Czech Republic	N/A	13.7	17.9	9.6	9.0	81.8
Denmark	98.2	97.7	98.0	94.5	93.0	97.1
Estonia	N/A	100.0	100.0	100.0	100.0	100.0
Finland	100.0	84.5	96.6	96.8	97.2	97.6
France	50.2	74.8	68.2	70.3	72.1	58.6
Greece	100.0	97.5	91.3	92.6	94.5	97.3
Ireland	63.1	34.4	41.7	48.1	63.7	62.0
Italy	85.5	89.2	96.2	93.8	96.4	94.8
Latvia	N/A	5.9	33.5	72.2	63.3	100.0
Lithuania	N/A	2.9	6.8	2.2	10.5	49.4
Luxembourg	99.8	99.9	100.0	100.0	100.0	100.0
Hungary	N/A	31.2	47.1	60.0	44.4	54.5
Malta	N/A	6.9	4.6	4.2	8.6	8.0
Germany	38.3	63.2	60.6	51.5	73.7	77.9
Netherlands	87.9	94.6	92.6	96.1	93.9	96.1
Poland	N/A	66.0	30.6	39.0	15.0	25.8
Portugal	38.3	35.3	23.2	17.5	22.2	21.6
Slovakia	N/A	53.9	10.4	17.9	42.4	34.6
Slovenia	**N/A**	**75.2**	**57.7**	**84.0**	**80.1**	**70.1**
Spain	26.6	41.4	45.6	64.7	61.0	62.3
Sweden	100.0	100.0	100.0	100.0	100.0	100.0
United Kingdom	39.1	83.6	88.0	71.8	99.2	99.1

Source: *State Aid Scoreboard*, spring 2006 update.

Aggregate competitiveness indices

Both recent reports about the competitiveness of countries show that Slovenia's ranking in the group of EU-25 member states remains unchanged. The values[1] of aggregate competitiveness indices increased in both reports. According to the WEF 2006-2007 report, Slovenia's ranking dropped markedly[2] while, according to the IMD 2006 report it improved (see the figure). However, compared to the EU-25 countries Slovenia remains at the same level according to both systems (see the table). According to the WEF report, Slovenia worsened its ranking both as regards the *global competitiveness index (GCI)* (by three places to 33rd) and the *business competitiveness index (BCI)* (by three places to 36th), while within the EU-25 it remained in the same place (15th). According to the IMD report, Slovenia improved its *world competitiveness (WCI)* (by seven places to 45th), but still remained in the same place (19th) among the 25 EU member states. This means that the development of Slovenia's competitiveness follows average trends in other EU member states. The value of the GCI WEF global competitiveness aggregate slightly improved to 4.64 (by 0.02, 0.43%), while the value of the WCI IMD world competitiveness aggregate improved by 2.34 (4.7%) to 51.64. To interpret the data it is important to know that the IMD and WEF aggregate competitiveness indices for 2006 are calculated from 2004 and 2005 data and on the basis of surveys among managers conducted at the beginning of 2006.

According to the two competitiveness indices, Slovenia is ranked very differently. Since 2002, in the WEF's autumn Global Competitiveness Reports Slovenia has been ranked around the 30th place among up to 125 economies, while in the IMD's spring World Competitiveness Reports our country has been ranked around the 45th place among up to 60 economies (see the figure). Within the EU-25 (WEF) and the EU-21 (IMD) Slovenia is ranked 15th and 19th, respectively (see the table). Differences in the ranking reflect the different methodological approaches. The indices are not directly comparable as the two systems monitor different aspects of competitiveness[3].

As regards dynamic competitiveness, Slovenia shows the greatest competitive advantages in the areas of the macroeconomic indicators, education, and health and the greatest disadvantages in the areas of market efficiency and innovations. A dynamic[4] examination according to the WEF methodology shows a stagnation in Slovenia's global and business competitiveness within the EU. In 2006 Slovenia recorded a worsening of the most important factors of the present development phase – innovation and business sophistication (16th place – countries behind Slovenia are Portugal, Hungary, Slovakia, Lithuania, Greece, Cyprus, Poland, Malta and Latvia). Slovenia, which according to the WEF is entering the phase of development based on its own innovation, records a worsening of business sophistication within *factors of business sophistication and innovation of products and processes*[5] which became a relative national weakness[6] in 2006 (this is in agreement with the decrease in the IMD indicators of management

[1] The best way to compare two years is to use rankings. Due to the methodology, index values are not fully comparable between years and only serve for a comparison of relative differences among the factors and countries within a specific year.

[2] A drop by three or more places.

[3] To calculate indices, the WEF system uses 90 indicators and weighs them on the basis of growth theory. The IMD calculates ranks on the basis of more than 300 indicators which are arranged to calculate indices that have the same weight. In addition to basic methodological differences, the names of the IMD and WEF indices are not the same. Similar indices cover indicators from different areas (e.g. Institutions in the WEF and Institutional framework in the IMD), hence ranks in similarly named areas should not be compared directly (for more details, see the Statistical Appendix).

[4] In accordance with growth theory, the WEF monitors the dynamic situation of global competitiveness with three basic development factors which have a different weight for calculating global competitiveness. The weight of global competitiveness factors changes relative to a country's development phase, which is determined by the key driving force of development (production factors, efficiency, innovations).

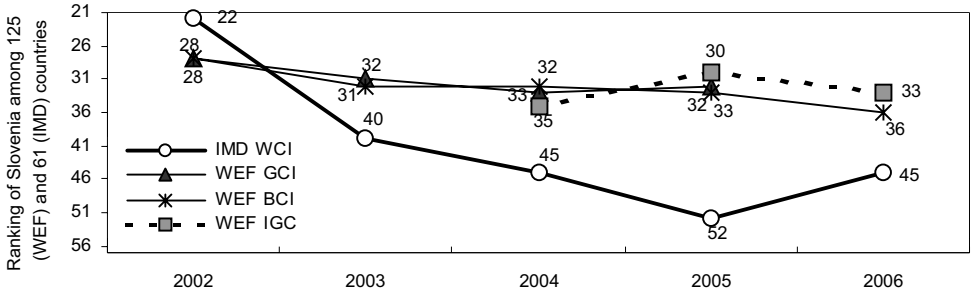
[5] Aggregate (sub)indices are written in italics.

[6] A lower rank than with the aggregate competitiveness index.

practices, and relations and values). No major changes were recorded as regards *efficiency enhancers* (15th place). Slovenia slightly improved its technological readiness, but the greatest national weakness was observed within this group, namely market efficiency, which stands out with its 23rd place (this is partially in line with the IMD indices which divide our greatest national weaknesses into three factors of world competitiveness – international investment (21st place), business legislation (20th place), and attitudes and values (20th place)). The ranking as regards *basic requirements of competitiveness* also did not change (15th place), where Slovenia shows a comparative competitive advantage and has exceeded the average of the old member states (macroeconomic indicators 9th place, health and primary education 12th place). This is similar to the IMD's economic performance index. Our country slightly improved the weak institutions factor (18th place) – this is partly similar to the IMD's institutional and social framework which show a higher ranking, while a lower ranking of institutions is shown by the indices of management practices, and attitudes and values – but worsened its competitiveness infrastructure (16th place), which is in agreement with the lower ranking as regards basic infrastructure and technological infrastructure according to the IMD.

As regards the static aspect, Slovenia shows the greatest competitive advantages in the areas of the macroeconomic indicators and employment and the greatest disadvantages in the areas of business legislation, and attitudes and values. The IMD's static aspect of world competitiveness[7] also shows a stagnation of Slovenia's world competitiveness, but with an improvement in economic performance factors (14th place, ahead of Finland, Hungary, Portugal, Greece, Italy, Poland and Slovakia) and a deterioration in government efficiency factors (19th place, ahead of Poland and Italy). According to the IMD, for the third consecutive year Slovenia has shown the greatest competitive disadvantage in *business efficiency factors* (19th place), especially on account of attitudes and values, management practices, and financing. On the other hand, productivity and efficiency and labour market factors improved. Within the EU Slovenia's competitive disadvantages include *government efficiency factors* due to the lower ranking of the otherwise favourable public finance index. According to the IMD, *economic performance factors* are also Slovenia's comparative competitive advantage, which our country improved especially on account of the highest price index among the 21 EU member states (1st place) and the domestic economy index (17th place). Slovenia's indices from this area of world competitiveness show the greatest agreement with the global competitiveness of our country according to the WEF (see basic requirements: macroeconomy). Despite the improvement of the ranking of scientific infrastructure, health and the environment, and education, Slovenia is ranked 18th as regards *infrastructure* factors due to the lower ranking of basic and technological infrastructure.

Figure: **Ranks of aggregate competitiveness indices of Slovenia 2003–2006 among 125 (WEF) and 60 (IMD) countries: IMD world competitiveness index (WCI) and WEF indices of global competitiveness (IGC), business competitiveness (BCI) and growth competitiveness (GCI)**



Sources: *WEF Global Competitiveness Report*, 2002-2003, 2003-2004, 2004-2005, 2005–2006, 2006–2007; *IMD World Competitiveness Yearbook* 2002, 2003, 2004, 2005, 2006.

[7] The IMD monitors four cardinal factors of world competitiveness which have the same weight in calculating world competitiveness; the weight of factors does not change according to the development level of the economy and institutions in a country.

Table 1: **Competitiveness indices for Slovenia according to WEF and IMD**

	2005[1]				2006[1]			
	Value[5, 6, 7]			Rank in EU-25 (21)[4]	Value[5, 6, 7]			Rank in EU-25 (21)[4]
	SLO	EU-15	EU-10 (6)[5]		SLO	EU-15	EU-10 (6)[5]	
WEF Global competitiveness report 2006-2007[1]								
Global competitiveness index - GCI[1,3]	**4.6**	**5.2**	**4.5**	**15**	**4.6**	**5.2**	**4.6**	**15**
Basic requirements for competitiveness	5.1	5.6	4.9	15	5.2	5.6	4.9	15
1. Institutions	4.1	5.0	4.1	19	4.3	5.1	4.2	18
2. Infrastructure	4.7	5.5	4.3	14	4.5	5.5	4.3	16
3. Macroeconomy	4.8	4.8	4.5	10	5.1	4.8	4.6	9
4. Health and primary education	6.9	6.9	6.8	13	6.8	6.8	6.5	12
Efficiency enhancers	4.5	5.0	4.5	15	4.6	5.1	4.6	15
5. Higher education and training	5.1	5.3	4.8	12	5.1	5.4	4.8	12
6. Market efficiency	4.1	4.9	4.3	23	4.2	4.9	4.4	23
7. Technological readiness	4.4	4.9	4.2	16	4.5	8.3	4.4	15
Innovation and sophistication factors[2]	4.2	5.0	3.9	15	4.2	5.0	4.0	16
8. Business sophistication	4.7	5.5	4.4	15	4.6	10.	4.5	16
9. Innovation	3.6	4.5	3.4	16	3.7	4.6	3.5	16
Business competitiveness index - BCI (r)[6]	33	16	38	15	36	17	40	15
Company operations and strategy (r)[6]	33	17	38	15	36	18	40	16
Quality of the national business environment (r)[6]	29	16	42	13	34	17	45	14
IMD World competitiveness report 2006								
World competitiveness index - WCI	**49.3**	**68.5**	**55.6**	**19**	**51.6**	**69.3**	**56.8**	**19**
Economic performance	43.3	52.7	42.0	16	42.9	47.7	42.4	14
1. Domestic economy (r)[7]	52	25.1	43.8	20	39	28.0	33.7	17
2. International trade (r)[7]	19	20.1	23.2	9	23	25.7	24.8	10
3. International investment (r)[7]	59	23.6	30.2	21	59	28.3	23.7	21
4. Employment (r)[7]	35	33.7	46.7	8	37	31.0	46.7	11
5. Prices (r)[7]	15	32.4	33.8	2	11	34.7	32.0	1
Government efficiency	33.3	51.7	44.4	18	31.5	49.6	41.5	19
6. Public finance (r)[7]	17	31.8	28.8	6	26	35.5	28.3	8
7. Fiscal policy (r)[7]	52	42.6	40.0	16	55	43.8	39.5	16
8. Institutional framework (r)[7]	47	25.8	37.0	18	43	22.1	35.5	18
9. Business legislation (r)[7]	55	25.5	33.7	20	53	23.7	34.3	20
10. Social framework (r)[7]	36	22.5	33.0	18	33	21.1	30.8	18
Business efficiency	21.8	52.5	36.9	19	21.2	52.5	33.9	19
11. Productivity & efficiency (r)[8]	53	21.9	33.8	20	37	21.2	29.0	18
12. Labour market (r)[7]	47	38.1	35.0	15	45	35.1	34.7	15
13. Financial markets (r)[7]	48	20.2	41.8	20	47	20.8	42.8	19
14. Management practices (r)[7]	47	27.5	44.8	16	47	25.5	43.5	17
15. Attitudes and values (r)[7]	54	34.3	35.0	20	58	31.7	43.0	20
Infrastructure	41.0	59.2	41.3	18	41.0	57.5	39.0	18
16. Basic infrastructure (r)[7]	32	23.1	31.5	14	31	22.7	31.5	15
17. Technological infrastructure (r)[7]	40	24.5	38.7	17	39	21.7	39.2	19
18. Scientific infrastructure (r)[7]	41	21.7	42.8	19	40	22.0	43.7	15
19. Health and environment (r)[7]	41	18.1	43.2	18	41	17.2	42.0	17
20. Education (r)[7]	38	21.8	31.3	18	29	20.2	30.7	13

Sources: *WEF Global Competitiveness Report 2006-2007; IMD World Competitiveness Yearbook 2005*, 2006; calculations by IMAD.
Notes:[1]WEF Global Competitiveness Report 2006-2007 rates 125 countries (new ones are Barbados, Burkina Faso, Burundi, Lesotho, Mauritania, Nepal and Suriname; Angola and Zambia have again been included). When comparing country performance across the years it is best to use the rankings. Due to the methodology, index values are not fully comparable across the years and are primarily intended to compare the relative differences between the factors and countries in a given year. For 2005, the WEF calculated recalculated the ranks of both indices using the 2006 methodology. IMD World Competitiveness Yearbook 2006 assesses 61 countries. [2]Factors of innovation and sophistication of products and processes. [3]According to the new methodology of measuring global competitiveness, the WEF no longer measures aggregate growth capacity index (see Economic Mirror 01/2006, p. 19); [4]The IMD does not publish data for Cyprus, Latvia, Lithuania and Malta; [5]Values of the WEF indices are between 1 and 7. [6]For BCI the WEF publishes only ranks of 124 countries. [7]For 20 sub-indices the IMD publishes ranks among 61 countries; r - rank; v - index value; bold print - a rise in the country's ranking by at least three places (significant improvement); grey cells - a fall by at least three places (significant deterioration).

Table 2: **Consistency between the WEF 2006-2007 and IMD 2006 indices**

WEF 2006-2007	IMD 2006
BASIC REQUIREMENTS FOR COMPETITIVENESS	
1. INSTITUTIONS	
a) PUBLIC INSTITUTIONS 1. Ownership rights 2. Ethics and corruption 3. Undue influence 4. Government efficiency 5. Safety	10. SOCIAL FRAMEWORK 8. INSTITUITUONAL FRAMEWORK (only sub-indicator government efficiency; excluding central bank)
b) PRIVATE INSTITUTIONS 1. Corporate and business ethics 2. Responsibility	15. ATTITUDES AND VALUES (x) [1] 14. MANAGEMENT PRACTICES (x)
2. INFRASTRUCTURE	16. BASIC INFRASTRUCTURE 17. TECHNOLOGICAL INFRASTRUCTURE (x)
3. MACROECONOMY	1. DOMESTIC ECONOMY 5. PRICES 6. PUBLIC FINANCE
4. HEALTH AND PRIMARY EDUCATION a) HEALTH b) PRIMARY EDUCATION	 19. HEALTH AND ENVIRONMENT 20. EDUCATION (x)
EFFICIENCY ENHANCERS	
5. HIGHER EDUCATION AND TRAINING a) QUANTITY OF EDUCATION b) QUALITY OF EDUCATION c) IN-SERVICE TRAINING	 20. EDUCATION (x) 12. LABOUR MARKET (x)
6. MARKET EFFICIENCY a) GOODS MARKETS 1. Distortions 2. Competition 3. Size b) LABOUR MARKETS 1. Flexibility 2. Efficiency c) FINANCIAL MARKETS	 9. BUSINESS LEGISLATION (x) 7. FISCAL POLICY 2. INTERNATIONAL TRADE 12. LABOUR MARKET (x) 9. BUSINESS LEGISLATION (x) 14. MANAGEMENT PRACTICES (x) 13. FINANCIAL MARKETS
7. TECHNOLOGICAL READINESS	17. TECHNOLOGICAL INFRASTRCUTRUE (x) 3. INTERNATIONAL INVESTMENT 9. BUSINESS LEGISLATION (x)
INNOVATION AND SOPHISTICATION FACTORS	
8. BUSINESS SOPHISTICATION a) NETWORKS AND SUPPORTING INDUSTRIES b) SOPHISTICATION OF COMPANY OPERATIONS AND STRATEGIES	0 14. MANAGEMENT PRACTICES (x) 11. PRODUCTIVITY & EFFICIENCY (x) 15. ATTITUDES AND VALUES (x)
9. INNOVATION	18. SCIENTIFIC INFRASTRUCTURE 17. TECHNOLOGICAL INFRASTRUCTURE (x)

Source: *WEF Global Competitiveness Report, 2006–2007*; *IMD World Competitiveness Yearbook 2005*, 2006.
Notes: The table is the result of an attempt to compare the indices of two completely different systems. To calculate indices the WEF system uses 90 indicators and weighs them on the basis of growth theory. The IMD calculates ranks on the basis of more than 300 indicators. which are arranged to calculate indices which have the same weight. In addition to basic methodological differences. the names of the IMD and WEF indices are not the same. Similar indices cover indicators from different areas (e.g. Institutions in the WEF and Institutional framework in the IMD). so ranks in similarly named areas should not be compared directly. For example. the IMD management practices sub-index (14) covers indicators that can be found in at least three WEF sub-indices (8. Business sophistication. 6. Market efficiency and 1. Institutions). while these sub-indices cover some other indicators that the IMD classifies elsewhere. For example. the WEF's market efficiency indicators (6) are classified by the IMD in at least 8 indices: 11. Productivity & efficiency. 9. Business legislation. 7. Fiscal policy. 2. International trade. 12. Labour market. 9. Business legislation. 14. Management practices and 13. Financing. 1(x) means that the IMD index covers indicators from several WEF indices.

Court backlogs

In 2006, the estimated number of pending cases decreased in all types of courts where it is measured; the duration of the procedure decreased as well. In 2005, the number of pending cases in general and special courts declined by 4.4%. In local courts the number of pending cases fell by 4.8%, in district courts by 5.3% and in high courts by 14.3%. On the other hand, in the Supreme Court the number of pending cases increased by as much as 16.2%. The situation also improved in some specialised courts: labour and social courts reduced the number of pending cases at the end of the year by 7.3% and the Higher Labour and Social Court by 4.8%, while the number of pending cases in administrative courts went up by 3.4%. Based on the empirical correlation between the changes in pending cases and court backlogs we infer that the changes in court backlogs were similar. The figure shows that the duration of the procedure has been falling for several years for both major and minor cases, which is very encouraging for the economy as a whole.

In local courts considerable progress in land registry cases was achieved, while as regards enforcement cases the situation got worse. We estimate that at the end of 2005 the number of pending land registry cases decreased by as much as 33.4% while the number of completed cases exceeded the number of new cases by 15.2%. This shows that the project of modernising the land registry started well and is making good progress. However, there is no progress as regards enforcement cases since the number of pending cases increased by 7.8%. Among major cases progress was only achieved in civil cases, where the number of pending cases at the end of the year dropped by 10.8%. In criminal and legacy cases the number of pending cases is increasing, while as regards non-litigious cases the situation is similar to that at the end of 2005. At the present rate of productivity and if courts were not to receive any new non-litigious cases, it would take two years to complete the pending cases. Due to the single record of the number of misdemeanour judges and other judges, the judges' productivity cannot be directly evaluated but is estimated to have decreased by about 10%, while the number of judges increased by 11.1%.

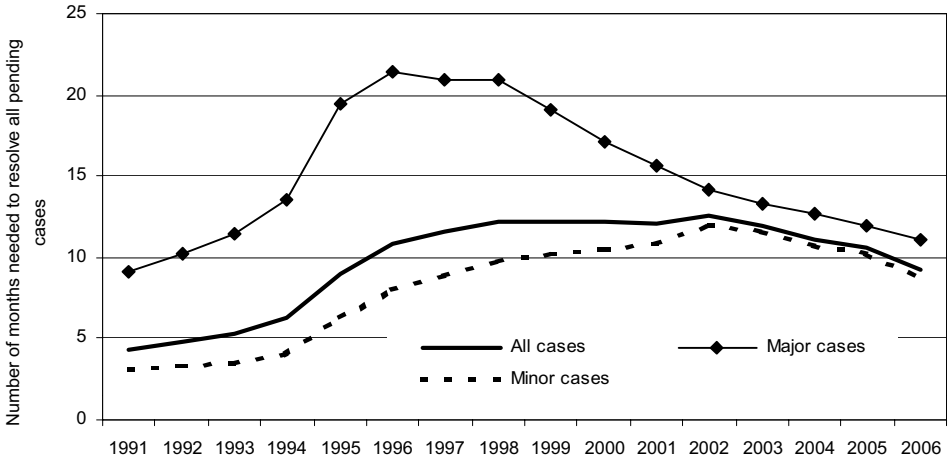
The situation in district courts improved as regards commercial cases but got worse as regards criminal cases. In district courts, criminal cases pose the greatest problem since it would take 20.4 months to resolve all pending cases and the courts cannot handle the inflow of new criminal cases. In the two other most problematic areas – civil cases and commercial cases – the situation improved as courts resolved more cases than they received. In both types of cases the pending cases would be completed in less than 16 months if courts were only to resolve old cases and the productivity remained the same as in 2006. The productivity of judges improved by 1.0%.

An improvement has been observed in high courts while a deterioration was recorded in the Supreme Court. In high courts the number of pending cases is falling; high courts completed 6.1% more cases than they received anew. However, due to the decrease in the number of judges in 2006, the number of pending cases in the Supreme Court increased by 16.2%, while the number of new cases rose by 13.8%.

More attention should be given to enforcement cases and differences in productivity. The situation in the area of enforcement did not improve at all in 2006 as courts resolved only 85% of the new cases. At the present rate of productivity it would take 29.1 months to close all the pending cases provided that the courts received no new cases. As regards the judges' productivity, for several years we have been observing that with an

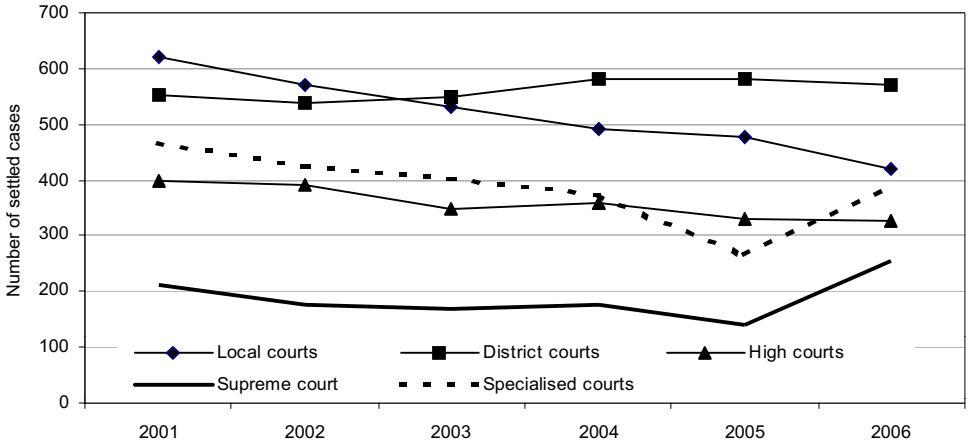
increase in the number of judges in some types of courts as a rule their productivity decreases and vice versa. This points to the inefficient use of judges as well as to the problem of the inflexibility of judges among courts. This also leads to the conclusion that this is the result of recruiting young and inexperienced judges who require help from older more experienced judges and that in the short term such judges cannot reduce the number of pending cases. Companies could adjust to the differences in productivity and waiting periods in courts so that where it is possible to choose the territorial jurisdiction they would select those courts that could resolve their cases most quickly. Of course, the Supreme Court would have to publish updated information on the number of cases per judge and the expected duration of individual types of cases in courts.

Figure 1: **Number of months needed to resolve all pending cases, Slovenia 1991-2006**



Source: Judicial statistics, calculations by IMAD.

Figure 2: **Completed cases per judge*, Slovenia, 2001-2006**



Source: Judicial statistics, calculations by IMAD.
Note: * The number of pending court cases per judge includes cases directly dealt with by the judges. Land registry cases, enforcement cases, and cases related to the register of companies are not taken into account.

The fourth priority:

A modern welfare state and higher employment

- Employment rate
- Unemployment rate
- Long-term unemployment
- Temporary employment
- Part-time employment
- Social protection expenditure
- Health expenditure
- Human development index
- Distribution of earnings in the private sector
- At-risk-of-poverty rate
- Health care resources
- Life expectancy and infant mortality
- Participation in education
- Life satisfaction
- Trust in institutions and in other people

Employment rate

Slovenia's employment rate[1] has been rising faster among women than among men, and exceeded the averages of the EU-15 and EU-25 for the third year in a row. In 2005 the employment rate stood at 66.0 % (0.7 p.p. higher than in 2004), while in 2006 it amounted to 66.6% on average[2]. Until 2003, the employment rate in Slovenia hovered around 63%, which slightly exceeded the EU-25 average but was somewhere below the EU-15 average. 2004 witnessed a relatively sharp rise in the employment rate, exceeding the EU-15 average. Such a high rate is mainly due to the high rate of female employment, which exceeds the EU-15 and EU-25 averages, while the male employment rate is considerably lower than the EU averages. Until 2003, the female employment rate hovered around 58%, however since 2004 it has been increasing relatively more than the male employment rate, which had fluctuated around 67% until 2003. In 2005, the female employment rate amounted to 61.3% (0.8 p.p. higher than in 2004), while the male employment rate stood at 70.4% (0.4 p.p. higher than the previous year). In the second quarter of 2006 the rates amounted to 63.3% and 70.8%, respectively.

In the last two years, Slovenia recorded a higher employment rate due to the increase in the number of persons in formal employment, mainly in the field of construction and business services; meanwhile, informal employment continues to rise as well[3]. Following a period of stagnation from 2002 to 2004, the number of persons in formal employment (persons in an employment relationship), according to the statistical register of employment, climbed by 1.0% in 2005 and by 1.3% in 2006. The strongest growth was again recorded in the number of people employed in construction and business activities. High employment growth sectors are hotels and restaurants, transport and other community, social, and personal services, and the metal industry in manufacturing. In mining and major manufacturing industries employment has been falling. In manufacturing, the number of workers in the textile and food-processing industries continues to drop at an accelerated pace. In 2006, the number of self-employed and the number of workers employed by sole entrepreneurs increased after a decline in the 2002-2005 period. The difference between the statistical data on employment according to the labour force survey and the administrative sources shows that informal employment also continues to rise despite the robust growth in 2004.

The employment rates of youth and the elderly have been rising slowly, however they are still below the EU average. The Slovenian youth employment rate (15-24 years), which totalled around 30% in the 2001-2003 period, rose to 34.1% in 2005 mainly because of the increased amount of student work (36.8% in the EU-25 in 2005). The employment rate in the age group 55-64, for which the Lisbon goal is set at 50% by 2010,

[1] According to the Eurostat methodology, the employment rate is expressed as the percentage of employed persons aged 15-64 of the population of the same age. It is calculated using labour force survey data which include among the employed population informally employed people (people who work either as unpaid family workers, on a contractual basis, or in the shadow economy) who may also be students among the young or retired people among the elderly.

[2] According to the SORS' first estimates.

[3] Persons in formal employment are considered to be persons who are in an employment relationship, according to the statistical register of employment (formally employed), and self-employed persons who are included by the SORS' monthly data releases among the working population. People in informal employment are considered to be involved in all other types of work (see the previous note), which may be at least partly included in the labour force survey.

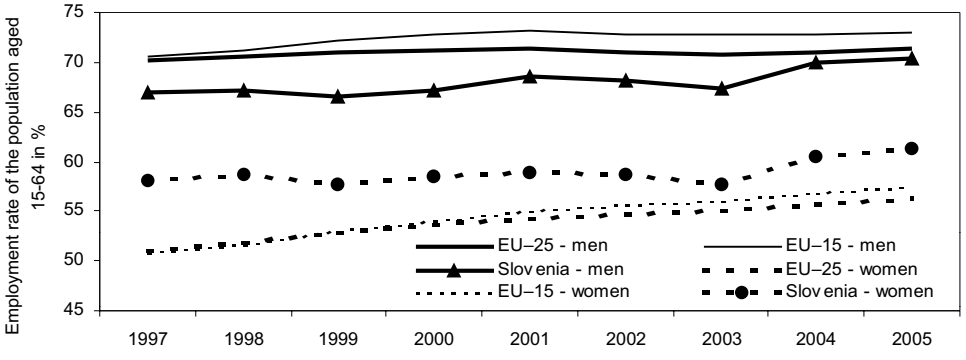
is worryingly low in Slovenia. However, it has been on a slow upward trend as a result of the effects brought about by the pension reform and ageing of the generations taking early retirement. It grew to 30.8% in 2005 (EU-25: 42.5%) and to 33.5% in the second quarter of 2006.

Table: **Employment rates (15-64 age group) according to the labour force survey in Slovenia and the EU in 1995-2005, in %**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**N/A**	**62.4**	**62.8**	**62.8**	**62.9**	**63.3**	**63.8**
EU-15	**60.1**	**63.4**	**64.0**	**64.2**	**64.3**	**64.7**	**65.2**
EU-10	**N/A**	**57.4**	**56.6**	**55.8**	**55.9**	**56.0**	**56.9**
Austria	68.8	68.5	68.5	68.7	68.9	67.8	68.6
Belgium	56.1	60.5	59.9	59.9	59.6	60.3	61.1
Cyprus	N/A	65.7	67.8	68.6	69.2	68.9	68.5
Czech Republic	N/A	65.0	65.0	65.4	64.7	64.2	64.8
Denmark	73.4	76.3	76.2	75.9	75.1	75.7	75.9
Estonia	N/A	60.4	61.0	62.0	62.9	63.0	64.4
Finland	61.6	67.2	68.1	68.1	67.7	67.6	68.4
France	59.5	62.1	62.8	63.0	63.3	63.1	63.1
Greece	54.7	56.5	56.3	57.5	58.7	59.4	60.1
Ireland	54.4	65.2	65.8	65.5	65.5	66.3	67.6
Italy	51.0	53.7	54.8	55.5	56.1	57.6	57.6
Latvia	N/A	57.5	58.6	60.4	61.8	62.3	63.3
Lithuania	N/A	59.1	57.5	59.9	61.1	61.2	62.6
Luxembourg	58.7	62.7	63.1	63.4	62.2	62.5	63.6
Hungary	N/A	56.3	56.2	56.2	57.0	56.8	56.9
Malta	N/A	54.2	54.3	54.4	54.2	54.0	53.9
Germany	64.6	65.6	65.8	65.4	65.0	65.0	65.4
Netherlands	64.7	72.9	74.1	74.4	73.6	73.1	73.2
Poland	N/A	55.0	53.4	51.5	51.2	51.7	52.8
Portugal	63.7	68.4	69.0	68.8	68.1	67.8	67.5
Slovakia	N/A	56.8	56.8	56.8	57.7	57.0	57.7
Slovenia	**62.9.**	**62.8**	**63.8**	**63.4**	**62.6**	**65.3**	**66.0**
Spain	46.9	56.3	57.8	58.5	59.8	61.1	63.3
Sweden	70.9	73.0	74.0	73.6	72.9	72.1	72.5
United Kingdom	68.5	71.2	71.4	71.3	71.5	71.6	71.7

Sources: *Population and social conditions - Labour Market* (Eurostat), 2006; *Rapid Reports - Labour Market* (SORS), 2006.

Figure: **Employment rates by gender, EU-25, EU-15 and Slovenia, 1997-2005, annual average values**



Source: *Population and social conditions – Labour Market* (Eurostat), 2006.

Unemployment rate

In 2006, the survey and registered unemployment rate in Slovenia declined. Unemployment rates that ranged from 7% to 8% (survey unemployment) and from 14% to 14.5% (registered[1]) in 1995-2000 have been on a downward trend since 2001. In the second quarter of 2005, the *survey unemployment rate* reached its lowest level (5.8 %) ever since it started to be measured, but rose again significantly in the third and fourth quarters of 2005 so that the average annual survey unemployment rate stood at 6.5% in 2005 and was 0.2 p.p. higher than in 2004. In the second and third quarters of 2006 it dropped again to a level less than 6% and was as low as 5.6% in the third quarter. In the fourth quarter, it remained at the same level as in the third quarter; in 2006, the average annual survey unemployment rate stood at 6.0%. The *registered unemployment rate* that in 2005 on average remained at almost the same level (10.2%) as in 2004 (10.3%) dropped sharply in 2006. In November, it dropped to its lowest level since August 1991, namely 8.6%, and stayed at this level until the end of the year; the average annual rate was 9.4%.

The unemployment rate of the young, women and people with a lower education remains above average. In 2005, the survey unemployment rate of the young stood at 16.0%, of women at 7.1% and of people with a lower education at 8.3%. The unemployment rates of the young and of people with a lower education are on a downward trend; the survey unemployment rate of women has been fluctuating around 7% since 2001. It stood at 7.3% in 2006. The registered unemployment rate among women that averaged out at 11.7% in 2006 has been declining. The survey unemployment rate among people with a secondary education has been fluctuating around 6% for several years, while the survey unemployment rate among people with a tertiary education has been hovering around 3%. The number of unemployed with a tertiary education is on the increase. On average, there were 7,027 registered unemployed with a tertiary education in 2005 and 7,561 in 2006, which represented a respective 7.6% and 8.8% of the total average number of registered unemployed persons.

In 2006, the number of the unemployed dropped mainly because of the favourable economic trends, while the decrease in the number of the registered unemployed was also due to administrative reasons. *The number of unemployed people according to the labour force survey* ranged around 70,000 in the period 1995-2000, declined to between 62,000 to 64,000 in the period 2001-2004 and rose to 67,000 in 2005, mainly since the simultaneously growing employment[2] pushed up the number of those job-seekers who expected to get a job. In 2006, it dropped again to 61,000. *The number of the registered unemployed* dropped from around 125,000 in the 1993-1998 period to 91,889 (annual average) in 2005 and fell to 85,836 in 2006. In 2006, the unemployment register recorded 14.1% fewer new first-time job-seekers than in 2005 and 5.1% fewer persons who lost their employment; there were 6.6% more unemployed who got a job than in 2005. For various administrative reasons, the number of unemployed fell by 39,213 or by 18.3% more than in 2005.

The internationally comparable rate of survey unemployment in Slovenia is still below the EU average and at the average level of the OECD countries. In 2005, an

[1] The number of the registered unemployed is higher than the number of the survey unemployed because it includes people registered as unemployed but periodically working or those who have given up searching for a job for various reasons.

[2] See the indicator *Employment rate*.

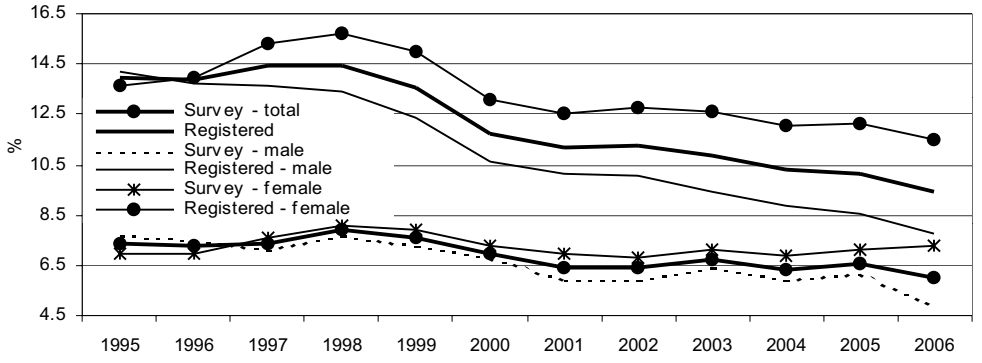
unemployment rate lower than Slovenia's was recorded in seven EU-25 member states – among the new member states only in Cyprus and in the following old member states: Ireland, Luxembourg, the Netherlands, Denmark, the United Kingdom, and Austria (see the table). In 2005, the average unemployment rate in the OECD countries was the same as in Slovenia, i.e. 6.6%.

Table: **Survey unemployment rates in Slovenia and the EU member states in 1995-2005, %**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**N/A**	**8.6**	**8.4**	**8.8**	**9.0**	**9.1**	**8.8**
EU-15	**10.1**	**7.6**	**7.2**	**7.6**	**8.0**	**8.1**	**7.9**
EU-10	**N/A**	**13.6**	**14.5**	**14.8**	**14.3**	**14.2**	**13.4**
Austria	3.9	3.6	3.6	4.2	4.3	4.8	5.2
Belgium	9.7	6.9	6.6	7.5	8.2	8.4	8.4
Cyprus	N/A	4.9	3.8	3.6	4.1	4.6	5.2
Czech Republic	N/A	8.7	8.0	7.3	7.8	8.3	7.9
Denmark	6.7	4.3	4.5	4.6	5.4	5.5	4.8
Estonia	N/A	12.8	12.4	10.3	10.0	9.7	7.9
Finland	15.4	9.8	9.1	9.1	9.0	8.8	8.4
France	11.1	9.1	8.4	8.9	9.5	9.6	9.9
Greece	9.2	11.3	10.8	10.3	9.7	10.5	9.8
Ireland	12.3	4.3	4.0	4.5	4.7	4.5	4.4
Italy	11.2	10.1	9.1	8.6	8.4	8.0	7.7
Latvia	N/A	13.7	12.9	12.2	10.5	10.4	8.9
Lithuania	N/A	16.4	16.5	13.5	12.4	11.4	8.3
Luxembourg	2.9	2.3	2.1	2.8	3.7	5.1	4.5
Hungary	N/A	6.4	5.7	5.8	5.9	6.1	7.2
Malta	N/A	6.7	7.6	7.5	7.6	7.4	7.3
Germany	8.0	7.2	7.4	8.2	9.0	9.5	9.5
Netherlands	6.6	2.8	2.2	2.8	3.7	4.6	4.7
Poland	N/A	16.1	18.2	19.9	19.6	19	17.7
Portugal	7.3	4.0	4.0	5.0	6.3	6.7	7.6
Slovakia	N/A	18.8	19.3	18.7	17.6	18.2	16.3
Slovenia	**7.4**	**7.0**	**6.4**	**6.4**	**6.7**	**6.3**	**6.6**
Spain	18.4	11.1	10.3	11.1	11.1	10.6	9.2
Sweden	8.8	5.6	4.9	4.9	5.6	6.3	7.8
United Kingdom	8.5	5.4	5.0	5.1	4.9	4.7	4.8

Sources: *Population and social conditions - Labour Market* (Eurostat), 2006; *Rapid Reports - Labour market* (SORS), 1995-2006.

Figure: **Survey and registered unemployment in Slovenia by gender, 1995-2006**



Source: *Labour Market (various publications)*, Statistical Office of the RS, 1995-2006.

Long-term unemployment

The long-term unemployment rate[1], an indicator of structural problems in the labour market and social cohesion, has been gradually decreasing in Slovenia. It dropped from 4.1% in 2001, the highest value in the past ten years, to 3.1% in 2005. In 2005 the long-term unemployment rate was marginally lower than in 2004 (by 0.1 p.p.) even though the total unemployment rate was higher (6.5%) than in 2004 (6.3%).

The share of the long-term unemployed in total unemployment has been falling in the recent years, but it is still high. In 2005 it stood at 47.3% of all unemployed as measured by the Labour Force Survey, according to Eurostat data. Data on registered unemployment show a similar share of the long-term unemployed. The unemployment as well as long-term unemployment rate in Slovenia is below the EU average, but the share of the long-term unemployed is slightly above the average in the EU.

As in most EU member states, the share of long-term unemployed women in Slovenia is higher than that of long-term unemployed men. In the EU-25 the long-term unemployment rate was 4.5% for women and 3.5% for men; in Slovenia it was 3.2% and 2.9%, respectively. Compared to 2004, the long-term unemployment rate decreased by 0.2 p.p. for men and 0.1 p.p. for women in 2005. However, since the number of long-term unemployed women remained the same as in 2004, the reduction at the annual level is predominantly a result of the increase in the overall number of all female job-seekers (unemployed), which increased the number of women in the labour force.

The majority of the long-term unemployed are women, the elderly and those with a lower education; the combination of all three characteristics is the most frequent. Long-term unemployment is also higher among persons with major employment handicaps.

Long-term unemployment as a rule reduces the work capabilities of the unemployed person and their chance of getting another job. It is therefore essential that such people are included in active employment policy programmes. Unemployment increases the risk of poverty, which typically becomes more acute with the longer duration of unemployment.

Even though the long-term unemployment rate has been dropping in Slovenia in recent years it remains an important problem, not much better than it was ten years ago. In 2005 the long-term unemployment rate was only 0.3 p.p. lower than in 1996. The share of long-term unemployed in total unemployment in the second quarter of 2006 (53.1%) was even higher than in the second quarter of 1996 (49.8%).

The duration of unemployment and the share of the long-term unemployed are typically higher in countries with greater job protection. Among the old EU member states, long-term unemployment is the biggest problem in Italy, Belgium, Germany, and Greece, where job protection is relatively high. Slovakia has the largest share of the long-term unemployed and the highest rate of long-term unemployment in the EU.

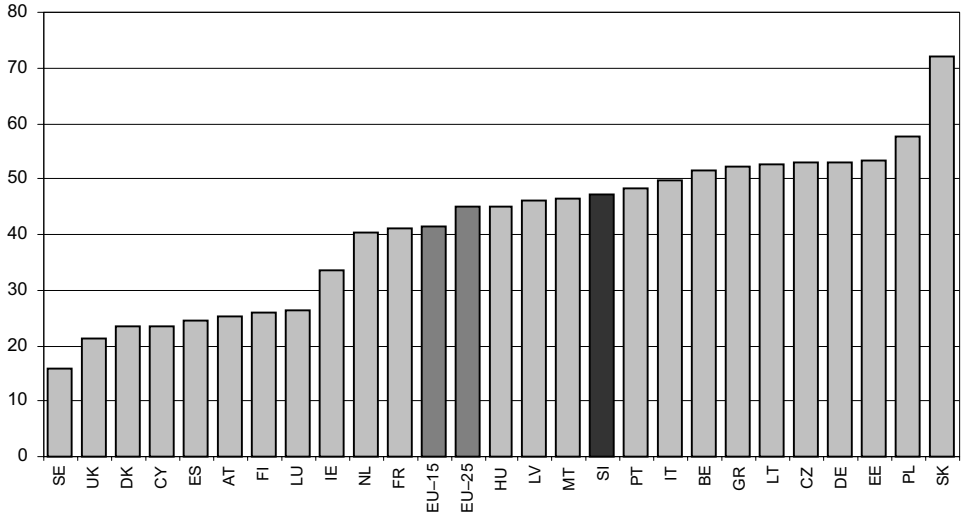
[1] The long-term unemployment rate is the ratio between long-term unemployed (people unemployed for over 1 year) and the size of the labour force. It is one of the Laeken indicators of social inclusion.

Table: **Long-term unemployment rates in EU countries, 1996-2005, in %**

	1996	2000	2001	2002	2003	2004	2005
EU-25	**N/A**	**3.9**	**3.8**	**3.9**	**4.1**	**4.1**	**3.9**
EU-15	**4.9**	**3.4**	**3.1**	**3.1**	**3.3**	**3.4**	**3.3**
Belgium	5.7	3.7	3.2	3.7	3.7	4.1	4.4
Czech Republic	N/A	4.2	4.2	3.7	3.8	4.2	4.2
Denmark	1.8	0.9	0.9	0.9	1.1	1.2	1.1
Germany	4.1	3.7	3.7	3.9	4.5	5.4	5
Estonia	N/A	5.9	6	5.4	4.6	5	4.2
Greece	5.2	6.2	5.5	5.3	5.3	5.6	5.1
Spain	9.4	4.6	3.7	3.7	3.7	3.4	2.2
France	4.5	3.5	3	3.1	3.7	3.9	4
Ireland	7	1.6	1.3	1.4	1.6	1.6	1.5
Italy	7.3	6.3	5.7	5.1	4.9	4	3.9
Cyprus	N/A	1.2	0.8	0.8	1	1.2	1.2
Latvia	N/A	7.9	7.2	5.5	4.4	4.6	4.1
Lithuania	N/A	8	9.3	7.2	6	5.8	4.3
Luxembourg	0.8	0.6	0.6	0.7	0.9	1.1	1.2
Hungary	5.2	3.1	2.6	2.5	2.4	2.7	3.2
Malta	N/A	4.4	3.7	3.3	3.2	3.4	3.4
Netherlands	3	0.8	0.6	0.7	1	1.6	1.9
Austria	1.2	1	0.9	1.1	1.1	1.3	1.3
Poland	N/A	7.4	9.2	10.9	11	10.3	10.2
Portugal	3.3	1.7	1.5	1.7	2.2	3	3.7
Slovenia	**3.4**	**4.1**	**3.7**	**3.5**	**3.5**	**3.2**	**3.1**
Slovakia	N/A	10.3	11.3	12.2	11.4	11.8	11.7
Finland	N/A	2.8	2.5	2.3	2.3	2.1	2.2
Sweden	2.7	1.4	1	1	1	1.2	1.2
United Kingdom	3.1	1.4	1.3	1.1	1.1	1	1

Source: *Poverty and social exclusion* (Eurostat), 2006.

Figure: **Share of the long-term unemployed in total unemployment, EU, 2005**



Source: *Poverty and social exclusion* (Eurostat), 2006.

Temporary employment

The share of temporary employment (fixed-term employment and other forms of temporary work) ***in total employment is one of the partial indicators of labour market flexibility, however it has many shortcomings.*** The high share of temporary jobs is frequently a response of employers to rigid employment protection legislation; by using temporary employment employers improve their ability to adapt to altered circumstances. The prevalence of temporary employment is also affected by the structure of employees in a given activity (the high share of employees in strongly seasonal activities increases the use of temporary employment).

Temporary employment is often used in Slovenia. In the second quarter of 2006, Slovenia was placed 5th in the EU by its use of temporary employment in the 15-64 age group, behind Spain, Poland, Portugal, and Finland. The large share of temporary employment in Portugal and Spain is due to strong job protection as well as the above-average share of employees in tourism, which is strongly seasonal. The high ranking of Poland, meanwhile, is certainly a consequence of its high share of employees in agriculture. In Slovenia the reasons for the high prevalence probably lie in the relatively high protection of regular employment which was not reduced until 2003, but is still quite high compared to certain other countries.

In Slovenia as well as in most other EU countries, the share of women in temporary employment is higher than the share of men, while the prevalence of temporary employment is also significantly higher among young people. Where Slovenia stands out the most is in the use of temporary employment among young people (14-24 years), where the percentage of temporary employment to total employment is 63.8% (in this indicator Slovenia lags behind only Spain and Portugal), while the share is even higher among young women (73.3%). In other age groups Slovenia does not stand out so much even though it still ranks above the average and on a par with those EU countries with a high prevalence of temporary employment (6th by the prevalence of temporary employment in the 25-49 and 50-64 age groups).

The share of temporary employment in total employment has been rising faster in Slovenia than the EU average, with the acceleration being particularly fast after 2003. The share doubled in the 1996-2006 period, spiking after the implementation of the new Employment Relationship Act (2003) which reduced the protection of full-time employment and in parts introduced stricter criteria for the use of fixed-term employment. Slovenia is among those countries in which the share of temporary employment in total employment rose the most in the 2000-2006 period; only Poland recorded a higher increase. On the other hand, the share of temporary employment even dropped in the United Kingdom and Ireland, which have very low employment protection.

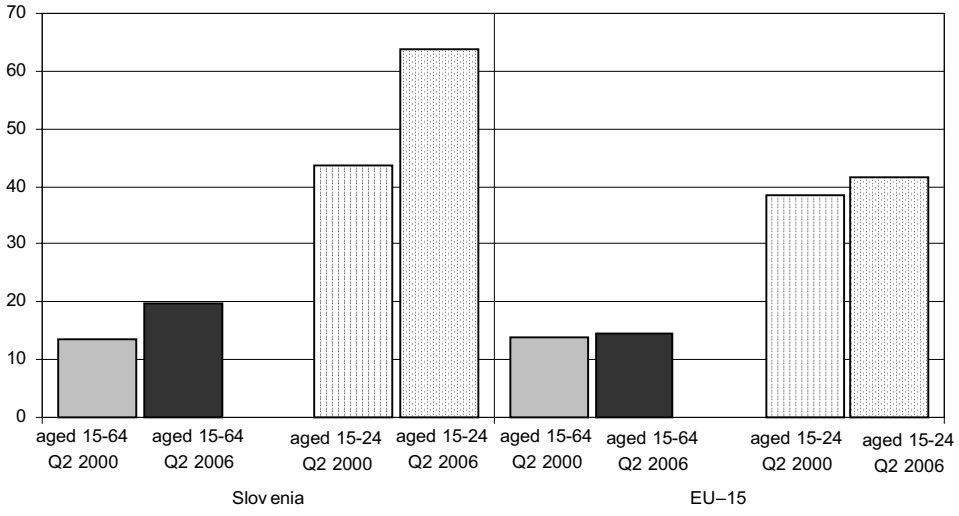
In Slovenia there is clear age segmentation in the labour market, but there is no explicit segmentation into primary and secondary labour markets. The Labour Force Survey shows that temporary employment is widespread in particular among young people; however, data from household consumption surveys do not confirm a clear segmentation into primary and secondary labour markets (the latter denotes less well paid and temporary jobs). The total number of fixed-term employees is relatively equally distributed by income quintiles, but the share of fixed-term employees in the lowest quintile is significantly higher than in the highest quintile (Stanovnik, 2006).

Table: **Share of temporary employment in total employment[1] in EU countries, 1996-2006**

	1996	2000	2002	2003	2004	2005	2006
EU-15	**11.8**	**13.7**	**13.2**	**13**	**13.4**	**14**	**14.6**
EU-25	**N/A**	**12.5**	**12.9**	**12.9**	**13.5**	**14.2**	**14.9**
Avstria	N/A	8.6	7.5	6.6	9.4	8.8	8.7
Belgium	5.9	9	7.6	8.5	8.7	9.1	8.8
Cyprus	N/A	10.7	9.1	12.6	13.1	13.9	13.9
Czech Republic	N/A	7.2	7.5	8.5	8.8	8	8.1
Denmark	11.3	10.2	8.9	9.5	9.8	9.9	9.6
Estonia	N/A	2.3	2.2	3	3	3.3	3.3
Finland	17.3	17.7	17.2	17.9	17.1	18.1	18
France	N/A	N/A	N/A	12.7	12.9	13.3	13.6
Greece	11	13.8	11.8	11.3	12.4	12.1	10.9
Irland	9.2	5.3	4.9	4.6	3.4	2.5	4.1
Italy	7.4	10.1	9.9	9.5	11.9	12.4	13
Latvia	N/A	6.7	11.7	9.5	9.2	8.4	7.1
Lithuania	N/A	3.8	7.6	8.1	6.6	5.1	4.7
Luxembourg	2.6	3.4	4.3	3.1	4.8	5.3	5.3
Hungary	N/A	6.8	7.3	7.6	6.9	7.2	6.7
Malta	N/A	3.9	4.1	4.2	3.2	4	4
Germany	11.1	12.8	12	12.2	12.5	13.9	14.2
Netherlands	11.9	13.8	14.2	14.4	14.4	15.1	16.1
Poland	N/A	5.6	15.4	18.9	22.5	25.4	27.1
Portugal	10.7	19.8	21.7	20.6	19.9	19.5	20.2
Slovakia	N/A	4	4.6	4.7	5.3	4.9	5
Slovenia	**8.4**	**12.8**	**14.6**	**13.5**	**17.8**	**16.8**	**17.9**
Spain	33.8	32.4	32.1	31.8	32.1	33.3	34.4
Sweden	11.5	14.3	15.3	15.6	15.5	16	17.3
United Kingdom	7	6.6	6	5.7	5.6	5.4	5.4

Source: *Population and Social Conditions - Labour market (*Eurostat), 2006.
Note: [1]Data for the second quarter; includes labour force in the 15-64 age group.

Figure: **Prevalence of temporary employment in Slovenia and the EU-15 among young people and in the 15-64 age group**



Source: *Population and Social Conditions - Labour market* (Eurostat), 2006.

Part-time employment

The share of part-time employment (employment with shorter working hours) ***in total employment is often used as a partial indicator of labour market flexibility.*** An increase in part-time employment is normally interpreted as a positive trend towards an improvement in labour market flexibility. Part-time employment increases labour market flexibility on the supply and demand sides. For a company, the use of part-time employment expands the scope to adjust the number of working hours and, as a result, output and labour costs. On the labour supply side, part-time employment is frequently a chance for easier reconciliation of work and family life, and it improves the choice of individuals who might not be willing or able to work full-time.

In Slovenia the prevalence of part-time employment is still relatively moderate, although it increased by about 3 p.p. in the 2000-2006 period and rose by 0.6 p.p. year-on-year in 2006. A spike in part-time employment was registered in the second quarter of 2004 when the prevalence of part-time employment increased significantly among older women (50-64 years) and youth (15-24 years).

Part-time employment is more widespread among women than among men, as well as among the youth and the elderly. In the second quarter of 2006, 7.0% of employed men were in part-time employment on average across the EU; the share of women was significantly higher (32.4%). In the same period in Slovenia 10.4% of employed women and 5.7% of employed men were in part-time employment. The share of young people (15-24) working shorter hours was 26.2% on average in the EU and 31.5% in Slovenia; in the 50-64 age group the shares were 19.6% and 10.4%, respectively.

The largest share of part-time employment is found in agriculture. In 2005 almost a third of the labour force in agriculture were employed part-time. In the service sector the share was substantially lower (8.5%) and in other activities it was 3.9%.

Ranked by the prevalence of part-time employment, Slovenia is lagging behind all old EU members as well as Latvia and Lithuania. Part-time employment is most widespread in the Netherlands, where it is the result of a 1982 agreement between the social partners on the efficient distribution of employment with the help of shorter working hours and part-time employment. In the second quarter of 2006 the share of part-time employment in total employment in the Netherlands was 45.2%. Slovakia had the lowest share (2.7%).

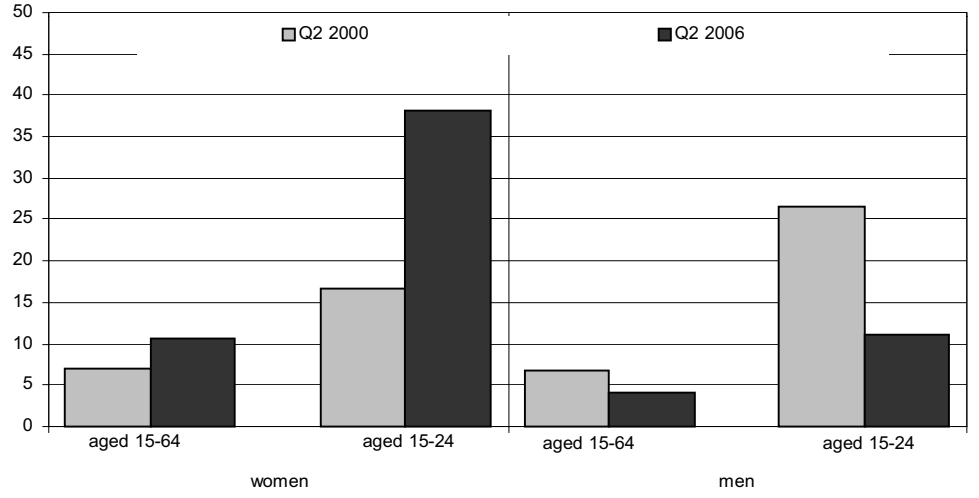
In countries with a high prevalence of part-time employment, the share of people who are involuntarily in such employment is usually lower. The Netherlands has the lowest share of part-time employees who are in this form of employment involuntarily, even though it has the highest overall share of part-time employment in the EU. Across the EU an average of 17.7% of part-time employees said in the second quarter of 2004 that they were in part-time employment involuntarily; in Slovenia the figure was 7.4% and in the Netherlands 3.6%.

Table: **Share of part-time employment in total employment in the 15-64 age group, 1996-2006**

	1996	2000	2001	2002	2003	2004	2005	2006
Austria	N/A	16	N/A	N/A	18.2	19.8	20.4	21.5
Belgium	14	20.6	18.4	19.3	20.4	21.5	21.7	22.9
Cyprus	N/A	7.6	7.4	6.3	7.6	7.5	7.5	6.7
Czech Republic	N/A	4.8	4.4	4.3	4.5	4.4	4.3	4.4
Denmark	21.2	21.4	19.6	20	20.3	21.9	21.5	22.9
Estonia	N/A	6.3	6.8	6	6.7	6.9	6.8	7.1
Finland	11.2	11.9	11.6	12.1	12.5	12.8	13.2	13
France	N/A	N/A	N/A	N/A	16.5	16.5	17.2	17.2
Greece	4.7	4.4	3.9	4.2	3.9	4.5	4.6	5.6
Ireland	11.6	16.6	16.4	16.3	16.7	16.6	N/A	N/A
Italy	6.5	8.7	8.9	8.5	8.5	12.4	12.6	13.2
Latvia	N/A	10.5	9.2	8.6	9.4	9.8	8.9	6
Lithuania	N/A	8.9	8.4	9.5	8.6	8.4	6.3	8.6
Luxembourg	7.6	11.2	11.3	11.6	13.4	16.3	17.4	17.4
Hungary	2.9	3.4	3.3	3.4	4.1	4.3	4.1	3.9
Malta	N/A	6.1	7.1	8.4	8.9	7.8	8.8	9.5
Germany	16.2	19.1	19.9	20.3	21.2	21.9	23.6	25.3
Netherlands	37.8	41	41.9	43.4	44.6	45.2	45.8	45.8
Poland	N/A	9.3	9.2	9.6	9.3	9.6	9.7	9
Portugal	7.1	8.1	8.2	8.4	8.8	8.1	8.4	8.1
Slovakia	N/A	1.8	2.4	1.8	2.2	2.5	2.3	2.7
Slovenia	**6.2**	**5.3**	**5.3**	**5.8**	**5.8**	**8.3**	**7.8**	**8.4**
Spain	7.7	8	8	8	8.2	8.8	12.6	12.1
Sweden	24	21.8	20.2	20.4	22.2	23.1	24.3	24.3
United Kingdom	23.8	24.4	24.5	24.6	25.1	25.2	24.8	24.5

Source: *Population and Social Conditions-Labour market* (Eurostat), 2006.
Note: Data for second quarter of the year.

Figure: **Share of part-time employment among youth and employees in the 15-64 age group by gender, Slovenia, 2000 and 2006**



Source: *Population and Social Conditions-Labour market* (Eurostat), 2006.

Social protection expenditure

Social protection expenditure comprises various cash benefits, benefits in kind and programmes aimed at alleviating social risks. Social protection is a comprehensive system providing insurance to individuals against the loss of income due to illness, birth and childcare or old age, death of the family's provider, and unemployment; within this system, health care, facilities for child and family care, basic subsistence and assistance concerning other forms of social exclusion are provided to individuals and families. The scope of such expenditure reflects a country's efforts to improve the welfare of its citizens.

Social protection expenditure has totalled between 24% and 25% of GDP ever since 1996. According to the latest available data, Slovenia's expenditure on social protection amounted to 24.3% of GDP in 2004, which is 0.3 of p.p. less than the year before and 0.3 of a percentage point more than in 1996[1]. This share was the highest in 2001 and 2002 (25,3 % BDP) while it started to decline slightly thereafter. In real terms, social protection expenditure increased by 3.1% in 2004 and was 32.8% higher than in 1996. As in previous years, the majority of funds in 2005 was earmarked for old age (10.2% of GDP), although the share was slightly lower than in 2003 (10.4%). The highest share of funds allocated for old age was recorded in 2002 (11%); since then these funds have been decreasing. A total of 7.8% of GDP was allocated for sickness and health care, which is on a par with the year before and the highest share in the entire 1996-2004 period. Family and children were allocated 2.0% of GDP, 0.1 p.p. less than in 2003 (2.1%); the share of such expenditure was the highest in 2000 and 2001 (2.2%). Funds for disability decreased as well, from 2% of GDP in 2003 to 1.9% in 2004. Funds allocated for unemployment in 2004 remained at the same level compared to 2003 (0.7% of GDP), while funds earmarked for other forms of social exclusion increased slightly to 0.7% of GDP (2003: 0.6%).

The structure of expenditure shows that in 2004 expenditure on old age (mainly pensions) still accounted for the bulk of the funds; together with expenditure on sickness and health care, it represents over three-quarters of total social protection expenditure. Slovenia's expenditure on old age accounted for 43.0% of the total expenditure on social protection in 2004 (1996: 44.2%); sickness and health care accounted for 32.7% (1996: 30.8%); family and children for 8.6% (1996: 8.5%); and disability for 8.1% (1996: 8.5%). The share of expenditure for unemployment (3.1%) was significantly lower than in 1996 (4.3%), the share for cash benefits and benefits in kind for survivors was 1.7% (1996: 2.0%), while the share of funds for other forms of social exclusion was 2.8% (1996: 1.8%).

EU-25 countries on average allocated 27.3% of GDP for social protection in 2004; with 24.3% of GDP, Slovenia is placed in the middle (13th). The differences between individual countries are, however, significant. As a share of GDP, Sweden spends the most on social protection (32.9%), followed by France (31.2%) and Belgium (29.3%). Latvia (12.6%), Lithuania (13.3%), and Estonia (13.4%) spend the least. In the 1995-2004 period, social protection expenditure increased in about half the EU-25 countries; in the 2000-2004 period it grew in more than two-thirds of the countries.

Per capita expenditure on social protection is lower in Slovenia than in the EU-15, but the gap is closing. In 2004, EU-25 countries allocated on average EUR 6,188.3 per capita to social protection (EU-15: EUR 7,129.6), while the figure for Slovenia was EUR 3,196.1. Luxembourg allocated the most for social security (EUR 13,441.4) and Latvia

[1] Data on social protection has been collected in Slovenia using the Eurostat methodology (ESSPROS) since 1996.

the least (EUR 605.8). A comparison between Slovenia and the EU-15 (data for the EU-25 are not available for 1995) of expenditure on social protection measured by purchasing power standards (PPS) shows that Slovenia is placed among that half of member states which are below the EU average, but it has been closing the gap with the EU-15. By PPS, Luxembourg is also at the top, followed by Sweden and Denmark. In 2004, Slovenia's 4,379.2 PPP placed it between Spain (4,437.5 PPP) and Portugal (4,082.1 PPP).

About two-thirds of the funds for social protection programmes in Slovenia come from social contributions and the remaining third from the national budget. However, the structure of financing sources changed significantly in the 1996-2004 period. The biggest change was recorded in the social contributions of employers, whose share decreased by 5.4 p.p. in this period. The share of contributions of insured persons was only 1.5 p.p. lower and the share of budgetary sources increased by 3.5 p.p., while the share of other sources grew by 0.4 p.p. The structure of sources is significantly different in Slovenia than the average in the EU: the social contributions of employers accounted for 27.1% of the sources in 2004 (EU-25: 38.6%), social contributions of insured persons 39.9% (EU-25: 20.9%), budgetary funds 31.5% (EU-25: 37.3%), and other sources 1.4% (EU-25: 3.3%) of all sources of financing of social protection.

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

	Social protection expenditure								
	Share of GDP, in %						Per capita in PPS, EU-15 = 100		
	1995	2000	2001	2002	2003	2004	1996	2000	2004
EU-25	**N/A**	**26.6**	**26.8**	**27.0**	**27.4**	**27.3(s)**	**N/A**	**N/A**	**N/A**
EU-15	**27.7**	**26.9**	**27.1**	**27.4**	**27.7**	**27.6(s)**	**100**	**100**	**100**
Austria	28.7	28.2	28.6	29.1	29.5	29.1	113	115	111
Belgium	27.4	26.5	27.3	28.0	29.1	29.3	103	100	109
Cyprus	N/A	14.8	14.9	16.3	18.5	17.8	N/A	N/A	N/A
Czech Republic	17.4	19.5	19.4	20.2	20.2	19.6(p)	N/A	N/A	N/A
Denmark	31.9	28.9	29.2	29.7	30.7	30.7	120	118	117
Estonia	N/A	14.0	13.1	12.7	12.9	13.4	N/A	N/A	N/A
Finland	31.5	25.1	24.9	25.6	26.5	26.7	102	93	95
France	30.3	29.5	29.6	30.4	30.9	31.2(p)	107	108	107
Greece	22.3	25.7	26.7	26.2	26.0	26.0	50	61	67
Ireland	18.8	14.1	15.0	16.0	16.5	17.0	56	58	72
Italy	24.2	24.7	24.9	25.3	25.8	26.1(p)	88	91	86
Latvia	N/A	15.3	14.3	13.9	13.4	12.6(p)	N/A	N/A	N/A
Lithuania	N/A	15.8	14.7	14.1	13.6	13.3(p)	N/A	N/A	N/A
Luxembourg	20.7	19.6	20.8	21.4	22.2	22.6(p)	130	142	168
Hungary	N/A	19.3	19.3	20.3	21.1	20.7	N/A	N/A	N/A
Malta	N/A	16.3	17.1	17.1	17.9	18.8	N/A	N/A	N/A
Germany	28.2	29.2	29.3	29.9	30.2	29.5(p)	108	106	100
Netherlands	30.6	26.4	26.5	27.6	28.3	28.5(p)	110	106	111
Poland	N/A	19.5	20.8	21.2	20.9	20.0(p)	N/A	N/A	N/A
Portugal	21.0	21.7	22.7	23.7	24.2	24.9(p)	47	57	56
Slovakia	18.4	19.3	18.9	19.0	18.2	17.2(p)	N/A	N/A	N/A
Slovenia	**24.0***	**24.9**	**25.3**	**25.3**	**24.6**	**24.3(p)**	**52**	**59**	**60**
Spain	21.6	19.7	19.5	19.8	19.9	20.0(p)	58	59	61
Sweden	34.3	30.7	31.3	32.3	33.3	32.9(p)	121	118	121
United Kingdom	28.2	27.1	27.5	26.4	26.4	26.3(s)	95	98	96

Sources: For Slovenia: *Rapid Reports, Social protection* (SORS), First release, 13 November 2006, calculations by IMAD; For EU countries: *Total expenditure on social protection* (Eurostat), 2006.
Notes: [1]Share of GDP according to revised data for 2001-2005, 23 September 2006; [2]Figures on accommodation are excluded due to non-availability; PPS - purchasing power standards; "*" data for 1996, "p" - preliminary data; "e" - Eurostat estimate; N/A - not available.

Health expenditure

In international comparisons of healthcare funding, the most commonly used indicators are total expenditure on health as a share of GDP, the ratio between public and private expenditure and the share of per capita expenditure in PPS. The rapid growth seen in public and private expenditure on health in Europe is largely a consequence of the increasing share of the elderly, the rapid introduction of new medical technologies, medicines, and treatments, and growing demand as the population's expectations regarding healthcare increase. To secure the public-finance sustainability of the funding of healthcare, European countries are curbing the growth in their public expenditure on health and making changes to the ways healthcare is financed and provided.

The relative expenditure on health (as a share of GDP) has decreased slightly in recent years. Slovenia spends a higher share of GDP on health than the average in the EU-25, but its expenditure is still lower than the average in the EU-15. The share of total expenditure on health dropped to 8.7% of GDP in 2003 and to 8.5% of GDP in 2004[1] (EU-25 average in 2003: 8.2%). In 2004 ten EU-25 member states had higher health expenditure than Slovenia. Slovenia recorded the highest share of expenditure on health in 2001, when it stood at 9.0%. In the 2002-2004 period the growth in total health expenditure was very slow (1.4% on average in real terms[2]), lagging 2.1 p.p. behind GDP growth. The growth in public expenditure in particular was slow in this period as it increased on average by only 0.2% per year and dropped to 6.4% (6.9% in 2001) as a share of GDP. In 2005 the slow growth in public expenditure on health continued, standing at 2.6% in real terms according to preliminary estimates; as a share of GDP it again dropped by about 0.1 p.p.[3].

Per capita expenditure on health shows that Slovenia is lagging significantly behind the more developed European countries. Slovenia spent USD 1,746 PPS per capita in 2004 (USD 1,677 PPS in 2003), which is more than any other new EU member state but still less than the average for the EU-25, which stood at USD 2,019 PPS in 2003 (EU-15: USD 2,670 PPS; see the figure).

Private expenditure accounts for a quarter of total health expenditure, which is about on a par with the average for the EU-25. In the structure of total health expenditure, the share of private expenditure was 25.0% in 2004, which is marginally less than in 2003, when it stood at 25.8% (the EU-25 average in 2003: 25.6%). Ten EU-25 countries had a higher share of private health expenditure than Slovenia in 2004, most notably Cyprus, Greece, Latvia, and the Netherlands (see the table). In the 1997-2003 period, all new member states except Malta and Cyprus recorded an increase in private expenditure on health, on average by 2.3 p.p. (4.9 p.p. excluding Malta and Cyprus; Slovenia by 5.0 p.p.). In most EU-15 countries, on the other hand, the share of private expenditure dropped (on average by 0.4 p.p.) as public expenditure grew rapidly. Voluntary health insurance accounts for 51.7% of private expenditure on health in Slovenia. The household out-of-pocket expenditure is low compared to other EU countries and accounts for just 39.5% of total private expenditure in Slovenia compared to nearly 78% on average in the EU-25.

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[1] Source: SORS, *Health expenditure and sources of funding*, First release (22 December 2006). Data on health expenditure for Slovenia were collected under the new methodology of the System of Health Accounts for the first time for 2003 and 2004 (with the SHA methodology being introduced by Eurostat members, OECD, and WHO).

[2] In 1997-2001 the average annual real growth in total expenditure on health was as much as 8.7%.

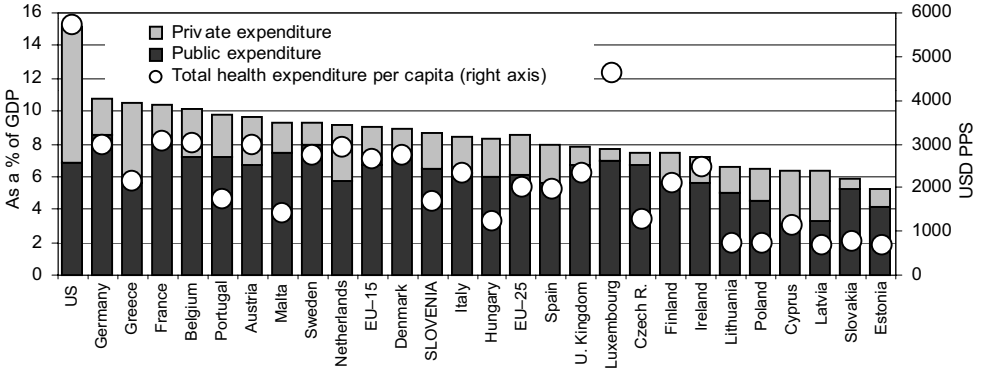
[3] Source: SORS, *General government expenditure by function*, First release (28 December 2006). Government expenditure on health is classified by the COFOG methodology (see the indicator *Public expenditure according to Classification of the Functions of Government COFOG*). Only public expenditure on health is monitored with this methodology, private expenditure is not; the COFOG methodology differs somewhat from the SHA methodology for public expenditure. According to COFOG, public expenditure on health stood at 6.6% of GDP in 2004 and 6.5% of GDP in 2005.

Table: **Health expenditure in Slovenia and selected EU countries**

	Total health expenditure, in % of GDP			Public expenditure on health, in % of GDP		Private expenditure on health as share of total expenditure, in %		Total expenditure per capita in US dollars PPS	
	1997	2003	2004	1997	2004	1997	2004	2003	2004
EU-25	**7.4[1]**	**8.2**	**N/A**	**5.5[1]**	**6.1[2]**	**24.5[1]**	**25.6[2]**	**2,019**	**N/A**
EU-15	**8.0[1]**	**9.0**	**9.0**	**5.9[1]**	**6.7[2]**	**23.3[1]**	**24.5[2]**	**2,670**	**N/A**
Austria	9.4	9.6	9.6	6.6	6.8	29.7	29.3	2,958	3,124
Belgium	8.2	10.1	N/A	6.3	7.2[2]	23.3	28.2[2]	3,044	N/A
Cyprus	5.7[1]	6.4	N/A	2.3[1]	3.1[2]	58.9[1]	50.9[2]	1,143	N/A
Czech Republic	6.8	7.5	7.3	6.1	6.5	9.7	10.8	1,296	1,361
Denmark	8.2	8.9	8.9	6.7	7.3[2]	17.7	17.1[2]	2,743	2,881
Estonia	5.6[1]	5.3	N/A	4.8[1]	4.1[2]	13.7[1]	22.9[2]	682	N/A
Finland	7.2	7.4	7.5	5.5	5.7	23.9	23.4	2,104	2,235
France	9.2	10.4	10.5	7.0	8.2	23.8	21.6	3,048	3,159
Greece	9.4	10.5	10.0	5.0	5.3	47.2	47.2	2,141	2,162
Ireland	6.3	7.2	7.1	4.7	5.6	25.4	20.5	2,455	2,596
Italy	7.5	8.4	8.7	5.4	6.5	28.1	24.9	2,314	2,467
Latvia	6.3[1]	6.4	N/A	3.8[1]	3.3[2]	40.0[1]	48.7[2]	678	N/A
Lithuania	6.2[1]	6.6	N/A	4.7[1]	5.0[2]	24.0[1]	24.0[2]	754	N/A
Luxembourg	5.6	7.7	8.0	5.2	7.2	7.5	9.6	4,611	5.089
Hungary	6.9	8.3	8.0	5.6	5.8	18.7	28.5	1,249	1,276
Malta	7.6	9.3	N/A	5.8	7.4	23.8	19.9	1,436	N/A
Germany	10.2	10.8	10.6	8.2	8.2	19.2	23.1	2,983	3,043
Netherlands	7.8	9.1	9.2	5.3	5.7	32.2	37.6	2,909	3,041
Poland	5.7	6.5	6.5	4.1	4.5	28.0	31.4	748	805
Portugal	8.5	9.8	10.1	5.6	7.4	34.3	26.8	1,721	1,824
Slovakia	5.8	5.9	N/A	5.3	5.2[2]	8.3	11.7[2]	777	N/A
Slovenia[3]	**7.2**	**8.7**	**8.5**	**5.7**	**6.4**	**20.8**	**25.0**	**1,677**	**1,746**
Spain	7.3	7.9	8.1	5.3	5.7	27.5	29.1	1,952	2,094
Sweden	8.1	9.3	9.1	6.9	7.7	14.2	15.1	2,745	2,825
United Kingdom	6.8	7.8	8.1	5.5	7.0	19.6	13.7	2,317	2,508
USA	13.1	15.2	15.3	5.9	6.8	54.7	55.3	5,711	6,102

Sources: OECD Health Data, 2006 for all countries except Cyprus, Estonia, Latvia, Lithuania, and Malta; data for these countries are taken from WHO The World Health Report, 2006; for Slovenia for 2003 and 2004 the source of data is SORS, Health Expenditure (First release, 22 December 2006), for 1997-2002 SORS estimate; average for EU-25 and EU-15 calculated by IMAD.
Notes: [1]1998; [2]2003; [3]Data for Slovenia for 2003 and 2004 are the first data on health expenditure collected under the new international methodology SHA (A System of Health Accounts; OECD, 2000). At the aggregate level shown, the differences in data due to the new methodology are small so comparability with the preceding year is not problematic.

Figure: **Total, public and private expenditure on health in Slovenia, EU countries and USA, in US dollars PPS per capita in 2003**



Sources: *OECD Health Data*, 2006 for all countries except Cyprus, Estonia, Latvia, Lithuania and Malta; data for these countries taken from *WHO The World Health Report*, 2006; for Slovenia the source of data is SORS, *Health Expenditure,* First release, 22 December 2006, average for EU-25 and EU-15 calculated by IMAD.

Human development index

The human development index (HDI) is a summary indicator of development that supplements the economic indicator of the gross domestic product. The index combines three basic dimensions of social development: health (life expectancy at birth), income or access to resources providing a decent standard of living (GDP per capita at purchasing power parity), and education and knowledge (gross enrolment and literacy rates). It measures the achievement of one of the underlying objectives of Slovenia's Development Strategy – sustainable growth of the population's well-being.

The value of the HDI in Slovenia has been improving ever since 1992 (for which the first calculation for Slovenia is available). According to the latest calculations for 2004[1], HDI[2] rose from 0.904 to 0.910. Slovenia, however, slipped from 26th to 27th place on the HDI rank (among the 177 countries)**.** HDI rose due to the growth in the gross domestic product index (from 0.88 to 0.89), whereas the life expectancy index and education index remained unchanged (0.86 and 0.98, respectively). Per capita GDP at purchasing power parity increased by USD 1,789 over the year before according to the UNDP data, which raised the value of the GDP index (allowing for methodological control) by 0.01 of a point. The life expectancy index has had the lowest value of the three sub-indices since 1992, hence Slovenia's 35th rank according to this index in 2004. The relatively rapid growth of HDI since 1992 has been underpinned in particular by the fast growth seen in the gross domestic product and the increase in gross enrolment. Although it is improving constantly, the positive impact of life expectancy at birth on the overall value of HDI is smaller.

The average value of the HDI in the EU-25 was 0.913 in 2004, with Ireland (0.956), Sweden (0.951), and the Netherlands (0.947) recording the highest values. Slovenia retained its 15th place among the EU-25 countries. In the EU-25 group, Slovenia was between the higher-ranked Spain (0.938), Germany (0.932), and Greece (0.921), and the lower-ranked Portugal (0.904), Cyprus (0.903), and the Czech Republic (0.885). In 2004, Latvia, whose HDI grew from 0.836 to 0.845, and Slovakia (0.856; 2003: 0.849) remained at the bottom. For the EU-15 the HDI was 0.940 and for the EU-10 (new member states) 0.872. Slovenia remains the new member state with the highest HDI, followed by Cyprus and the Czech Republic.

Since 1990 the HDI has been showing a positive development trend (in most countries, GDP growth translates to greater overall well-being). With the new calculations of development indices, the number of countries in the group of countries with high human development increased again, while the group of countries with low human development decreased by one. The indices of the countries at the top of the rankings have been growing constantly, but with a different intensity. Norway remains the country with the highest HDI (2004: 0.965; 2003: 0.963), followed by Iceland (2004: 0.960; 2003: 0.956) and Australia (2004: 0.957; 2003: 0.955). Ireland is in fourth place (0.956), followed by Sweden (0.951); in 2003 fourth and fifth places were held by Luxembourg and Canada, respectively. The group of countries with high human development (HDI e" 0.800) comprises already 63 of the 177 countries, while the average value of the HDI for these countries dropped[3] from 0.895 to 0.885. The group with HDI values of over 0.90 (a very high rate) comprises

[1] Data published in 2006 (data are published with a two-year time lapse).

[2] The values of the HDI and its composite indices range from 0 to 1.

[3] These changes may be partially explained by the changes in the methodology for measuring gross enrolment rates; data for certain countries previously included the enrolment of adults.

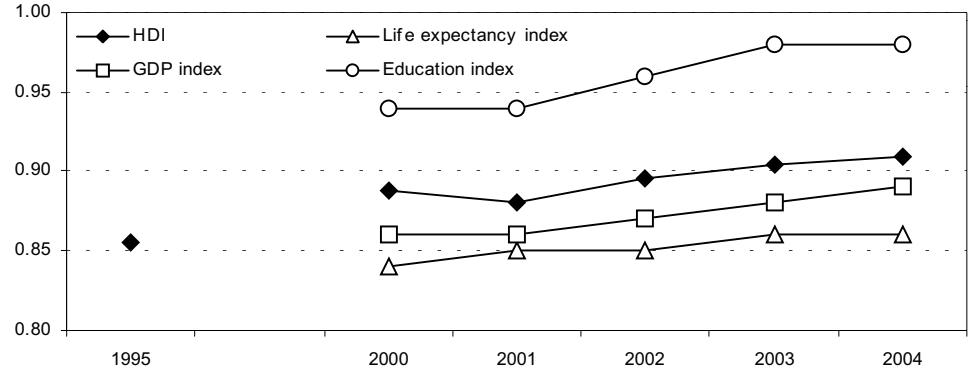
29 countries (2003: 28; 2002: 25). The group with low human development (HDI lower than 0.500) still comprises 31 countries, which is only one less than in the year before. It is worrying, however, that the average value of the HDI in this group is lower than the year before (0.423; 2003: 0.486). African countries still have the lowest indices.

Table: **Human development index in Slovenia and the EU-25, values**[1]

	1995	2000	2001	2002	2003	2004
EU-25	**0.876**[2]	**0.900**[2]	**0.893**	**0.901**	**0.907**	**0.913**
EU-15	**0.910**	**0.930**	**0.924**	**0.929**	**0.936**	**0.940**
EU-10	**0.820**[2]	**0.851**[2]	**0.847**	**0.953**	**0.865**	**0.872**
Austria	0.914	0.933	0.929	0.934	0.936	0.944
Belgium	0.929	0.949	0.937	0.942	0.945	0.945
Cyprus	0.858	0.883	0.891	0.883	0.891	0.903
Czech Republic	0.843	0.857	0.861	0.868	0.874	0.885
Denmark	0.913	0.932	0.930	0.932	0.941	0.943
Estonia	0.795	0.833	0.833	0.853	0.853	0.858
Finland	0.914	0.940	0.930	0.935	0.941	0.947
France	0.921	0.932	0.925	0.932	0.938	0.942
Greece	0.876	0.895	0.892	0.902	0.912	0.921
Ireland	0.894	0.929	0.930	0.936	0.946	0.956
Italy	0.907	0.921	0.916	0.920	0.934	0.940
Latvia	0.765	0.812	0.811	0.823	0.836	0.845
Lithuania	0.787	0.828	0.824	0.842	0.852	0.857
Luxembourg	0.911	0.929	0.930	0.933	0.949	0.945
Hungary	0.812	0.843	0.837	0.848	0.862	0.869
Malta	0.852	0.874	0.856	0.875	0.867	0.875
Germany	0.913	0.927	0.921	0.925	0.930	0.932
Netherlands	0.928	0.939	0.938	0.942	0.943	0.947
Poland	0.816	0.845	0.841	0.850	0.858	0.862
Portugal	0.878	0.898	0.896	0.897	0.904	0.904
Slovakia	N/A	N/A	0.836	0.842	0.849	0.856
Slovenia	**0.853**	**0.884**	**0.881**	**0.895**	**0.904**	**0.910**
Spain	0.904	0.918	0.918	0.922	0.928	0.938
Sweden	0.929	0.958	0.941	0.946	0.949	0.951
United Kingdom	0.921	0.948	0.930	0.936	0.939	0.940

Source: *Human Development Report* (UNDP), 2002-2006.
Notes: [1]Range from 0 to 1. [2]No data for Slovakia.

Figure: **Trends of HDI and sub-indices, Slovenia, 1995–2004**



Source: *Human Development Report* (UNDP), 1997-2006.
Note: Sub-indices for 1995 are not comparable due to different methodologies.

Distribution of earnings in the private sector

In Slovenia the wage differences in the private sector widened slightly in the 2000–2005 period. The distribution of employees by the level of gross wages is the result of differences in gross wages by activity, education and sex, and of the impact of individual labour market institutes. The decile ratios are used as an indicator for measuring inequality in the wage distribution. In Slovenia's private sector the interdecile ratio (9decile/1decile) increased slightly in the 2000–2005 period. In 2000, the ten percent of employees with the highest gross wages earned 3.2-times more than the ten percent of employees with the lowest gross wages, while due to the more rapid growth of high wages in 2005 the ratio was 3.3.

According to the latest comparable data on the wage distribution by purchasing power, the differences in gross wages in Slovenia were higher in 2002 than the EU-25 average. For EU-25 member states the interdecile ratio (9decile/1decile) was 3.0 on average, while in Slovenia it was 3.3. Smaller differences in wages (a ratio below 3) were recorded in northern countries and in Italy and the Czech Republic. A value between 3 and 4 was recorded in about a third of the countries – including Slovenia. Interdecile ratios above 4 were recorded in most of the new member states and the United Kingdom and Portugal among the old member states. The difference between the old and new member states is significant. The wage disparities in the new member states are mostly higher than in the old ones.

In Slovenia the differences among average gross wages per employee by activity in the private sector were on the rise in the 2000-2005 period. In 2000 the average gross wage in the activity with the highest wages was 85% higher than the average gross wage in the activity with the lowest wages, while in 2006 the gap climbed to 109%. During the mentioned period, the average gross wage per employee was the highest in financial intermediation activity (J) (around 60% higher than the average gross wage in the private sector). In this period the lowest average wage was constantly recorded in hotels and restaurants (H). According to 2002 data, also in other EU member states the highest paying activity was financial intermediation while the lowest paying activity was hotels and restaurants.

Compared to the average wage, the wages of employees with a higher education are rising in the private sector while the wages of employees with an upper secondary school and lower education are falling (according to data for the 1998-2002 period since more recent data are unavailable). According to OECD data for 2002, in some old EU member states (data are not available for all member states) the gross wage per employee with higher education was 1.5- to 2-times higher than the gross wage per employee with a lower education: the smallest difference was observed in Belgium and Denmark. In Slovenia and Hungary (there are no data for other new EU member states) the difference is close to 3-times.

The minimum gross wage and coverage by collective agreements can decrease the difference in wages. In Slovenia the minimum gross wage in 1995, when it was introduced, comprised around 43% of the average gross wage in the private sector, while in 2006 it grew to 45.3%. According to data for the EU-27, Slovenia belongs to the upper third of countries. Member states in which the minimum wage represents a higher share in the

private sector's average wage than in Slovenia are Belgium, Ireland, Luxembourg, Malta, and the Netherlands. The comparison shows the link between the percentage of employees covered by collective agreements and the level of inequality. Member states with the highest coverage of employees with collective agreements almost without exception belong among those countries with the lowest wage inequality (see the table).

Table: **Gross wage per employee in purchasing power standards (PPS) in the private sector (activities C to K) for the EU-27 for 2002; interdecile ratios for the distribution of employees by gross wage in the private sector, and selected labour market institutes**

	First decile (D1)	Fifth decile (D5)	Ninth decile (D9)	Average	D9/D1	D9/D5	D5/D1	Average wage/D5	Coverage by collective agreeme-nts	Minimum wage as % of av. gross wage in the private sector
EU-25	**N/A**	**N/A**	**N/A**	**N/A**	**3.0**	**N/A**	**N/A**	**1.20**	**N/A**	**N/A**
Austria	16,096	27,133	52,474	32,505	3.3	1.9	1.7	1.20	95	N/A
Belgium	16,646	25,677	49,717	30,654	3.0	1.9	1.5	1.19	90	46
Bulgaria	1,587	3,628	8,806	4,649	5.5	2.4	2.3	1.28	N/A	40
Czech Rep.	6,971	11,805	20,912	13,949	3.0	1.8	1.7	1.18	25	34
Cyprus	11,214	20,560	41,772	24,351	3.7	2.0	1.8	1.18	65	N/A
Denmark	19,696	29,414	49,059	32,408	2.5	1.7	1.5	1.10	80	N/A
Estonia	2,982	7,150	17,392	9,418	5.8	2.4	2.4	1.32	30	31
Finland	16,200	23,366	38,425	26,109	2.4	1.6	1.4	1.12	90	N/A
France	14,912	23,325	46,946	29,041	3.1	2.0	1.6	1.25	90	N/A
Greece	10,685	17,393	39,782	22,465	3.7	2.3	1.6	1.29	N/A	N/A
Ireland	13,055	23,769	45,590	27,915	3.5	1.9	1.8	1.17	N/A	50
Italy	15,771	23,114	42,486	27,476	2.7	1.8	1.5	1.19	80	N/A
Latvia	2,456	4,504	14,197	7,168	5.8	3.2	1.8	1.59	20	35
Lithuania	3,035	6,145	15,329	8,320	5.1	2.5	2.0	1.35	14	37
Luxembourg	18,528	30,321	63,203	37,232	3.4	2.1	1.6	1.23	60	50
Hungary	4,608	7,963	19,353	11,021	4.2	2.4	1.7	1.38	30	42
Germany	14,942	29,770	54,358	33,461	3.6	1.8	2.0	1.12	68	N/A
Netherlands	16,271	28,961	51,897	33,026	3.2	1.8	1.8	1.14	80	49
Poland	4,545	9,503	20,510	11,948	4.5	2.2	2.1	1.26	40	33
Portugal	7,852	12,714	32,016	17,773	4.1	2.5	1.6	1.40	80	43
Romania	1,818	4,100	10,459	5,642	5.8	2.6	2.3	1.38	N/A	31
Slovakia	6,252	10,110	21,316	13,132	3.4	2.1	1.6	1.30	50	32
Slovenia	**8,134**	**13,162**	**27,111**	**16,416**	**3.3**	**2.1**	**1.6**	**1.25**	**100**	**45**
Spain	11,821	19,309	42,646	24,713	3.6	2.2	1.6	1.28	80	36
Sweden	13,635	22,196	38,299	25,615	2.8	1.7	1.6	1.15	90	N/A
U.K.	13,295	25,779	56,397	33,560	4.2	2.2	1.9	1.30	30	35

Source: *Structure of Earnings Survey - SES* (Eurostat) for 2002, OECD for data on coverage by collective agreements, Eurostat for minimum wage as a % of average gross wage in the private sector (activities C to K).
Notes: Data for all EU-27 member states except Malta. The gross wage per employee is calculated in purchasing power standards (PPS) for the private sector (activities C to K). Interdecile gross wages in PPS and interdecile ratios are calculated from data on the gross wage distribution in the private sector (activities C to K) from Eurostat's Structure of Earnings Survey.

At-risk-of-poverty rate

The at-risk-of-poverty rate, which indicates the percentage of people living in households whose monthly income is below the at-risk-of-poverty rate, is still relatively low in Slovenia. According to the latest available data, it stood at 11.4%[1] in 2004 if income in kind is included; excluding income in kind, it was 12.1%[2]. The poverty threshold[3] for individuals was at 456 euros per month while for a family of four with two children it was 965 euros per month. This means that a family with an income equivalent to or lower than this was at risk of poverty.

Social transfers significantly reduce the risk of poverty. The at-risk-of-poverty rate before social transfers was 24.8% in 2004, which is 13.4 p.p. higher than the at-risk-of-poverty rate after social transfers (see the table). The exclusion of pensions, however, would raise the at-risk-of-poverty rate to 40.9%.

Compared with EU countries, Slovenia still ranks among those countries with the lowest at-risk-of-poverty rates. According to the available data, only Denmark, Luxembourg, Finland, and Sweden had equal rates and none of the countries had a lower rate. Portugal, Slovakia, and Ireland (21%) had the highest at-risk-of-poverty rates, followed by Greece, Estonia, and Spain (20%).

In 2004 the risk of poverty was highest among single households (43.8%), in particular women (49.8%) and the unemployed (25.4%). Among the latter, women (27.8%) and tenants (26.7%) faced the highest risk of poverty. Single-parent households with at least one dependent child (24.8%) faced the highest risk of poverty, whereas the employed (3.9%), those in the 25-59 age group (8.8%) and families with one dependent child (9.2%) had the lowest rates.

Income inequality similarly continues to be low. In both indicators of inequality of income distribution, the quintile share ratio and the Gini coefficient, Slovenia still ranks at the very top of EU countries with the lowest income inequality. In 2004 the quintile share ratio was 3.3[4], which means that the 20% of the most affluent people in Slovenia had 3.3-times more income than the poorest 20%. This is the same as in Sweden, and is the most favourable ratio in the entire EU. In 2004 the Gini coefficient was 23%, a value that was only lower in Sweden and Denmark.

That the risk of poverty has continued to decline since 2004 is indirectly evidenced by the falling share of adults (aged 18-59) living in jobless households. The share of persons aged between 18 and 59 who live in households with working-age members who are not employed is an indicator of social cohesion which indirectly measures the risk of

[1] The at-risk-of-poverty rate for 2004 is calculated based on the Survey on Income and Living Conditions (EU-SILC), which Slovenia first carried out in 2005. In the subsequent years it will be calculated based upon the Household Expenditure Survey. That is why the new data are used only separately and with all due methodological restraint. Due to the different methodologies the two surveys use the SORS calculated the 2004 indicators of social cohesion from both sources. Based on calculations from the Household Expenditure Survey, the at-risk-of-poverty rate was 10.4% in 2004 and remained almost at the 2003 level (10.0%).

[2] All subsequent data is calculated including income in kind.

[3] The risk of poverty threshold is defined as 60% of the median equivalent net income of all households, taking into account the OECD's adjusted equivalence scale.

[4] Under the previous methodology, the quintile coefficient was 3.2, which is roughly the same as in 2003 (3.1).

poverty and social exclusion[5]. A reduction in the share of adults living in such households implies that the overall risk of poverty is being reduced. In 1996, 8.8% of the population lived in jobless households; in 2006 the share dropped to 7.2%. Until 1999 the figure had been increasing slightly but in the 2000-2006 period it decreased by 1.8 p.p. Compared to the EU-25, the share was consistently about 2 p.p. lower in Slovenia throughout the 2001-2006 period.

There are far fewer children than adults in jobless households in Slovenia.[6] There are no significant differences between the two sets of data in the EU: in 2006 the share of children living in such households was 9.5% and the share of adults was 9.8%. In the same year, the share of children was 3.6% and the share of adults 7.2% in Slovenia . Ranked by the share of children living in jobless households, Slovenia was at the very top (alongside Greece), followed by Portugal (4.7%) and Spain (5.1%). The United Kingdom (16.2%), Belgium (13.5%) and Hungary (13.3%) were at the bottom of the rankings.

Table: **At-risk-of-poverty rates before and after social transfers in Slovenia and EU member states in 1995 and in the 2000-2004 period (including income in kind); in %**

	At-risk-of-poverty rate after social transfers						At-risk-of-poverty rate before social transfers (pensions included in income)					
	1995	2000	2001	2002	2003	2004	1995	2000	2001	2002	2003	2004
EU-25	**N/A**	**16(s)**	**16(s)**	**N/A**	**15(s)**	**16(s)**	**N/A**	**23(s)**	**24 (s)**	**N/A**	**25(s)**	**26(s)**
EU-15	**17(s)**	**15(s)**	**15(s)**	**N/A**	**15(s)**	**17(s)**	**26(s)**	**23(s)**	**24(s)**	**N/A**	**25(s)**	**26(s)**
Austria	13	12	12	N/A	13	13	24	22	22	N/A	24(b)	25
Belgium	16	13	13	N/A	15	15	27	23	23	N/A	29(b)	28
Cyprus	N/A	N/A	N/A	N/A	15	N/A	N/A	N/A	N/A	N/A	20	N/A
Czech Republic	N/A	N/A	8	N/A	8	N/A	N/A	N/A	18	N/A	21	N/A
Denmark	10	N/A	10	N/A	12	11	N/A	N/A	29	N/A	32(b)	31
Estonia	N/A	18	18	18	18	20(b)	N/A	26	25	25	25	26(b)
Finland	N/A	11	11	11	11	11(b)	N/A	19	29	28	28	29(b)
France	15	16	13	12	12	13(b)	26	24	26	26	24	26(b)
Greece	22	20	20	N/A	21	20	23	22	23	N/A	24(b)	23
Ireland	19	20	21	N/A	20(b)	21	34	31	30	N/A	31(b)	33
Italy	20	18	19	N/A	N/A	19(b)	23	21	22	N/A	N/A	23(b)
Latvia	N/A	16	N/A	16	16	N/A	N/A	22	N/A	24	24	N/A
Lithuania	N/A	17	17	17	15	N/A	N/A	23	24	24	23	N/A
Luxembourg	12	12	12	N/A	10(b)	11	25	23	23	N/A	23(b)	22
Hungary	N/A	11	11	10	12	N/A	N/A	17	17	15	17	N/A
Malta	N/A	15	N/A	N/A	N/A	N/A	N/A	19	N/A	N/A	N/A	N/A
Germany	15	10	11	15	15	16	22	20	21	23(b)	23	24
Netherlands	11	11	11	11	12	N/A	24	22	22	22	23	N/A
Poland	N/A	16	16	17	17	N/A	N/A	30	31	32	31	N/A
Portugal	23	21	20	20	19	21	27	27	24	26	26	27(b)
Slovakia	N/A	N/A	N/A	N/A	21	21	N/A	N/A	N/A	N/A	28	28
Slovenia	**12***	**11**	**11**	**10**	**10**	**11**	**17***	**18**	**17**	**16**	**16**	**25**
Spain	19	18	19	19	19	20(b)	27	22	23	22	22	25(b)
Sweden	N/A	N/A	9	11	N/A	11(b)	N/A	N/A	17	29	N/A	30(b)
U. K.	20	19	18	18	18	N/A	32	29(b)	28	28	29	N/A

Sources: *At risk-of-poverty rate after social transfers - total and At risk-of-poverty rate before social transfers - total;* (Eurostat), 2007; Indicators of Social Cohesion (SORS), 2004.
Notes: "*" Data for 1997, since no appropriate calculation for 1995 is available; "s" Eurostat's estimate; "N/A" not available; "b" break in the series. Data for 2004 are the latest available.

[5] Inactivity – unemployment – is the most important factor in increasing the risk of poverty and social exclusion along with poor education. Members of households in which nobody is employed (even though the household comprises working-age members) are losing contact with the working world. Therefore, such households are a very non-stimulating environment for the activation of their members. The lack of material sources required for an appropriate standard of living meanwhile increases the risk of poverty and social exclusion.

[6] Other social cohesion indicators adopted in Laeken (SORS), 2004.

Health care resources

Indicators of health personnel and other human resources in health care show the capacity of the health care system and affect its accessibility. Due to the growing demand for health services, most European countries have faced a shortage of doctors, dentists and nurses over the past ten years. Slovenia is lagging behind the European average according to most indicators. The comparison of hospital beds per capita also shows that the capacities of Slovenian health care are lower.

The per capita number of practicing physicians has been increasing faster in the past few years. In 2005 there were 243.5 practicing physicians per 100,000 inhabitants. In 2000-2005 the number increased by an average of 2.6% per year (2.3% in 2004 and 6.2% in 2005)[1]. In 2004, for which the latest comparable data are available, Slovenia was still at the tail of the EU-25 (see the table). Analyses by the Institute of Public Health (IPH)[2] show in particular a lack of physicians at the primary level in certain parts of the country, while the shortage of paediatricians is even more acute. Slovenia also ranks in the bottom half of EU countries by the number of dentists per 100,000 inhabitants; the ratio increased only marginally in the 2000-2005 period, from 58.3 to 61.5 (the average in the EU-25 in 2003 was 62.6). What makes the situation regarding the number of doctors and dentists in Slovenia even more worrying is their age structure and the extension of the duration of specialist training.

The per capita number of practicing nurses is higher than the average in the EU-25, but less than a quarter have a higher education. In 2005 Slovenia had 757 practicing nurses per 100,000 inhabitants[3], which places Slovenia in the top half (EU average in 2003: 715.2), yet nurses in most European countries typically have a higher or university degree. In Slovenia the biggest shortage of nurses with a higher education is at the secondary and tertiary levels of health care; at the same time the coverage at the primary level[4], in particular in community health nursing, has been deteriorating.

The per capita number of hospital beds has been decreasing faster in Slovenia in 2000-2005 than on average in the EU-25, however the comparison indicates low capacity. After the several-years long rapid decline, the number of hospital beds per 100,000 inhabitants[5] rose slightly in 2005 to total 483.0 (in 2004: 479.9). The EU-25 average in

[1] Since 2000 the greatest factors contributing to the accelerated employment of doctors in Slovenia have included the introduction of a new system for the financing of secondment programmes, the central planning of specialist training and the provision of wages for doctors in secondary training (also see the indicator *Number of Doctors and Nurses* in Development Report 2006).

[2] Estimate by the Institute of Public Health (IPH) based on Health Insurance Institute data on declared persons at individual selected personal doctors.

[3] In 2005 there were 3,707 nurses holding a higher or university degree in Slovenia and 11,443 nursing assistants (including midwives), in total 15,150 (in 2004: 14,821) (IPH Statistical Department, January 2007; Statistical Yearbook SORS 2006).

[4] In 2004 there was one full-time nurse with a higher or university education per 23,573 inhabitants, which is 44% more than in 1997 (16,291 inhabitants); there was one nursing assistant at the primary level per 1,549 inhabitants (12% more than in 1997; 1,373 inhabitants) (Report on the Health and Health Care of the Population of Slovenia – Contribution for Social Outlook 2006; internal IPH material, 2006).

[5] Data refer to the number of all beds in hospitals (not just acute ones); data for 2004 include the Diagnostic Centre Bled and MC Medicor (Report on the Health and Health Care of the Population of Slovenia – Contribution for Social Outlook 2006; internal IPH material, 2006).

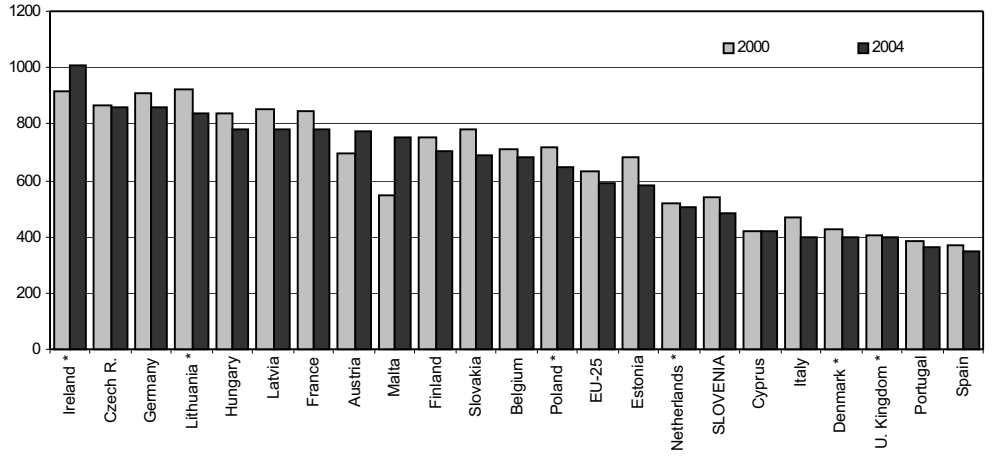
the same year was 584.6. Between 2000 and 2005 the number of beds per 100,000 inhabitants dropped on average by 7.5% in the EU-25, while in Slovenia it was down by as much as 10.5%. The trend of decreasing the number of hospital beds has for years been correlated to the reduction of the average inpatient length of stay and the introduction of day care in hospitals. There is, however, growing demand for beds for the long-term care of the elderly, the disabled and the chronically ill.

Table: **Human resources in health in Slovenia and selected EU member states**

	Practicing physicians per 100,000 inhabitants			Practicing dentists per 100,000 inhabitants			Practicing nurses[1] per 100,000 inhabitants	
	2000	2003	2004	2000	2003	2004	2000	2003
EU-25	**337.2**	**348**	**N/A**	**60.5**	**62.4**	**62.6**	**687**	**715.2**
Austria	312.6	338.3	346.7	44.2	49.8	50.5	N/A	N/A
Belgium	378.6	393.6	398.8	81.3	82.6	82.7	525.6	563
Cyprus	238.5	262.7	269	82.0	93.8	95.4	N/A	N/A
Czech Republic	370.2	389	393.1	64.8	67.4	68.5	828.4	870.8
Denmark	269.4	284.9	N/A	85.9	85.4	N/A	769.6	776.4
Estonia	308.5	315.4	319.2	75.9	83.1	86.3	631.2	650.1
Finland	232.4	239.7	243.9	85.5	87.8	87.2	610.0	730.0
Latvia	286.5	277.8	N/A	52.0	54.6	N/A	438.3	435.9
Lithuania	379.4	395.1	N/A	66.1	68.5	N/A	797.7	757.5
Luxembourg	235.7	245.4	327.7	64.6	70	74.8	N/A	1230.0
Hungary	272.7	324.3	333.4	32.3	66.1	50.9	N/A	883.0
Germany	326.1	336.7	338.9	73.5	75	75.5	745	770.6
Poland	220.0	243.3	229.0	30.4	29.0	37.0	537.3	548.8
Portugal	265.1	269.3	N/A	37.0	38.0	N/A	355.3	347
Slovakia	334.8	328.4	331.8	44.3	43.5	43.5	748	679.8
Slovenia	**215.3**	**224.8**	**229.9**	**58.3**	**60.3**	**59.8**	**693.4**	**736.4**
Spain	332.6	329.2	340.1	N/A	N/A	N/A	359.4	405
Sweden	307.7	332.9	N/A	80.6	81.2	N/A	N/A	N/A
United Kingdom	195.4	217.7	N/A	42.9	45.8	N/A	701.1	793.7

Sources: *Eurostat Queen Tree*, 2006; for the EU-25 average: *Selected WHO Health Indicators for Slovenia and the EU* (Public Health Institute), 2006.
Notes: The table includes only countries for which most of the required data were available. [1]Data on the number of nurses for Slovenia includes nurses with higher or university degrees and nursing assistants, including midwives.

Figure: **Number of hospital beds per 100,000 inhabitants in EU countries in 2000 and 2004**



Sources: *Eurostat Queen Tree*, 2006; for the EU-25 average: *Selected WHO Health Indicators for Slovenia and the EU* (Public Health Institute), 2006.
Note: *2003.

Life expectancy and infant mortality

Life expectancy in Slovenia continues to rise. In 2005 it reached 74.1 years for men and 81.3 years for women. The difference between female and male life expectancy is still large due to large differences in mortality rates of women and men, especially after 60 years of age. In 2005 life expectancy for men increased slightly more than for women due to a more rapid drop in the mortality rate in the age groups 35-44 and 55 years and more. After a short period of stagnation in the early transition period, life expectancy has been constantly increasing since 1994; from 1995 on it has increased by 3.8 years for men and by 3.5 years for women. The gender gap remains around 7.5 years.

In 2005, the difference between life expectancy in Slovenia and the average life expectancy in the EU-25 narrowed for men, while it has grown slightly wider for women. According to Eurostat's estimates, average male life expectancy in the European Union (EU-25) was 75.8 years in 2005 (1.7 years more than in Slovenia), while average female life expectancy was 81.9 years (0.6 of a year more than in Slovenia). Male life expectancy in Slovenia was still lower than in the old EU member states and in Malta and Cyprus. Slovenia's rate of female life expectancy was also lower than in most of the old EU member states (except Denmark) and higher than in most of the new member states (except Cyprus and Malta). As regards the EU, men continue to record the longest life expectancy in Sweden (78.4 years in 2005), while women live the longest in Spain (83.9 years). The lowest life expectancy – both male and female – was recorded in Lithuania (65.4 and 77.4 years, respectively), where life expectancy lowered in 2005.

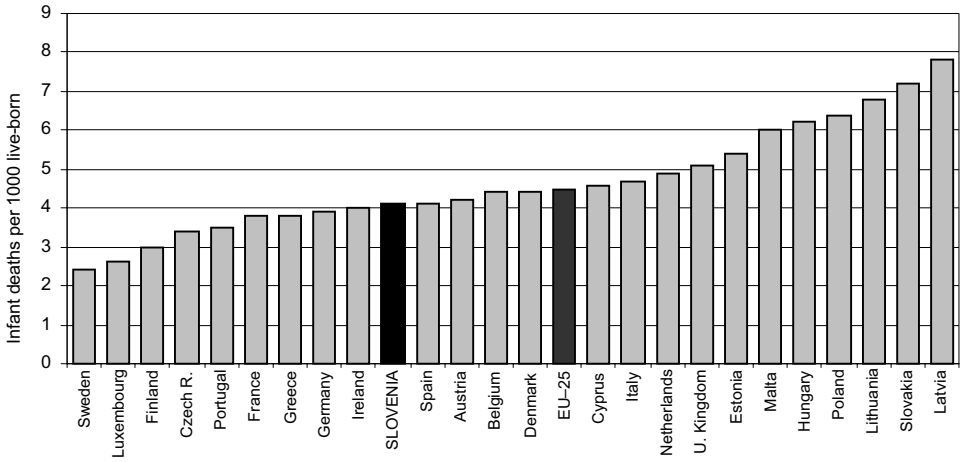
In 2005 the infant mortality rate in Slovenia increased slightly; however, it is still among the lowest in the EU. In 2005 the rate was 4.1 dead babies aged less than one year per 1,000 live-born children, which was 0.4 more than in 2004 when it reached the lowest level ever. The infant mortality rate in Slovenia has dropped by three-quarters since 1980: it fell from 15.3 in 1980 to 5.5 in 1995, hovered between 4.5 and 5.5 in the second half of the 1990s and around 3.9 since 2001, with a downward tendency. As early as 1999 Slovenia's infant mortality rate was lower than the EU-25 average; except in 2000 it was also lower than the EU-15 average (see the table). The lowest infant mortality rate in the EU is still recorded in Sweden (2.4 in 2005), while the highest is still recorded in Latvia (7.8). As in other developed countries, infant mortality levels are on a downward trend in Slovenia primarily due to specific preventive measures taken in the area of prenatal and neonatal health care, and due to the common well-being of society.

Table: **Life expectancy**

	1995	2000	2001	2002	2003	2004	2005
Male life expectancy							
EU-25	72.8	74.4	74.7	75	75.1	N/A	75.8
EU-15	73.9	75.4	75.7	75.9	76	N/A	N/A
Slovenia	70.3	71.9	72.1	72.3	73.2	73.5	74.1
Female life expectancy							
EU-25	79.7	80.8	81.1	81.2	81.2	N/A	81.9
EU-15	80.4	81.4	81.7	81.7	81.7	N/A	N/A
Slovenia	77.4	79.1	79.6	79.9	80.7	81.1	81.3

Sources: *Population and social conditions - Population* (Eurostat), 2006; *Rapid Reports - Population* (SORS), 1995-2006.

Figure: **Infant mortality per 1,000 live-born children, 2005**



Source: *Population and social conditions - Population* (Eurostat), 2006.

Participation in education

Slovenia has a high enrolment rate at the tertiary level. The participation of the population in tertiary education is affected by graduation rates at the secondary level, expectations of expected wages for graduates and other individual benefits of education, public expenditure on education, assistance to students, and other factors. The number of students per 1,000 inhabitants reached 57.2 in 2006 (56.1 in 2005), whereas the total number of tertiary-education students was 114,794 (112,228 in 2005). The latest comparable data are available for 2004, when Slovenia had 52.3 students per 1,000 inhabitants (2003: 50.8), which ranked Slovenia in the upper third of the EU-25 countries. One standout feature in Slovenia is the high share of students under 24 in the total number of students compared to the European average (2004: 68.1%; EU-25: 63.2%), which indicates that more young people are participating in tertiary education. This share is, for example, much lower in Denmark (38.4%) and Sweden (41.2%). In the 2000-2005 period the share of those under 24 in the total number of students in tertiary education decreased slightly (2005: 65.0%; 2000: 73.4%), which shows that the enrolment of older people in tertiary education is rising faster than the enrolment of younger people.

In 2006, Slovenia had a low share of the population aged 18-24 with at most lower secondary education[1] and not in further education or training[2]. Compared to individuals with better education, the young who have a low or no education are at a greater risk of unemployment, poverty, and social exclusion. They also have fewer opportunities for continuing education at higher levels. In 2006 the share of the population aged 18-24 with a completed or uncompleted primary school who were not enrolled in education was 5.2%[3]. which is significantly lower than the average in the EU-25 (2005: 15.1%) and the lowest share of any EU-25 member state, but the share did increase compared to 2005 (4.3%).

The participation of the population aged between 15 and 24 in all levels of education in Slovenia is also among the highest in the EU-25, and still rising. According to data for 2004, the latest year for which data are available, 67.6% of the population in the 15-24 age group were participating in education (EU-25: 60.5%). This placed Slovenia among the leading countries in the EU-25 (See Table), just 2.2 p.p. behind the leader Finland. Compared to 2003, enrolment increased slightly (by 0.7 p.p.), just as it did across the EU-25. In the 2000-2004 period the share of the population aged 15-24 participating in education increased more than the average of the EU-25 (in 2000: Slovenia: 59.3%, EU-25: 56.4%). A high share is characteristic of the majority of new member states and the participation rate is higher in the EU-10 than in the EU-15. The high value of the indicator in Slovenia is also a result of the high participation levels of young people in tertiary education. There are, however, differences in enrolment between the genders: in the EU-25 as well as in Slovenia, the share of women participating in education is higher than the share of men (see the figure). With 73.0% of women aged 15-24 enrolled in education, Slovenia is the leader in the EU-25. The share of men participating in education in the same age group is significantly lower: it was at 62.9% in 2004, which ranked Slovenia 8th in the EU-25. One result of the high participation rate of the young in (all levels) of education in Slovenia is the high share of the population aged 20-24 who have completed at least secondary school. In 2004 as well as in 2005 this share was

[1] According to ISCED 1997 this is the attained level of education of ISCED 2 or lower.

[2] The indicator is also called the early school leavers.

[3] Unreliable data.

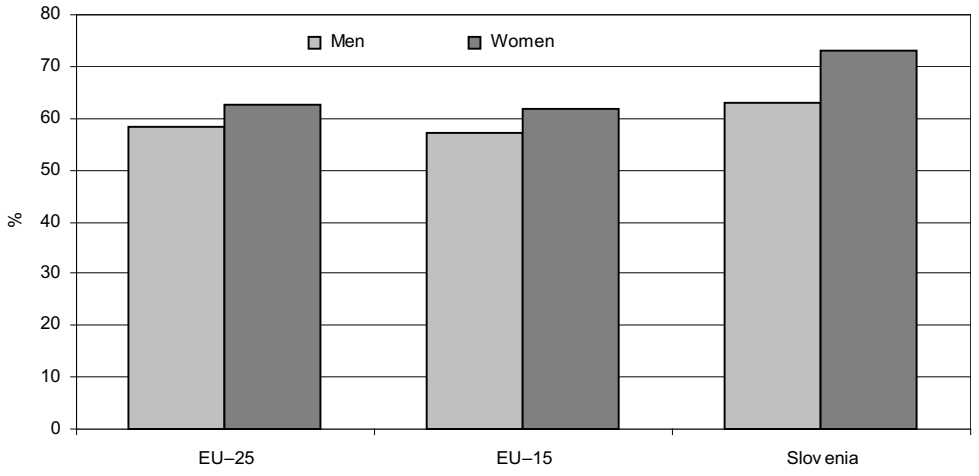
90.5%, among the highest in the EU-25 and much higher than the European average (2005: 77.5%; 2004: 77.1%).

Table: **Population aged 15-24 participating in all levels of education, in %, 1998-2004**

	1998	2000	2001	2002	2003	2004
EU-25	**N/A**	**56.4**	**57.7**	**58.7**	**59.1**	**60.5**
EU-15	**55.5**	**57.2**	**57.3**	**58.1**	**58.2**	**59.5**
EU-10	**N/A**	**53**	**59.1**	**61.2**	**62.7**	**64.5**
Austria	49.9	50.9	51.3	50.4	50.4	51.9
Belgium	N/A	65.3	65.3	65.9	67.6	68.3
Cyprus	N/A	37	37.5	39.2	42.1	42.3
Czech Republic	44.7	47.9	52	55.1	56.2	59.2
Denmark	56.9	58.4	61.9	61	62.8	66
Estonia	N/A	60.7	62.1	63	62.5	63
Finland	63.9	67.5	68.3	68.3	69.4	69.8
France	61.8	61.7	60.9	60	60.1	60
Greece	51.3	53.6	52.3	57.6	58.1	61.6
Ireland	54.6	54.3	54.6	54.7	55.2	58.5
Italy	46.4	46.9	48.1	50.9	53	54
Latvia	50	55.4	59.3	62.1	62.9	64.8
Lithuania	50.9	60.1	64.1	66	68	69.1
Luxembourg	N/A	40.8	43.1	43.2	43.6	44.4
Hungary	46.4	50.1	51.6	54	56.5	59.7
Malta	N/A	37.1	37.1	37.8	40.4	42.7
Germany	61.7	62.8	63	63.2	63.5	64.4
Netherlands	61.4	62.7	63.1	62.4	62.4	63.5
Poland	57.6	61.6	64.3	66.1	67.3	68.6
Portugal	50.7	51.1	52.4	51.5	51.4	51.8
Slovakia	N/A	N/A	46	47.2	49.4	52.1
Slovenia	**53.6**	**59.3**	**62.7**	**65.2**	**66.9**	**67.6**
Spain	55.6	56.2	55.6	54.7	53.9	54.6
Sweden	61.5	64.5	64.7	65.2	66.1	67.5
United Kingdom	48.5	54.2	53.9	56.6	54.7	57.7

Source: *Population and social condition - Education and training* (Eurostat), 2006.

Figure: **Participation of population aged 15-24 in all levels of education, Slovenia and the EU, by gender, 2004**



Source: *Population and social condition – Education and training* (Eurostat), 2006.

Life satisfaction

Life satisfaction is a summary and multi-dimensional indicator of the quality of life and personal well-being. It is measured by surveys that ask people how satisfied they are with their lives (Development Report 2006). Life satisfaction is an important indicator of the past and present living conditions of people. In Slovenia it is measured by Public Opinion Polls (SJM)[1], while international data are obtained from the European Social Survey (ESS)[2].

Satisfaction with life improved somewhat in 1994-2004 (the latest available data). Between 1995 and 2000 about 80% of people in Slovenia were »satisfied« or »fairly satisfied« with their lives (see Development Report 2006). When people were asked to evaluate their lives on a numerical scale, in 1995 50.1% of people rated their life with a score of 7 or higher on an eleven-grade scale (0-10), while 64.6% of people rated it with a score of 6 or higher. In 2004 a score of 7 or higher was chosen by 63.2% of people and a score of 6 or higher by 71.6% of people. According to the ESS data, people in Slovenia rated their lives with a score of 6.6 in 2002 and with a score of 6.9 in 2004.

In 2004, Slovenia was clustered in a group with medium life satisfaction[3]. **G**reat differences among countries were observed in 2004. The highest values were in Scandinavian countries and the lowest in post-socialist countries[4] and in Southern Europe. People were the most satisfied with their lives in Iceland and Denmark (8.5), Switzerland (8.1), and Finland (8.0). The lowest life satisfaction was observed in Ukraine (4.4), Slovakia (5.6), Portugal and Hungary (5.7), Estonia (5.9), and Poland (6.2). With a score of 6.9, Slovenia was ranked 14th among the 24 countries, the highest among the surveyed post-socialist countries. People in Slovenia were more satisfied with their lives than people in France, the Czech Republic, and Germany for example, but less satisfied than people in the United Kingdom, Spain, and Belgium (see the figure).

Life satisfaction is closely correlated with self-perceived health. Health self-perception is an important indicator which at the general level indicates people's ability to perform their social roles (see Development Report 2006). The results of the analysis carried out in Slovenia (Bernik, 2004) show that of all observed factors (self-perceived) health has the greatest effect on people feeling happy; people who feel healthy assess their happiness higher than those who are not.

Compared with other European countries, the health self-assessment in Slovenia was low in 2004. According to the 2004 survey, fewer people in Slovenia assessed their

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[1] The project is carried out by the Public Opinion and Mass Communication Research Centre at the Faculty of Social Sciences in Ljubljana. The SJM is conducted as a personal interview. The sample covers randomly selected persons from the register of the population with a permanent residence in Slovenia. It is representative of the whole population in Slovenia aged 18 years upwards. The sample size is between 1,000 and 1,100 units.

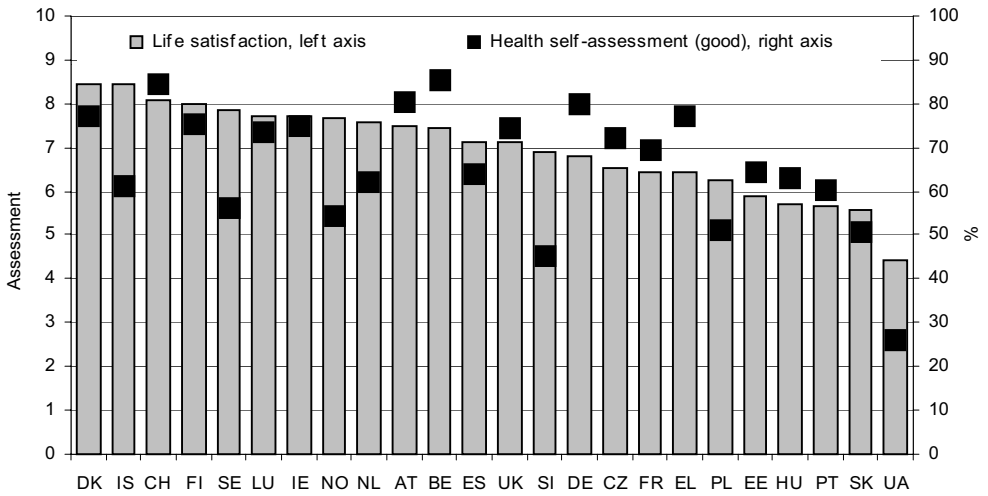
[2] In Slovenia the European Social Survey is conducted by the Public Opinion and Mass Communication Research Centre. The first survey, carried out in 2002, covered 22 countries while the second one, carried out in 2004, covered 25 countries (Slovakia, Estonia, Ukraine, Iceland, and Turkey, which was not included in the analysis, were added, while Israel and Italy did not participate in 2004). The observation unit is the country, the sample (N) is 45,681 people aged 18 and over.

[3] Also shown by The Quality of Life in an Enlarged Europe (28 countries), the research carried out in 2002, and the survey Value Systems of the Citizens and Socio-Economic Conditions: Challenges from Democratisation for the EU Enlargement, carried out in 2000 and 2001.

[4] Slovenia, the Czech Republic, Slovakia, Poland, Hungary, Estonia, and Ukraine.

health as very good or good than in 2002 (54.2% vs. 56.4%), but slightly more people thought it was satisfactory (33.8% vs. 31.8%); 12.0% of people thought that their health was bad or very bad (11.8% in 2002). In 2004, 15.2% of people in Slovenia assessed their health as very good and 1.8% as very bad. The Irish and the Swiss were those most satisfied with their health; around 85% of them thought their health was very good or good, which was about 5 percentage points less than in 2002; 43.8% of the Irish and 42.7% of the Greeks thought that their health was very good. On the other hand, people living in post-socialist countries and in Portugal were the least satisfied with their health. The least satisfied were Ukrainians and Hungarians; 4.0% and 3.5%, respectively, think their health is very bad. Average values of health self-assessment are high especially in those countries with a high gross domestic product and favourable economic trends.

Figure: **Life satisfaction[1] and health self-assessment[2], countries included in the European Social Survey (ESS), 2004**



Source: *European Social Survey*, 2004 database.
Note: [1]Question: »All things considered, how satisfied are you with your life as a whole these days?« Average score, 0-10 scale (0 very dissatisfied, 10 very satisfied). [2]Question: »In general, how would you assess your health?« The answer »good« is the sum of answers »very good« and »good«.

Trust in institutions and in other people

Trust reflects an individual's expectations about actions of other people and institutions; it is a precondition for co-operation in society, an indicator of the legitimacy of institutions and of the social capital at the macro level. Trust is analysed through answers to questions about the expected behaviour of other people and institutions (see Development Report 2006). They reflect the (direct or indirect) experience of people concerning the behaviour of other people and institutions. In Slovenia trust is surveyed by means of the Slovenian Public Opinion Polls (SJM), while international data are drawn from the European Social Survey (ESS)[1].

Even though between 2002 and 2004 the level of trust in others improved slightly, Slovenia is still in the group of countries with the lowest trust, according to the 2004 ESS. People in Slovenia tend not to trust other people; with a score of 4.13 (2002: 3.98) Slovenia is ranked among the countries with the least positive collective expectations about the behaviour of other people. The group of countries with low trust also includes two Mediterranean countries and three post-socialist countries. In 2004 the lowest levels of trust were recorded in Poland (3.6), Greece (3.8), and Portugal (3.9) and the highest in the Scandinavian countries (between 6 and 7); although lower than in 2002 trust is still the highest in Denmark (6.8), Norway (6.6) and Finland (6.5).

Similarly, solidarity is not high; the image of an egocentric and unsupportive environment is the most obvious in Eastern and Southern Europe. In the context of measuring trust and co-operation, the assessment of solidarity is also important. Willingness to help others is the lowest in Poland and Greece (3.2) and in Slovakia (3.7). Among post-socialist countries solidarity is the highest in Estonia (4.7), while Slovenia with its score of 4.4 (2002: 4.2) is ranked 16th among the countries included in the survey. The greatest solidarity is recorded in Ireland and in the Scandinavian countries, between 5.7 and 6.2 (see the table).

According to the ESS 2004, trust in institutions is still low in Slovenia. Even though slightly less than in the 2002 ESS, people in Slovenia put their greatest trust in the police in 2004 (4.7; 2002: 4.9) and their lowest trust in politicians (3.1 both in 2002 and 2004) and political parties[2] (3.2). The pattern of trust in Slovenia is similar to other surveyed countries in which people were asked to report their level of trust in seven institutions – parliament, police, the legal system, politicians, political parties, the European Parliament, and the UN – and they chose the police[3] as the institution they trusted the most and politicians as deserving the least trust. The police was trusted the most in the Scandinavian countries – Finland (7.96), Denmark (7.9), and Iceland (7.3) – while in the post-socialist countries the scores ranged from 3.3 in Ukraine to 4.2 in the Czech Republic to 4.7 in Slovenia. The greatest trust in politicians and political parties was expressed by people in Denmark (around 5.6) and the lowest by people in Poland (both around 1.9) and Portugal (around 2.1). The third lowest was trust in the parliament and the fourth trust in the legal system, where the range of expressed trust levels was wide (second only to trust in the police).

[1] See indicator *Life Satisfaction*.

[2] Trust in political parties was not included in the 2002 survey.

[3] The police is at the same time the institution with the highest range of scores and the institution which on the eleven-grade scale achieves the highest score.

Table: **Trust in institutions[1] and in other people[2], 2004, countries included in the European Social Survey (ESS), average score (0-10 scale)**

	Trust							Solidarity
	Parliament	Legal system	Police	Politicians	Political parties	EP	Other people	
Austria	4.77	5.83	6.18	3.25	3.40	4.02	5.18	5.29
Belgium	4.68	4.83	5.78	4.24	4.29	4.98	4.79	4.43
Czech Republic	3.19	3.72	4.23	2.73	2.74	4.38	4.28	4.15
Denmark	6.29	7.21	7.94	5.59	5.65	4.83	6.76	6.02
Estonia	4.19	4.91	5.69	3.31	3.09	4.87	5.18	4.73
Finland	6.01	6.90	7.96	4.88	5.00	5.00	6.52	5.71
France	4.27	4.77	5.66	3.49	3.40	4.31	4.53	4.52
Greece	4.69	5.38	6.03	3.59	3.51	5.34	3.82	3.18
Ireland	4.71	5.21	6.59	3.92	3.97	5.37	5.84	6.24
Iceland	5.92	6.01	7.28	4.97	4.89	5.29	6.37	6.22
Luxembourg	5.76	6.14	6.47	5.18	4.97	5.22	5.02	4.73
Hungary	3.63	4.43	5.17	2.68	2.71	5.22	4.11	3.99
Germany	4.21	5.54	6.48	3.23	3.18	4.18	4.82	4.80
The Netherlands	4.67	5.50	5.97	4.69	4.80	4.61	5.84	5.39
Norway	5.42	6.35	7.13	4.24	4.34	4.55	6.63	5.99
Poland	2.40	3.01	4.58	1.92	1.89	4.26	3.59	3.18
Portugal	3.72	3.94	5.06	2.06	2.09	4.04	3.92	3.94
Slovakia	3.05	3.58	4.35	2.53	2.66	4.74	4.02	3.73
Slovenia	**4.13**	**3.85**	**4.71**	**3.10**	**3.21**	**4.53**	**4.13**	**4.36**
Spain	5.09	4.72	5.91	3.68	3.67	5.05	4.89	4.21
Sweden	5.35	5.77	6.49	4.19	4.40	3.95	6.05	5.91
Switzerland	5.52	6.14	6.86	4.77	4.64	4.61	5.71	5.52
Ukraine	4.80	3.91	3.30	3.74	3.61	4.83	4.45	3.82
United Kingdom	4.29	5.12	6.12	3.59	3.68	3.55	5.18	5.64

Source: *European Social Survey*, 2004 database.
Note: [1]Question: 'How much do you personally trust each of the following institutions?' 0 means you do not trust an institution at all and 10 means you have complete trust. [2]The question on trust in others: 'Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?' 0 means you can't be too careful and 10 means that most people can be trusted. The question on solidarity: 'Would you say that people mostly try to be helpful or that they mostly look out for themselves?' 0 means people mostly look out for themselves and 10 means people mostly try to be helpful. EP - European Parliament.

The fifth priority:

Integration of measures to achieve sustainable development

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

Energy intensity

Energy consumption per unit of GDP is one of the key indicators of sustainable development and shows how successful a country is in decoupling the increase in energy consumption and economic growth. Higher economic growth should no longer be achieved by greater energy consumption. Such efforts are supported by the development of the economy towards a greater share of service activities and high value-added activities as well as by economical use of energy.

Slovenia has a relatively high energy intensity since only seven EU member states consume more energy per unit of GDP. In 2005 Slovenia consumed 325.1 toe[1] (tonnes of oil equivalents) of primary energy to produce EUR 1 m of GDP expressed in constant 1995 prices. In 2004, for which the latest data are available for the EU countries, Slovenia consumed 329.2 toe of primary energy while in the EU only 204.9 toe was consumed to produce EUR 1 m of GDP[2]. Slovenia hence consumed 60.7% more energy than the average EU country to produce one unit of GDP. The differences in the EU countries' energy intensity are large; the ratio between the least energy-intensive Denmark and the most energy-intensive Estonia is almost 1:10 (see the figure).

Slovenia's high energy intensity can be partly explained by the relatively lower GDP per capita than the EU average and partly by the high share of manufacturing industries in the economy. Slovenia's energy consumption per capita is close to the EU average (in 2004 it was only 6.2% lower). Only slightly higher energy consumption per capita was recorded in Denmark and Ireland which, however, have 2.8-times higher GDP per capita than Slovenia so their energy intensity is much lower than in Slovenia. In 2004 Slovenia had 42.3% lower GDP (at current EUR) per capita than the EU average. Apart from Malta and Cyprus, all new member states – which have even greater energy intensity than Slovenia – also significantly lag behind in terms of their GDP per capita. The high energy intensity is partly the result of the economic structure. Among the EU member states, Slovenia has almost the highest share of manufacturing industries, especially paper, chemical, non-metal and metal industries, i.e. activities which use an above-average amount of energy. These four industries together generated 41.3% of the value added generated by manufacturing industries in 2005, while the share of energy consumed by these industries in the total energy consumed by manufacturing industries was much higher, 71.6%[3].

Slovenia's energy intensity is decreasing more rapidly than in the EU; however, the process is slow due to the large gap. In the 1995-2004 period, energy intensity in Slovenia dropped by 17.2% (on average by 2.1% per year), while in the EU it fell by 11.1% (on average by 1.3% per year). In the five years to 2005 the dynamics of reduction slowed down to 4.9% (on average 1.0% per year), especially due to the setback in 2001 when the growth of energy consumption greatly exceeded GDP growth. In 2005, Slovenia's energy intensity declined by 1.3% (GDP grew by 4.0% and energy consumption by 2.7%). Among energy sources, the consumption of nuclear energy was up by 7.7%, the consumption of natural gas by 3.3%, the consumption of liquid fuels by 2.7% and the consumption of biomass and waste by 1.5%. Net exports of electricity were more than a half lower, while the consumption of solid fuels decreased by 0.3% and that of hydro-energy by 15.5%.

[1] The calculation for 2005 is based on the SORS' figure on GDP in 1995 prices and energy consumption.

[2] Eurostat, Structural Indicators.

[3] Calculations based on the SORS' data: SI-STAT, National accounts, Consumption of energents and stocks in mining, manufacturing and construction.

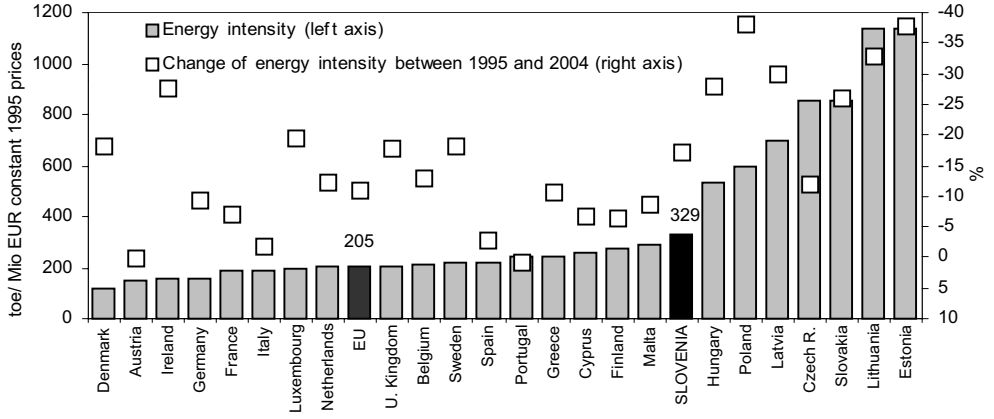
A rapid decrease in energy intensity does not only happen in countries where levels are high. For example, in the Czech Republic energy intensity in the 1995-2004 period decreased by only 11.8% and is still four times higher than the EU average. On the other hand, Ireland, which had already had a very low energy intensity rate in 1995, improved the indicator by another 27.7% by 2004.

Table: **Energy intensity (primary energy consumption per unit of GDP), toe/m EUR$_{1995}$**

	1995	2000	2001	2002	2003	2004
EU-25	**230.4**	**208.8**	**209.7**	**206.5**	**207.6**	**204.9**
Austria	145.8	134.4	142.8	139.9	149.0	146.1
Belgium	238.6	236.1	228.1	213.6	217.4	208.2
Cyprus	281.0	282.3	274.4	269.9	287.9	261.8
Czech Republic	965.8	888.4	883.9	875.8	891.2	851.8
Denmark	146.9	125.0	126.6	123.8	126.1	120.3
Estonia	1835.2	1214.8	1273.0	1153.2	1179.1	1140.2
Finland	290.6	260.1	263.8	272.2	280.1	272.1
France	199.7	186.6	188.3	186.1	188.5	185.5
Greece	268.5	263.6	260.6	258.0	247.8	240.4
Ireland	217.0	175.1	172.5	166.1	155.2	156.9
Italy	192.4	186.9	184.0	184.1	189.2	189.1
Latvia	994.4	756.0	816.5	750.3	725.1	696.3
Lithuania	1691.7	1208.4	1256.8	1272.7	1194.8	1135.6
Luxembourg	241.2	186.6	190.7	196.7	181.8	194.3
Hungary	740.6	600.5	588.6	579.6	566.6	534.1
Malta	320.2	303.2	266.6	263.9	284.2	292.4
Germany	175.2	159.7	162.5	158.7	161.0	158.8
Netherlands	231.2	198.5	200.7	201.1	202.2	203.2
Poland	962.8	680.2	673.5	654.2	623.1	596.6
Portugal	237.3	241.5	243.9	254.7	234.7	239.6
Slovakia	1155.4	955.9	1015.8	976.0	929.6	854.3
Slovenia	**397.3**	**341.7**	**349.6**	**344.6**	**341.1**	**329.2**
Spain	228.7	227.0	225.4	226.3	219.7	222.5
Sweden	265.5	215.0	228.9	224.3	217.1	217.5
United Kingdom	251.5	227.3	223.7	214.5	212.1	207.2

Source: *Structural indicators* (Eurostat), 2006.

Figure: **Primary energy consumption per unit of GDP in Slovenia and EU member states in 2004 and the change in energy intensity between 1995 and 2004 in these countries**



Source: *Structural indicators* (Eurostat), 2006.

Renewable energy sources

Greater use of renewable energy sources enables the saving of the limited reserves of fossil fuels and is more environment-friendly. There are many estimates of global fossil fuels reserves. Most of them agree that petroleum reserves should run out in less than 50 years and natural gas reserves in less than 70 years, while coal reserves should suffice for slightly more than 200 years. With greater use of renewable energy sources the period in which the fossil fuels, which represent more than 85%[1] of the total consumption of energy sources in the world, will run out, could be prolonged. At the same time, the use of renewable energy sources has a less negative impact on the environment, which is especially true of CO_2 releases, while as regards the installation of energy producing capacities in the environment there are also many reservations with renewable energy sources.

Slovenia has a comparatively high share of renewable energy sources in its total energy sources. Their share[2] in total primary energy consumption totalled 10.7%[3] in 2005 and 11.6% in 2004, for which the latest data are available for the EU countries. This is almost twice as much as in the EU (6.3%). The use of renewable energy sources differs in the EU member states; higher shares than in Slovenia were recorded in six member states (see the table).

In the EU biomass and waste represent two-thirds of renewable energy sources, while in Slovenia their share is slightly lower as our country has a relatively high share of hydro energy. In 2004 the structure of renewable energy sources in the EU was as follows: biomass and waste 66.0%, hydro energy 23.9%, geothermal energy 4.9%, wind energy 4.6%, and solar energy 0.7%. In Slovenia the share of biomass and waste was 57.2% and of hydro energy 42.8% (in 2005 the shares were 62.0% and 38.0%). As regards the share of hydro energy, Slovenia was ranked behind the first two countries in 2004: Slovakia with 47.9% and Austria with 46.3%. Between 1995 and 2004, the total energy consumption in the EU increased by 10.6%, while it grew by 17.1% in Slovenia. The use of renewable energy sources grew by 36.1% in the EU and by as much as 51.7% in Slovenia. Among renewable energy sources, the use of biomass and waste increased the most in the EU (by 22.1 million toe or 44.2%), followed by wind energy (by 4.7 million toe or by more than 14-times), geothermal energy (by 1.9 million toe or 55.7%), and solar energy (by 0.5 million toe or by 2.7-times). On the other hand, the use of hydro energy decreased slightly (by 0.2 million toe or 0.6%). In Slovenia the use of biomass and waste increased by 207,000 toe or 78.7% and the use of hydro energy by 73,000 toe or 26.2%[4]. Solar energy is not included in the statistical data but positive trends can be observed (five new solar plants were constructed in 2005). Only in some countries such as Italy, Denmark, and Cyprus do geothermal, wind, and solar energy represent important sources of energy (see the figure), while elsewhere biomass and hydro energy predominate.

Due to the high share of hydro energy, the share of renewable energy sources largely depends on the weather conditions in Slovenia; however, in recent years it does not show any particular trend. Because of the frequent droughts, the use of hydro energy has actually been falling while the use of biomass has been rising very slowly. Therefore, the share of renewable energy sources was relatively modest in 2003 at 10.3%, since the production at the hydro-electric power plants was 20.5% lower than anticipated[5], while in 2004 the share was higher, at 11.6%, when production at the hydro-electric power plants exceeded the planned level by 8.7%. In 2005 the share of renewable energy sources again fell to 10.7% as production at the hydro-electric power plants was 11.3% lower than anticipated, while the use of biomass and waste increased by only 1.5% over 2004.

[1] World Energy Outlook (IEA), 2004.

[2] New Cronos database – Environment and energy (Eurostat), 2006; calculations by the IMAD.

[3] SI-STAT - Energy (SORS), 2006; calculations by the IMAD.

[4] The use of hydro-electric energy in the 1995-2005 period increased by less, 19,000 toe (6.8%).

[5] Electricity balance of the Republic of Slovenia (ELES): anticipated production takes into account long-term average water levels.

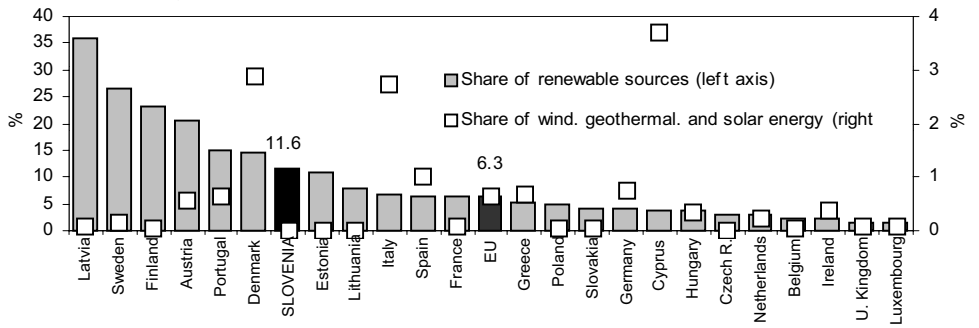
The EU's intention to double the share of renewable energy sources in a few years seems to be a very distant objective, while Slovenia still has some unused possibilities as regards the exploitation of these sources. The ambitious objective of the EU to double the share of renewable energy sources by increasing it to 12% by 2010 was set to achieve the Kyoto objectives. In Slovenia the share of renewable energy sources is not far behind this objective; it should increase particularly after the new chain of hydro-electric power plants along the Sava River is built and the exploitation of the hydro-potential in Slovenia reaches the level of about 50%. In Slovenia a further increase in the use of biomass is possible because a large part of our country is covered by forests.

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

	1995	2000	2001	2002	2003	2004
EU-25	**5.1**	**5.6**	**5.8**	**5.7**	**6.0**	**6.3**
Austria	22.0	22.7	21.8	22.2	19.5	20.7
Belgium	1.4	1.3	1.5	1.5	1.9	2.1
Cyprus	2.1	1.9	1.8	1.9	1.6	3.9
Czech Republic	1.5	1.5	1.7	2.1	2.7	3.1
Denmark	7.6	10.7	11.2	12.1	13.1	14.6
Estonia	9.1	11.0	10.6	10.5	9.6	10.8
Finland	21.3	24.0	22.7	22.2	21.2	23.4
France	7.5	6.8	6.9	6.2	6.3	6.3
Greece	5.3	5.0	4.6	4.7	5.1	5.1
Ireland	1.5	1.8	1.8	1.9	1.8	2.1
Italy	4.8	5.2	5.5	5.3	5.9	6.8
Latvia	27.3	34.4	34.3	34.7	33.2	35.9
Lithuania	5.7	9.0	8.5	8.0	7.8	8.0
Luxembourg	1.4	1.6	1.3	1.4	1.4	1.6
Hungary	2.4	2.1	1.9	3.4	3.5	3.7
Malta	N/A	N/A	N/A	N/A	N/A	N/A
Germany	1.9	2.9	3.0	3.4	3.5	4.0
Netherlands	1.2	2.1	2.1	2.2	2.6	2.9
Poland	3.9	4.2	4.5	4.6	4.5	4.7
Portugal	13.3	12.9	15.7	14.0	17.1	14.9
Slovakia	2.8	2.8	4.0	3.8	3.3	4.0
Slovenia	**8.9**	**12.3**	**11.5**	**11.0**	**10.3**	**11.6**
Spain	5.5	5.7	6.6	5.5	7.2	6.4
Sweden	26.1	31.6	28.7	27.0	26.3	26.6
United Kingdom	0.9	1.1	1.1	1.3	1.4	1.6

Source: *Environment and Energy* (Eurostat), 2006.

Figure: **Total share of renewable energy sources[1] and the share of wind, geothermal, and solar energy in total primary energy consumption in EU member states in 2004**



Source: *Environment and Energy* (Eurostat), 2006; calculations by IMAD.
Note: [1] Wind, geothermal and solar energy not included.

Emission-intensive industries

In 2005 the high growth of emission-intensive industries' output[1] slowed down, but the data for 2006 again show much higher growth than the average of manufacturing industries. In the 1999-2004 period Slovenia's total output of emission-intensive industries, i.e. those sectors that have the highest emission intensity (into air, water, earth) per unit of output[2], was growing by almost twice as much annually (6.0%) as the output of manufacturing industries as a whole (3.1%). The difference had been increasing until 2003 when it was the biggest in the analysed period (6 p.p.). In 2004 it decreased to 2.4 p.p. and in 2005 to 0.5 p.p. The data for 2006 again show a much higher growth of emission-intensive industries' output (by 3.8 p.p.) than the average of manufacturing industries. As a result, the share of emission-intensive industries in the total value added (VA) of manufacturing started to rise after 1999. The relatively modest increases in this share observed in 2001 (0.1 p.p.) and 2002 (0.2 p.p.) were followed by a more substantial rise in 2003 (1.9 p.p.). In 2005, emission-intensive industries created 22.8% of the total VA of manufacturing industries, which was 0.4 p.p. more than in 2004 and at the level of 2003. However, the structure changed: compared to 2003, the share of the manufacture of metals grew by 1.2 p.p., while the shares of the manufacture of chemicals and chemical products and of the manufacture of paper fell by 1.2 p.p. and 0.1 p.p., respectively.

The energy intensity of manufacturing industries declined after 1994, but this process has slowed down in the last few years. The consumption of final energy[3] (energy consumption in TJ) per unit of VA in manufacturing industries, the main energy-related indicator of qualitative changes, fell at an average annual rate of 6.5% in 1995-2001, while in 2001-2004 the average annual rate was only 1.8%. In 2005 saw an even stronger deterioration: the consumption of final energy per unit of VA in manufacturing industries increased by 3.2%. This was mostly the result of higher energy consumption seen in the manufacture of basic metals and fabricated metal products, other non-metal mineral products, and pulp and paper. According to the estimate[4], the higher consumption of final energy pushed CO_2 emissions from manufacturing industries up by 5.3% in 2005. In December 2006 the Government of the Republic of Slovenia adopted the revised Operational Programme for Limiting Greenhouse Gas Emissions by 2012, which is aimed at fulfilling the Kyoto Protocol commitments. Due to the adjustment of production to the IPPC Directive within this programme, the production of primary aluminium should decrease by a quarter in 2008.

The Directive on Integrated Pollution Prevention and Control (IPPC Directive) stipulates uniform procedures for permitting the operation of industrial sources of pollution. In Slovenia (on the basis of permit applications) there are 203 industrial plants (or landfills) which, according to the IPPC Directive, must have integrated permissions for environmental pollution. The granting of permits according to the IPPC Directive is based on the principle that the best available techniques must be applied in

[1] Called 'dirty' industries in previous Development Reports.

[2] According to the World Bank methodology and groups of the Slovenian Standard Classification of Activities, the emission-intensive industries include: manufacture of chemicals, chemical products and man-made fibres, manufacture of pulp, paper and paper products, manufacture of basic metals, manufacture of cement, lime and plaster, and manufacture of other non-metal mineral products.

[3] Energy consumption by activity, in TJ (SORS).

[4] 2006 Energy Balance of the Republic of Slovenia, 2006.

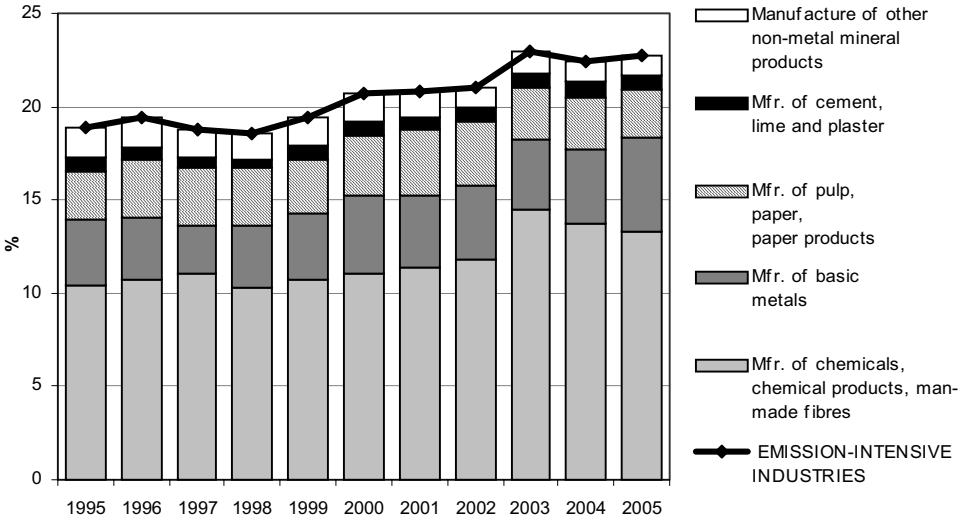
industrial production to prevent environmental pollution. It is estimated that by the 2007 deadline (exceptions by 2011) most of these plants will comply with the standards of the best available techniques. As a result, the specific consumption of energy per unit of output should decline by an average of 20%.

Table: **Indices of growth in production volumes and value added in manufacturing and emission-intensive industries**

	1995	2000	2001	2002	2003	2004	2005	2006
Manufacturing. real value added growth, indices	**102.5**	**108.9**	**104.8**	**104.8**	**104.0**	**104.1**	**102.8**	**107.4**
Manufacturing. real growth of production volume, indices	102.8	107.0	102.8	102.0	101.6	104.9	103.7	107.5
Emission-intensive industries, real growth of production volumes, indices	102.4	108.2	105.4	104.8	107.6	107.3	104.2	111.3
Pulp, paper, and paper products	98.0	104.7	99.0	108.1	94.0	105.6	102.9	99.7
Chemicals. chemical products, man-made fibres	103.2	110.4	108.1	105.9	111.8	108.8	107.6	113.2
Other non-metal mineral products	101.0	96.4	100.1	100.8	100.7	101.2	93.1	107.5
Manufacture of metals	103.3	111.9	104.5	102.9	106.8	108.0	103.1	114.1
Manufacturing (excluding emission-intensive ind.), real growth of prod. volume, indices	102.9	106.7	102.2	101.3	100.2	104.3	103.6	106.6

Source: SI-STAT data portal - National accounts and Mining and manufacturing (SORS), 2007; calculations by IMAD.
Note: Until 2004 industrial production indices were calculated from quantity data, from 2005 on from value data.

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



Source: *Production and generation of primary incomes accounts 1995-2005* (SORS), 2006; *Statistical data on companies' balance sheets* (AJPES), 2006.

Share of road transport in total goods transport

In the field of transport, sustainable development means the redirection of goods transport from roads to railways and other modes of transport, i.e. a decrease of the share of road transport in total goods transport. In the majority of countries most goods are carried by road because this mode of transport is more flexible than transport by railway or inland waterways (lakes, rivers). On the other hand, compared to motorways, railways require less space, transport by railway causes much less pollution per unit of goods carried (less greenhouse gas emissions), uses less energy, causes less noise and is, as a rule, safer (smaller number of accidents). Therefore, as regards sustainable development, rail freight transport is more appropriate than road freight transport. By including all external costs in the transport price (more than 90% of these costs result from road transport[1]) the economic appeal of road transport compared to other modes of transport would diminish. However, railway transport would still be limited to tracks and could compete with road transport particularly over greater distances.

The share of road freight transport is growing in both the EU and Slovenia; however, in our country it is growing much more rapidly. In the EU the share of road freight transport[2] in total (roads, railways and inland waterways) goods transport reached 70% in the early 1990s, while in Slovenia this did not happen until 2000. In 2002 and 2003 the share went slightly down, but with Slovenia's accession to the EU it went up sharply so that in 2005 Slovenia exceeded the EU average. Between 1995 and 2005 the EU's share increased by 4.7 p.p., while in Slovenia it jumped by 12.4 p.p. Only in four EU member states did the share of road goods transport grow more than in Slovenia, in Poland, the Czech Republic, Lithuania, and Latvia, while in three member states it decreased; in the United Kingdom and Belgium by a few percentage points. In 2005 the share of road goods transport in Slovenia was 77.3%, which was more than the EU average (76.9%); by the end of the third quarter of last year the share in Slovenia grew to 78.9%. The Baltic States have the lowest shares of road freight transport (Latvia below 30%), while the highest shares (over 95%) are recorded by the small insular countries of Malta, Cyprus, Ireland, and Greece.

In recent years road goods transport in Slovenia has grown much faster than economic growth. In the 2003-2005 period, rail freight transport fell by 0.5% per year while road freight transport rose by 25.2% per year[3] and thus greatly exceeded annual GDP growth, which was 4.2%. During the same period, railway goods transport in the EU[4] rose by 3.8% per year, while inland waterways transport increased by 4.1% and road goods transport by 4.7% or 2.6 p.p. faster than the average annual GDP growth.

Slovenia is ranked among those countries with relatively well-developed road transport, with international transport representing a large share of goods transport. As regards the volume of road goods transport per capita[5], in 2005 Slovenian carriers were third

[1] Lep et al., 2004

[2] Data on road goods transport refer only to road goods vehicles registered in Slovenia; transport by foreign transporters in Slovenia is not included.

[3] SI-STAT, National accounts and Transport (SORS), 2006.

[4] Energy & Transport in Figures (European Commission), 2006.

[5] Calculation on the basis of Eurostat data (Transport, 2006; Population and Social Conditions, 2006) for 2004.

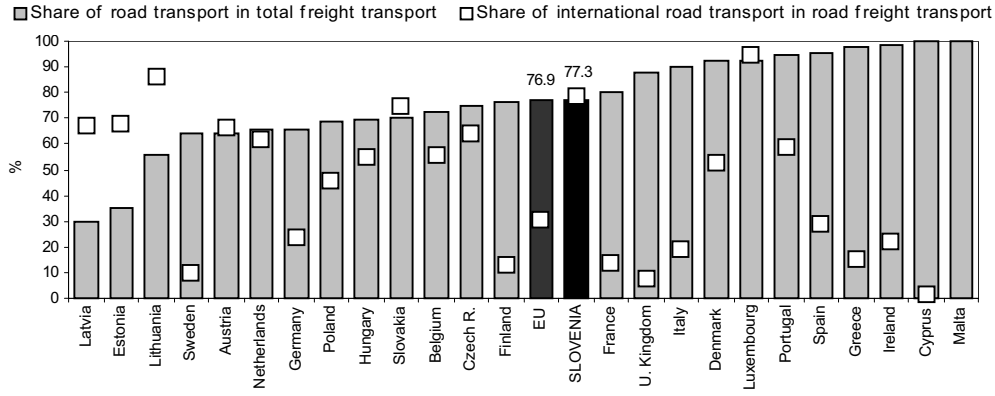
among the EU member states with 5,524 performed tkm per capita (the EU average was 3,751 tkm per capita). As regards the share of international road goods transport in total road goods transport, Slovenia was equally high among the EU member states; its share of 78.6% was well above the EU average of 30.4% and has been increasing for the past two years. Slovenia's high share of international transport is the result of its favourable location and smallness.

Table: **Share of road transport in total goods transport (tkm), %**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**72.2**	**74.5**	**75.5**	**76.1**	**76.2**	**76.7**	**76.9**
Austria	63.5	64.8	65.9	65.8	67.4	65.6	64.4
Belgium	77.4	77.4	78.3	77.5	76.5	74.9	72.4
Cyprus	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Czech Republic	57.5	68.0	69.7	73.3	74.5	75.2	74.5
Denmark	91.8	92.1	91.8	92.1	92.0	91.4	92.2
Estonia	28.7	37.3	31.2	30.3	29.1	32.7	35.4
Finland	72.3	75.8	75.4	76.6	75.3	76.0	76.5
France	76.5	76.0	77.9	77.8	78.8	79.9	80.5
Greece	97.7	N/A	N/A	N/A	97.7	N/A	97.4
Ireland	90.1	96.2	96.0	97.1	97.5	97.7	98.3
Italy	88.2	89.0	89.4	90.4	89.5	89.5	90.3
Latvia	15.8	26.5	27.4	29.2	27.5	28.4	29.8
Lithuania	41.6	46.6	51.7	52.3	50.0	51.3	56.1
Luxembourg	85.9	87.8	89.6	91.5	92.0	90.9	92.5
Hungary	58.3	68.1	67.3	65.5	65.6	65.9	69.2
Malta	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Germany	63.9	66.1	67.2	67.0	67.8	66.9	66.0
Netherlands	63.6	63.4	63.0	63.3	64.6	65.0	65.8
Poland	42.6	56.9	61.1	62.2	63.0	66.1	69.0
Portugal	90.3	92.5	93.3	93.1	93.0	94.7	94.7
Slovakia	63.7	53.0	53.6	58.7	62.1	65.4	70.3
Slovenia	**64.9**	**70.0**	**71.3**	**68.2**	**68.2**	**72.2**	**77.3**
Spain	90.3	92.8	93.2	94.1	94.3	94.9	95.2
Sweden	62.0	63.9	63.6	65.6	64.5	63.9	64.0
United Kingdom	92.3	90.0	89.3	89.7	89.8	88.1	88.0

Source: *Structural indicators* (Eurostat). 2006.

Figure: **Share of road transport in total (roads. railways and inland waterways) goods transport and the share of international road transport in total road goods transport (tkm) in 2005**



Source: *Structural indicators* (Eurostat). 2006.

Agricultural intensity

In Slovenia the consumption of NPP fertilisers per unit of utilised agricultural area is higher than the average of European countries, but after 2000 it has been constantly decreasing. In 2005, 58,700 tonnes of NPP fertilisers were used in agricultural production, which was 8% less than the year before and 21% less than in 2000. The calculation shows that 115 kg of plant nutrients were used per hectare of utilised agricultural area, which was 11% less than the year before and 21% less than in 2000. The latest comparable figures with other European countries are available for 2002, when consumption per unit of utilised agricultural area in Slovenia was 31% higher than the EU-15 average and 42% higher than the EU-25 average. Only agriculturally very intensive countries such as the Netherlands, Belgium and Germany had a higher consumption per unit of utilised agricultural area than Slovenia.

In Slovenia the sale of pesticides went down in 2005; a comparison of pesticide consumption per unit of utilised agricultural area between European countries is inappropriate due to differences in pesticide concentrations. Total sales of pesticides in Slovenia which, however, are not only used in agriculture, vary significantly from year to year. In 2005 they involved 1,400 tonnes of active substances and were thus 9.6% lower than the year before. The sale of all three groups decreased: fungicides by 14%, herbicides by 1%, and insecticides by 3%. As regards fungicides, which present the largest share in total pesticide use, the drop in sales was the result of a considerable increase in sales in the year before. A comparison of pesticide sales among countries is inappropriate because the figures are a sum of active substances with very different levels of toxic intensity. Newer types of pesticides are biologically stronger and thus more efficient in smaller quantities, while older types of pesticides are weaker, present much less of an impact on the environment and are used in greater quantities. In Slovenia, biologically weaker pesticides represent around two-thirds of total sales; therefore, a simple comparison of quantities shows that Slovenia is above the EU average.

The two indicators used for comparing the pressures on the environment due to livestock production in Slovenia and in other EU countries do not show the same picture: the average number of animals per unit of utilised agricultural area is slightly higher in Slovenia and is slowly decreasing, while the average milk yield per animal is much lower and slowly increasing. According to the Agricultural Census data, Slovenia had 0.87 livestock units (LSU) per hectare of utilised agricultural area in 2005 , which was slightly less than in 2000. This is more than the EU-25 average, but slightly less than the EU-15 average, where pressures on the environment are higher (in EU-25 0.83 LSU and in EU-15 0.88 LSU). The reason for the relatively high number of animals per unit of utilised agricultural area in Slovenia is the high share of hilly and grassy areas which are more favourable for livestock production than for other agricultural activities. Despite the long-term increase, the average milk yield is still relatively low. In 2005 it was 4,800 litres per animal, which was 4% more than the year before but 19% less than in the EU-25 and as much as 24% less than in the EU-15.

The average production per unit of area sown with the two most important crops in Slovenia, wheat, and maize, is lower in Slovenia than the average of the European countries but in recent years the lag has been decreasing. The low level of production is not optimal in terms of exploiting land as the primary natural source. On the other hand, a high level would also not be appropriate because this would bring about high pressure on the environment. As in most other European countries, in the 1995-2003 period the harvests of these two crops were low because of the frequent droughts. The 2004 and 2005 harvests were much better due to the favourable weather conditions, but in 2006 they were down again. In 2006 the average yield of wheat was 4.2 t/ha or 11% less than the year before, while the average yield of maize was 7.1 t/ha or 15% less than the year before. Throughout the observed period the average yield in Slovenia was much lower than in the EU. In 2005 the average yield of wheat in Slovenia was 13% lower than the EU-25 average and 19% lower than the EU-15 average,

while the average yield of maize was close to the EU-25 average (only 1% lower) but 7% lower than the EU-15 average.

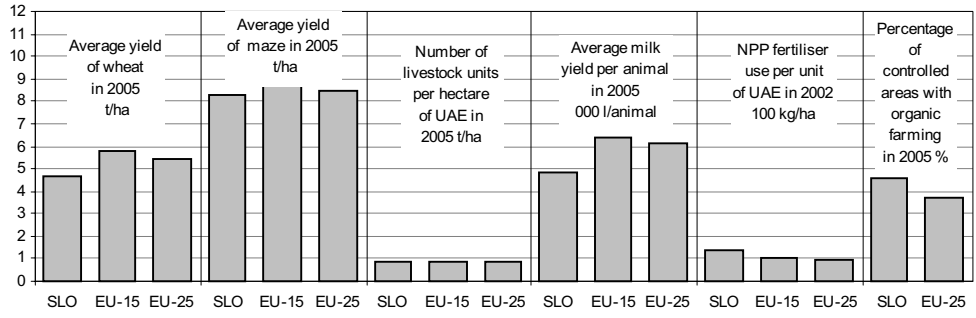
In Slovenia the share of agricultural land controlled for organic farming in the total utilised agricultural area is growing and is higher than the average of European countries; however, it is much lower than in the leading European country. In 2005, Slovenian farms which were controlled for organic and integrated farming cultivated over 23,000 hectares of areas using organic methods and over 44,000 hectares using integrated methods; together this represented more than 13% of the total utilised agricultural area. Compared to the year before, areas cultivated with organic methods increased by 2% and areas cultivated with integrated methods by 5%; however, both annual increases were the lowest since 1998 when the first farms entered the control system. In 2005 the share of organically farmed area in the total utilised agricultural area in Slovenia was 4.6% or almost the same as the year before. In view of the Action Plan for Organic Farming, according to which 20% of utilised agricultural area should be organically controlled by 2015, the growth in 2005 was too modest. In Slovenia the share in utilised agricultural area is higher than the EU-25 average of 3.7%, but significantly lower than in Austria, which has similar natural conditions for agricultural production as Slovenia but in which the share was as high as 14.1%.

Table: **Agricultural intensity indicators for Slovenia, 1995-2005**[1]

	enota	1995	2000	2001	2002	2003	2004	2005
Production intensity								
Average yield of wheat	t / ha	4.2	4.2	4.6	4.9	3.5	4.5	4.7
Average yield of maize	t / ha	6.3	5.9	5.4	8.2	5.1	7.8	8.3
Number of livestock units[2] per hectare of utilised agricultural area	No. / ha	-	0.9	-	-	0.9	-	0.9
Average milk yield per animal	t / cow	-	4.5	4.5	5.2	4.6	4.8	4.8
NPP fertiliser use								
Use per unit of utilised agricultural area	kg / ha	131.3	146.6	141.8	138.0	137.0	129.4	115.3
Pesticide sales								
Pesticide sales - total, active substance	000 t	-	1.5	1.4	1.5	1.4	1.5	1.4
Inclusion in the control of environmental measures								
Controlled areas with organic farming	000 ha	-	5.3	10.8	13.8	20.0	23.0	23.6
Controlled organic farms	No. in 000	-	0.6	1.0	1.2	1.4	1.6	1.7
Controlled areas with integrated farming	000 ha	-	-	-	10.1	12.0	42.5	44.6
Controlled integrated farms	No. in 000	-	-	-	2.1	2.9	4.6	5.5

Sources: Statistical Yearbook of the Republic of Slovenia 2005 (SORS), 2006; Ministry of Agriculture, Forestry and Food, Phytosanitary Administration (provisional data), calculations by IMAD.
Notes: [1]In its IRENA Report (Indicator Reporting on the Integration of Environmental Concerns into Agricultural Policy) the European Union set up 38 agri-environmental indicators. The analysis covers only some of the most important ones. [2]A livestock unit (LSU) is the calculation of the number of animals by their average weight (1 LSU = 600 kg).

Figure: **Some comparable indicators of agricultural intensity in Slovenia and the EU (the last year with available comparison)**



Source: SORS, EUROSTAT (Average yield, Number of livestock units, Milk yield), FAOSTAT (NPP fertiliser use), Institute of Rural Sciences (Organic and integrated farming).

Intensity of tree fellings

The forest area, which covers over half of Slovenia's territory, is still expanding, even though this is not planned. Remote areas less suitable for agricultural production are overgrowing faster than forests are shrinking in suburban and in intensive agriculture areas. At the end of 2005 the forest area totalled 1,169,000 hectares, which was 0.5% more than the year before, 7% more than in 1995, and 2% more than projected in the forestry plans for 2001–2010 (Forest Programme of Slovenia, 1999).

The growing forest area is accompanied by a higher wood increment and a growing stock, while tree fellings intensity[1] changes across the years; in 2005 it was the highest in the past fifteen years. In 2005, wood increment rose by 2% and growing stock by 3%. Removal, which amounted to 3.3 million m^3 (63% of conifers and 37% of non-conifers), was up 10% compared to the year before and 36% compared to five years before. Tree fellings for restoration increased the most, but in the year before it dropped sharply and its share in total tree fellings was low. The rise in tree-tending removal, which is most vital to forest development, is more important, however it is still insufficient. Foresters were again more active as regards forest sanitation after insect attacks, which have caused quite a lot of damage in recent years. On the other hand, there was a decrease in the clearing of forests and in tree fellings without approval. With removal exceeding the growing stock, the tree-fellings intensity improved from 39.7% to 42.8%. Even though this is one of the best results in recent years, it could still be improved significantly as tree fellings represented only 75% of the possible tree fellings according to the forestry plans (72% in 2004). Last year, the maximum possible removal was carried out again in state-owned forests, while in privately-owned forests, which cover almost three-quarters of all forests in the country, this was not possible due to the fragmentation of property. A simulation of forest development performed by the Slovenian Forest Service shows that, due to the growing annual increment, the quantity of wood that can be removed in the forthcoming years will continue to increase. The allowed tree-fellings intensity could rise to 87% by 2040, which is double the tree-fellings intensity in 2005. Greater tree fellings would be sensible as wood is one of the few renewable natural resources in Slovenia.

Even though Slovenia is among those European countries that have the highest shares of forests in their total area, further expansion of the forest area in Slovenia is still faster than in most of them; the intensity of tree fellings is low in comparison with most other European countries (the latest comparable figures are available for 1995–2000; Development Report 2002), ***but the situation is improving when other related indicators of forest exploitation are taken into account.*** Slovenia also lags behind in the production of raw wood categories (logs, pulpwood, and other industrial wood) per unit of forest area (Development Report 2005), but in the 1995-2004 period the situation in this area improved more than the EU average. While the production of raw wood categories in the EU-25 increased by 18% and in the EU-15 by 10% in this period, it rose by as much as 37% in Slovenia even though it fell slightly in 2004 after a significant rise in the year before. As regards the growth of this indicator, Slovenia was only overtaken by three EU-25 countries in the 1995-2004 period: Estonia, Latvia, and Poland. At the same time, the total forest area in Slovenia is also growing faster than the EU average; the EU-25 average is 0.3% per year and Slovenia's average is 0.5% per year. As a rule, this is a positive thing from the point of view of climatic, ecologic, and economic conditions, but a (too) large forest area also has a negative impact since it reduces the space available for residential, economic, transport-related, and other purposes.

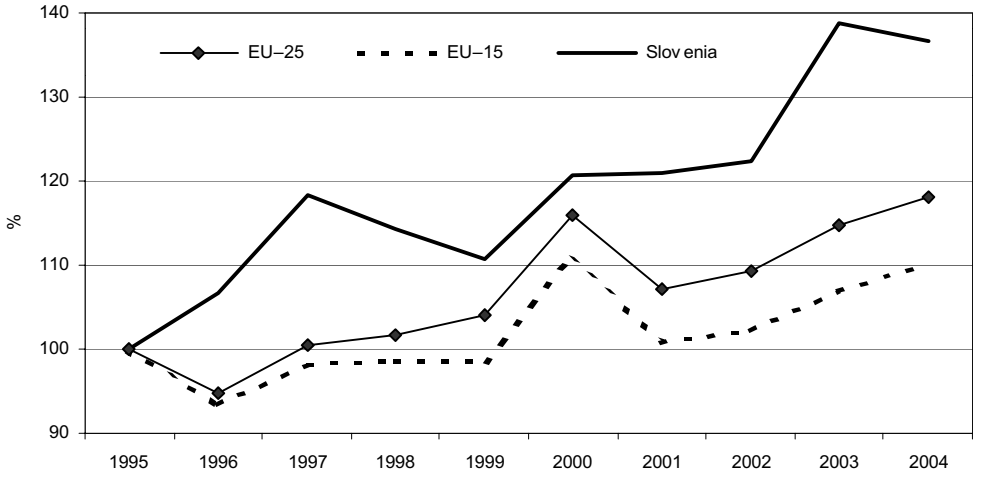
[1] The tree-fellings intensity is the ratio of annual removal levels to the annual wood increment.

Table: **Intensity of tree fellings in Slovenia, 1995-2005**

	1995	2000	2001	2002	2003	2004	2005	GGN[1] 2001-2010
Forest area, thousand hectares	1,098	1,134	1,143	1,150	1,158	1,164	1,169	1,142
Annual increment, thousand m^3	5,995	6,872	6,925	7,102	7,290	7,446	7,569	6,923
Growing stock, thousand m^3	228,493	262,795	267,912	276,574	285,735	293,532	300,795	266,704
Annual removal, thousand m^3	2,092	2,609	2,614	2,646	3,007	2,958	3,253	4,101
Of which: tending	1,325	1,849	1,920	1,885	1,866	1,734	1,873	N/A
restoration	12	19	19	18	17	10	17	N/A
protection and sanitation	589	553	505	566	976	1,055	1,212	N/A
for infrastructure	15	40	48	45	45	43	48	N/A
clearing	35	53	52	66	47	71	65	N/A
no approval	113	91	68	63	54	42	35	N/A
other	2	3	3	4	3	2	2	N/A
Intensity of tree fellings[2], %	34.9	38.0	37.7	37.3	41.2	39.7	42.8	59.2

Source: *Statistical Yearbook of the Republic of Slovenia 2005* (SORS), 2006; *Report of the Slovenian Forest Service on forests in 2005*, 2006.
Note: [1]Forestry plans for 2001-2010. [2]The ratio of annual removal levels to the annual wood increment.

Figure: **Increase in the production of raw wood categories in 1995–2004, Slovenia, EU-25 and EU-15**



Source: *Eurostat Yearbook 2005*, 2005.

Municipal waste

Waste creates pressure on the environment but it also represents a potential energy source. Therefore, sustainable development in the waste field primarily involves the reduction of waste generation, the reuse of waste (recycling), waste recovery (energy production by waste incineration) and waste removal (landfilling, incineration).

In 2005 the growth of municipal waste generation continued to lag behind economic growth. The quantity of municipal waste per person was falling until 2002 in Slovenia; however, until 2002 the data were not completely aligned with the Eurostat methodology. In 2003 the growth of municipal waste was slightly higher than economic growth, while in the next two years it was lower; in 2005 it grew by 1.4%. In recent years the quantity of municipal waste generated in the EU has stayed at the same level, which means that waste generation has been lagging behind GDP growth since 2000. In 2005 the lagging of waste generation behind GDP growth was greater in Slovenia (2.6 p.p.) than the EU average (1.5 p.p.); the greatest lag was recorded in Estonia, Latvia, and Poland, followed by Ireland, the United Kingdom, and Spain. The worst results were recorded by Denmark, Portugal, Germany, Sweden, and Italy since in these countries the growth of municipal waste exceeded economic growth (the difference was the highest in Denmark, by almost 3 p.p.).

The quantity of municipal waste generated in Slovenia is proportional to the level of economic development. The quantity per person greatly depends on the level of economic development, i.e. gross domestic product by purchasing power. In 2005, 423 kg of municipal waste was generated per person, which was exactly proportional to GDP by purchasing power. In this respect countries standing out in a positive way – producing relatively less waste compared to the GDP level – are Luxembourg, Belgium, Finland, and Sweden. Relatively more municipal waste compared to the development level was produced in Cyprus, Malta, Hungary, and Estonia.

In Slovenia landfilling is still the predominant method of waste management. The share of landfilled municipal waste has been gradually falling in recent years, but in 2005 it increased again to 78% or 330 kg per person. In the EU the share has been slowly falling and in 2005 it reached 43%. In recent years it has dropped the most in the Netherlands and Sweden, to 1.4% and 4.7%, respectively. The other two countries in which less than 10% of municipal waste is landfilled are Denmark and Belgium (see the figure). Such low shares of landfilled municipal waste are achieved by the high share of waste incineration for energy production; in Sweden and Denmark more than half of all waste generated is incinerated, while Luxembourg, France, Belgium, and the Netherlands incinerate about a third of their municipal waste. In the EU the quantity of incinerated waste has been constantly growing (recently most rapidly in Sweden). In 2005 the EU average was 97 kg of municipal waste per year, which was 18% of total municipal waste generated. In Slovenia there is practically no waste incineration.

Slovenia lags behind as regards more sustainable systems of waste management (recycling, composting). In terms of the share of reused municipal waste, Slovenia's share of 22% is below the EU average of 38%; however, among new member states the situation is only better in Estonia. In this respect, the best countries are the Netherlands, Belgium, Austria, and Germany, where more than half of municipal waste is reused and recycled. The reason for the poor situation in Slovenia is still the inefficient system of the separate collection of waste, which is shown by the data on public waste removal collected by SORS. Since the system of separate collection of waste was introduced in

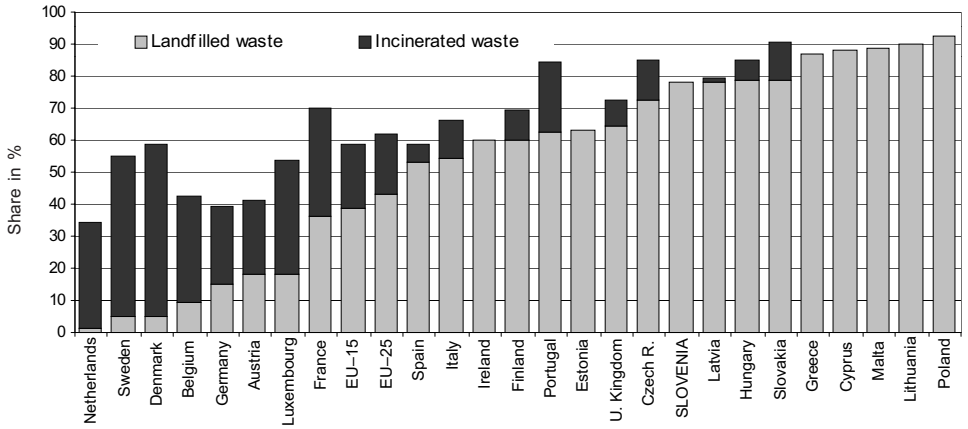
2004 not much more packaging waste has been collected. In 2005 the share of separately collected fractions of municipal waste, waste removed from gardens and parks, and separately collected packaging waste in the total quantity of waste collected by public removal services was only 12% (11% in 2004), and what is more, as much as a third of that waste was still landfilled or disposed of in some other way.

Table: **Municipal waste generated, kg per person**

	1995	2000	2001	2002	2003	2004	2005
EU	**459**	**525**	**525**	**534**	**527**	**525**	**526**
Austria	438	581	578	609	609	627	630
Belgium	456	467	460	461	445	465	464
Cyprus	600	680	703	709	724	739	739
Czech Republic	302	334	273	279	280	278	289
Denmark	567	665	658	665	672	696	737
Estonia	368	440	372	406	418	449	436
Finland	414	503	466	449	453	455	459
France	476	516	529	533	535	544	543
Greece	302	408	417	423	428	433	438
Ireland	514	603	705	698	736	753	740
Italy	454	509	516	524	524	538	542
Latvia	263	270	302	338	298	311	310
Lithuania	424	363	377	401	383	366	378
Luxembourg	592	658	650	656	684	696	705
Hungary	460	4451	451	457	463	454	459
Malta	338	547	542	541	581	624	611
Germany	533	610	601	6401	601	587	601
Netherlands	549	616	615	622	610	625	624
Poland	285	316	290	275	260	256	245
Portugal	385	472	472	439	447	436	446
Slovakia	295	254	239	2831	297	274	289
Slovenia	**596**	**513**	**479**	**4071**	**418**	**417**	**423**
Spain	510	662	658	645	655	608	597
Sweden	386	428	442	468	471	464	482
United Kingdom	499	578	592	600	594	605	584

Source: *Long-term indicators* (Eurostat), 2007.
Note: [1]Change in the methodology; break in series.

Figure: **Percentage of incinerated (energy producing) and landfilled municipal waste, 2005**



Source: *Long-term indicators: Environment – Waste* (Eurostat), 2007.

Old age dependency ratio

The ageing of the population is accompanied by a rising old age dependency ratio. In 2005, there were 22.0 persons aged 65 and over per 100 persons aged 15-64 (working age population), 2.1 more than in 2000 and 4.7 more than in 1995. In 2006, the old age dependency ratio, increased to 22.4. It is rising because the number of people aged 65 and over is growing faster than the number of people aged 15-64. With the number of births declining and mortality rates slowing down, the age structure of the population in Slovenia is changing. The percentage of children aged 0-14 is rapidly declining (in the past 11 years it dropped from 18.4% in 1995 to 14.0% in 2006), while the share of old people (aged 65 and over) is rapidly increasing (from 12.3% in 1995 to 15.7% in 2006). In 2003, the number of people aged 65 and over first exceeded the number of children. The ageing index, which is the ratio between these two population groups, exceeded 100. By 2006, it rose to 112.4. Due to the positive net migration, the number of the working age population, people aged 15-64, is still slowly rising; however, their share in the total population has started to slowly decrease (from 69.3% in 1995 it rose to 70.4% in 2003, while in 2005 and 2006 it decreased to 70.3% and 70.2%, respectively).

Slovenia's old age dependency ratio is lower than in the EU. In most EU member states life expectancy is longer than in Slovenia[1] and the ratio of old people to the total population is consequently also higher than in Slovenia. However, all countries face similar problems regarding the decline in births and the fall in the share of children and working age population. In 2004 (latest available data), the average old age dependency ratio in the EU-25 was 24.6, which was 3.1 more than in Slovenia. The highest old age dependency ratios within the EU were found in Italy (29.1 in 2004), Germany and Greece, which also have the highest percentages of old people[2].

[1] See the indicator *Life expectancy and infant mortality*.

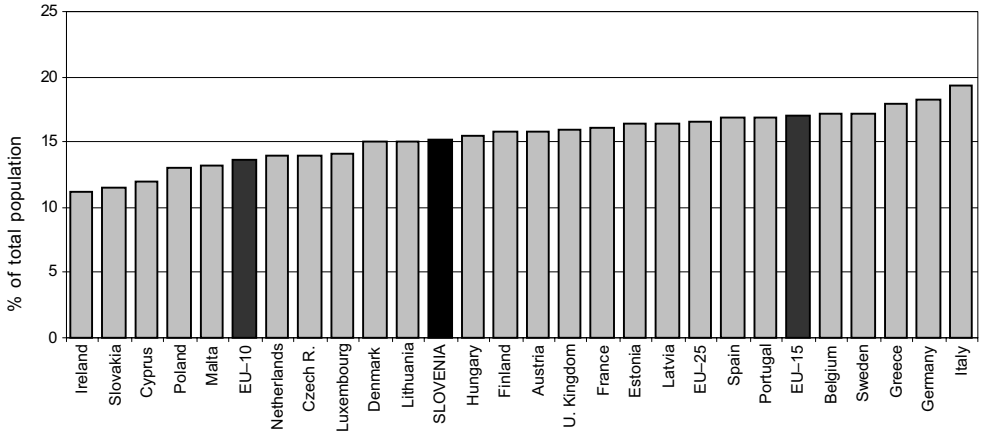
[2] In 2004, Italy had 19.1% of old people, Germany 18.3%, Greece 18.0%, while the EU-25 average was 16.5%, i.e. 1.3 p.p. more than in Slovenia.

Table: **Old age dependency ratio, %**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**22.3**	**23.6**	**23.8**	**24.1**	**24.4**	**24.6**	**N/A**
EU-15	**23.2**	**24.5**	**24.8**	**25.1**	**25.3**	**25.7**	**N/A**
EU-10	**18.0**	**19.0**	**19.2**	**19.4**	**19.5**	**19.7**	**N/A**
Austria	22.6	22.8	22.8	22.8	22.8	23.2	23.9
Belgium	24.0	25.6	25.8	25.9	26.0	26.2	N/A
Cyprus	17.2	17.0	17.2	17.5	17.5	17.4	17.3
Czech Republic	19.4	19.8	19.8	19.7	19.7	19.7	N/A
Denmark	22.6	22.2	22.2	22.3	22.4	22.6	22.8
Estonia	20.6	22.5	22.8	23.2	23.7	24.1	24.4
Finland	21.3	22.3	22.5	22.8	23.1	23.6	23.9
France	22.9	24.3	24.5	24.6	24.7	24.8	24.9
Greece	22.4	24.4	25.0	25.5	26.1	26.6	27.2
Ireland	17.7	16.7	16.6	16.4	16.4	16.4	16.3
Italy	24.3	27.1	27.6	28.2	28.7	29.1	N/A
Latvia	20.7	22.3	22.7	23.1	23.5	23.9	24.2
Lithuania	18.7	21.0	21.5	21.8	22.2	22.3	22.4
Luxembourg	20.7	21.0	20.7	20.8	20.9	21.1	21.3
Hungary	21.0	22.1	22.2	22.4	22.5	22.7	22.8
Malta	16.8	18.0	18.3	18.6	18.9	19.1	19.3
Germany	22.7	24.2	24.9	25.6	26.3	27.3	28.4
Netherlands	19.4	20.0	20.1	20.2	20.4	20.6	21.0
Poland	16.8	17.8	18.1	18.3	18.5	18.7	18.8
Portugal	22.1	23.9	24.3	24.6	24.8	25.1	25.3
Slovakia	16.3	16.5	16.4	16.3	16.3	16.3	16.3
Slovenia	**17.7**	**20.0**	**20.4**	**20.8**	**21.2**	**21.6**	**22.0**
Spain	22.5	24.6	24.7	24.7	24.6	24.5	24.4
Sweden	27.4	26.8	26.7	26.5	26.4	26.4	26.4
United Kingdom	24.5	24.3	24.3	24.3	24.3	24.3	24.2

Source: *Population and social conditions - Demography* (Eurostat). 2006.

Figure: **Percentage of the population aged 65+ in EU member states, 2005**



Source: *Population and social conditions – Demography* (Eurostat). 2006.

Fertility rate

In the past three years, fertility in Slovenia has been slowly rising. In 2003 the total fertility rate, which is the ratio between the number of live births and the number of women of childbearing age in a calendar year, fell to 1.20 in Slovenia, which is the lowest level ever. Except for 2000, this rate has been constantly falling since 1980, when it totalled 2.11 and was for the last time above the population replacement level. Data for 2004 and 2005 and for the first half of 2006 show that the ratio between the number of live births and the number of women of childbearing age started to improve slowly: to 1.25 in 2004 and 1.26 in 2005. On the basis of data showing that in the first half of 2006 the number of live births was slightly higher than in the first half of 2005 and the number of women of childbearing age was lower, we can conclude that the total fertility rate will probably increase in 2006 as well. Nevertheless, Slovenia remains one of the countries with the lowest birth rates in Europe.

The growth of the total fertility rate in Slovenia recorded in the past three years is the result of the fact that the fall in fertility rates of women aged up to 26 is slowly moderating and that the fertility rate of women aged 31-36 is rapidly rising. Fertility rates of women aged up to 26 have been falling for more than 25 years. In recent years the drop in the age group 15-19 has stopped, while in the age group 20-26 it has slowed down considerably. Fertility rates of women aged 27 or more have been on an upward trend since 1990; the fastest growth has been observed in the age group 31-36. Thus the average age of women at birth has been rising. By 2005 it rose to 29.4, which is 1.2 year more than in 2000 and 2.2 years more than in 1995. The average age of women at the birth of their first child has risen to 27.8, which is 1.3 years more than in 2000 and 2.9 years more than in 1995.

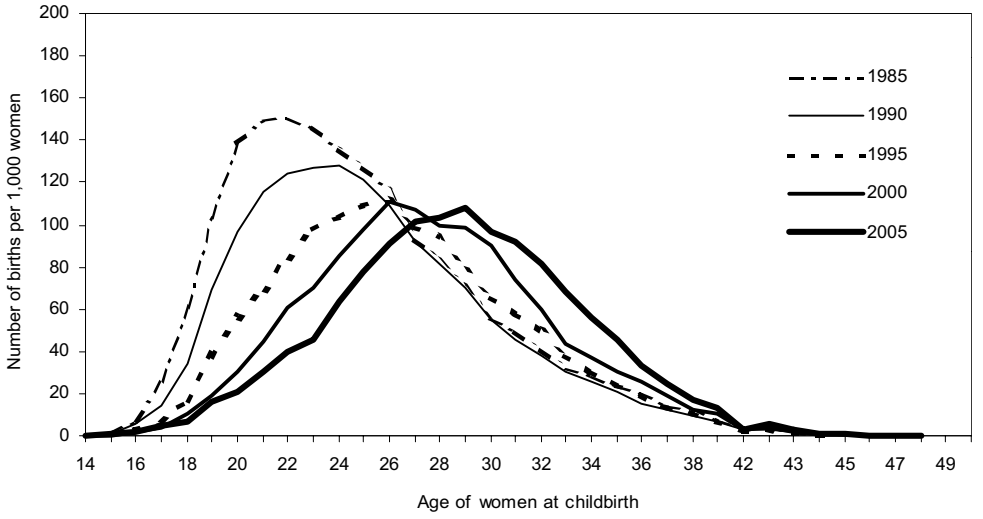
In most EU member states, fertility rates have been rising for several years, even though in all of them they are below the population replacement level. The only countries where birth rates are still falling are Cyprus, Malta, and Portugal; however, at the turn of the century these countries had relatively high total fertility rates. Eurostat's calculations of these rates at the EU-25 level show an increase from 1.44 in 1995 to 1.52 in 2005. For several years the highest birth rates among EU member states have been recorded in Ireland and France (more than 1.9), followed by Finland, Denmark, the United Kingdom, Sweden, and the Netherlands. In the new member states (except Malta and Cyprus) fertility rates, which (except in Estonia) reached their lowest values at the turn of the century, have been rising or stopped falling (see the table).

Table: **Fertility rates in the EU member states, 1995-2005**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**1.44**	**1.48**	**1.46**	**1.46**	**1.48**	**1.51**	**1.52**
EU-15	**1.42**	**1.50**	**1.49**	**1.50**	**1.52**	**N/A**	**N/A**
EU-10	**N/A**	**N/A**	**N/A**	**1.24**	**1.27**	**1.27**	**N/A**
Austria	1.42	1.36	1.33	1.40	1.38	1.42	1.41
Belgium	1.55	1.66	1.64	1.62	1.64	1.64	1.72
Cyprus	2.13	1.64	1.57	1.49	1.50	1.49	1.42
Czech Republic	1.28	1.14	1.14	1.17	1.18	1.23	1.28
Denmark	1.80	1.77	1.74	1.72	1.76	1.78	1.8
Estonia	1.32	1.34	1.34	1.37	1.37	1.47	1.5
Finland	1.81	1.73	1.73	1.72	1.76	1.80	1.8
France	1.70	1.88	1.89	1.88	1.89	1.90	1.94
Greece	1.32	1.29	1.25	1.27	1.28	1.31	1.28
Ireland	1.84	1.90	1.94	1.97	1.98	1.99	1.88
Italy	1.18	1.24	1.25	1.26	1.28	1.33	1.34
Latvia	1.26	1.24	1.21	1.24	1.29	1.24	1.31
Lithuania	1.55	1.39	1.30	1.24	1.26	1.26	1.27
Luxembourg	1.69	1.76	1.66	1.63	1.63	1.70	1.7
Hungary	1.58	1.32	1.31	1.30	1.27	1.28	1.32
Malta	1.83	1.72	1.72	1.46	1.46	1.37	1.37
Germany	1.25	1.38	1.35	1.31	1.34	1.37	1.34
Netherlands	1.53	1.72	1.71	1.73	1.75	1.73	1.73
Poland	1.61	1.34	1.29	1.24	1.22	1.23	1.24
Portugal	1.41	1.55	1.45	1.47	1.44	1.40	1.4
Slovakia	1.52	1.30	1.20	1.18	1.20	1.24	1.25
Slovenia	**1.29**	**1.26**	**1.21**	**1.21**	**1.20**	**1.25**	**1.26**
Spain	1.18	1.24	1.26	1.27	1.30	1.33	1.34
Sweden	1.73	1.54	1.57	1.65	1.71	1.75	1.77
United Kingdom	1.71	1.64	1.63	1.64	1.71	1.77	1.8

Sources: *Population and social conditions - Population* (Eurostat), 2005, 2006; *Rapid Reports - Population* (SORS), 2006.

Figure: **Distribution of age-specific fertility rates in Slovenia in the 1985-2005 period**



Source: *Rapid Reports – Population* (SORS), 2006.

Migration coefficient

The migration coefficient in Slovenia increased significantly in 2005 and remained high in 2006. The number of immigrants, which in the period 1993-2000 averaged at around 5,500 per year, has been rising since 1999 and exceeded 15,000 in 2005. Since 2000 the number of emigrants has also been rising; in the 1993-2000 period it was less than 3,400 per year while in 2005 it increased to 8,600. Net migration, which was on average around 2,000 people per year or 1.2 per 1,000 population between 1993 and 2004, grew to over 6,000 or 3.2 per 1,000 population in 2005. The data show that in 2006 the migration coefficient will be about the same if not higher. Foreign nationals predominate over citizens of the Republic of Slovenia both among immigrants and emigrants, and men predominate over women. As regards age, most immigrants and emigrants are 20-29 years old. Around 82% of male immigrants and 68% of female immigrants are 20 to 59 years old. The majority of immigrants still come from other countries of former Yugoslavia; mostly from Bosnia and Herzegovina. In 2005, 42% of immigrants came looking for employment, 27% came in search for seasonal work, 22% came to join other family members, 4% to study, and 5% for other reasons[1].

Slovenia's migration coefficient is still lower than the EU average. The total migration coefficient for the EU, which has risen sharply after 2000, decreased slightly in 2005. With 3.6 per 1,000 population it is still higher than in Slovenia. In recent years the highest migration coefficients have been recorded in Cyprus, Spain, and Ireland. Other countries where migration coefficients have been above the EU level are Italy, Luxembourg, Malta, Austria, and Portugal. On the other hand, in Latvia, Lithuania, and Poland, negative net migration persists (see the table).

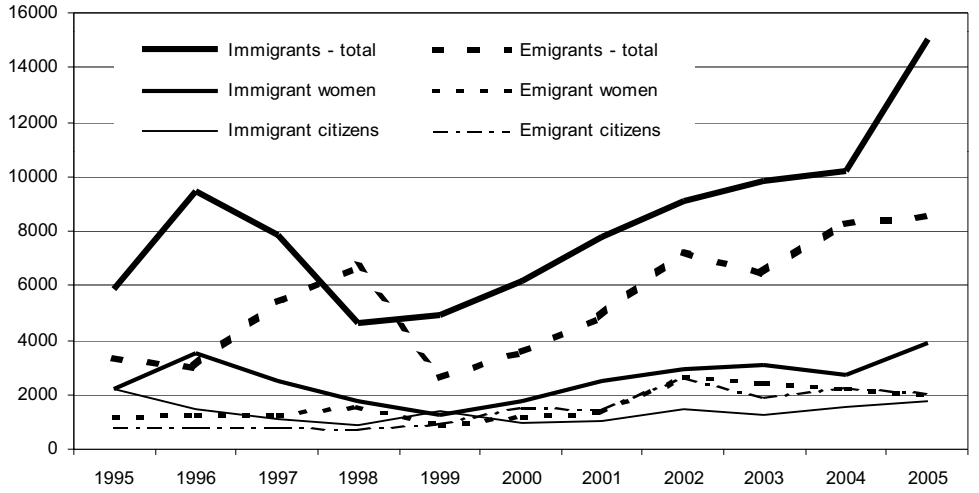
[1] Calculated from the SORS data, excluding unknown answers.

Table: **Net migration (with statistical corrections), per 1,000 population in EU member states, 1995-2005**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**1.5**	**1.5**	**2.9**	**4.0**	**4.3**	**4.4**	**3.6**
EU-15	**1.9**	**2.9**	**3.6**	**4.7**	**5.1**	**5.2**	**4.1**
EU-10	**-0.4**	**-5.6**	**-0.6**	**0.1**	**0.5**	**0.5**	**0.8**
Austria	0.3	2.2	5.4	4.3	4.7	7.6	6.8
Belgium	0.2	1.3	3.5	3.9	3.4	3.4	4.8
Cyprus	10.1	5.7	6.6	9.7	17.2	21.3	19.0
Czech Republic	1.0	0.6	-4.2	1.2	2.5	1.8	3.5
Denmark	5.5	1.9	2.2	1.8	1.3	0.9	1.2
Estonia	-10.9	0.2	0.0	0.1	0.2	0.1	0.1
Finland	0.8	0.5	1.2	1.0	1.1	1.3	1.7
France	-0.3	1.7	2.0	2.2	2.2	4.0	1.6
Greece	7.3	2.7	3.5	3.5	3.2	3.7	3.6
Ireland	1.7	8.4	10.1	8.3	7.8	11.8	15.9
Italy	0.6	1.0	0.8	6.1	10.6	9.6	5.5
Latvia	-5.6	-2.3	-2.2	-0.8	-0.4	-0.5	-0.2
Lithuania	-6.5	-5.8	-0.7	-0.6	-1.8	-2.8	-2.6
Luxembourg	10.5	8.0	7.6	5.7	4.7	3.4	6.0
Hungary	1.7	1.6	1.0	0.3	1.5	1.8	1.7
Malta	-0.5	25.8	5.7	5.1	4.1	4.5	2.3
Germany	4.9	2.0	3.3	2.7	1.7	1.0	1.0
Netherlands	1.0	3.6	3.5	1.7	0.4	-0.6	-1.4
Poland	-0.5	-10.7	-0.4	-0.5	-0.4	-0.2	-0.3
Portugal	2.2	4.6	6.3	6.8	6.1	4.5	3.6
Slovakia	0.5	-4.1	0.2	0.2	0.3	0.5	0.6
Slovenia	**0.4**	**1.4**	**2.5**	**1.1**	**1.8**	**0.9**	**3.2**
Spain	1.8	9.7	10.8	15.7	14.9	14.3	14.8
Sweden	1.3	2.8	3.2	3.5	3.2	2.8	3.0
United Kingdom	1.1	2.4	2.6	2.7	3.0	3.8	3.2

Source: *Population and social conditions - Demography* (Eurostat), 2006.

Figure: **International migration by sex and citizenship, Slovenia, 1995–2004**



Source: *Population statistics* (SORS), 2006; calculations by IMAD.

Regional variation in GDP

Statistical regions in Slovenia differ in both the volume and structure of their value added, with the Osrednjeslovenska region standing out notably. On average, the Osrednjeslovenska region generates over one-third (35.5% in 2004) of Slovenia's gross value added (GVA). A third of GVA comes from Podravska, Savinjska and Gorenjska together, while the remainder is generated by the eight other regions. In 2004, almost three-quarters of the Osrednjeslovenska region's GVA came from the service sector while the figure for Obalno-kraška was even higher. Jugovzhodna Slovenija and Koroška generated the largest shares of GVA in manufacturing, and mining and quarrying, Spodnjeposavska and Zasavska in the energy supply industry, Notranjsko-kraška in construction, and Pomurska in agriculture.

The period between 2000 and 2004 (the most recent available data) saw a slight shift in the regional GVA structure; in most regions, the service and industrial sectors grew while the agricultural sector declined. The biggest rise in the service sector's share was recorded in Zasavska (by 4.4 p.p.), which at the same time recorded the greatest fall in manufacturing, and mining and quarrying (by 2.7 p.p.). The Osrednjeslovenska region is the only other region where above-average growth of the service sector was recorded (by 2.5 p.p.). Other major changes in the GVA structure were seen in Jugovzhodna Slovenija, Savinjska, and Koroška where a rise in the industrial sector's share was observed.

Osrednjeslovenska regija achieved the highest level of development measured by GDP per capita and Pomurska the lowest; differences among other regions are not very large. Only the Osrednjeslovenska and Obalno-kraška regions have an above-average GDP per capita. In 2004, Osrednjeslovenska exceeded the Slovenian average by 42.9% and the EU-25 average by 13%. Compared with the year before, its advantage over the national average declined by 1.2 p.p., while it had been rising until 2003. Still above average but much lower was GDP per capita in the Obalno-kraška region, which exceeded the Slovenian average by 3.2% in 2004 (82% of the EU-25 average); however, compared to 2003 its advantage declined by 0.2 p.p. The advantage of Obalno-kraška over the national average has been gradually declining since 2000, when it totalled 4.9 p.p. In the entire period, Pomurska had the lowest GDP per capita, having reached 69% of the Slovenian average in 2004 (55% of the EU-25 average). Other regions' values were between 71.8% and 95.8% of the national average. The differences among them are not large and they can be divided into three groups. The first group includes Zasavska, Notranjsko-kraška, Koroška, and Spodnjeposavska with values between 71% and 80% of the Slovenian average, the second one includes Podravska, Gorenjska, and Savinjska with values between 81% and 90% of the Slovenian average, and the third one contains Jugovzhodna Slovenija and Goriška with values over 90% of the Slovenian average. In the 2000-2004 period the lagging of most regions behind the national average increased, notably in the Zasavska (by 7.5 p.p.), Spodnjeposavska (by 4.9 p.p.) and Koroška regions (by 4.3 p.p.). Zasavska and Spodnjeposavska recorded the greatest drop in employment (in Zasavska by 10% and in Spodnjeposavska by 7.3%). The Osrednjeslovenska region increased its advantage over the national average and other regions most notably (by 3.2 p.p.), while Pomurska decreased its lag behind the national average by 1.7 p.p. In both regions the number of jobs went up, in Osrednjeslovenska region by 4.7%. Since 1999 on only the Osrednjeslovenska region has been exceeding the EU-25 average; every year its advantage is been slightly greater. As regards other regions, all of them reduced their lag behind the EU-25 average between 2000 and 2004 except Zasavska, which increased it by 0.7 of a percentage point.

The most successful region (Osrednjeslovenska) has 2.1-times higher GDP per capita than the least successful region (Pomurska); according to this indicator Slovenia is ranked among member states with moderate regional differences. In the 2000-2004 period, the ratio between the best- and worst-performing regions in terms of gross domestic product per capita rose by 0.1 p.p.(from 2.0:1 to 2.1:1). The comparison[1] of regional differences among the 25 member states of the European Union shows that regional differences in Slovenia are moderate. In 2003 the highest regional GDP per capita was more than twice as high as the lowest in 12 out of 19 member states. The greatest regional differences were recorded in the United Kingdom and Belgium, where GDP per capita in the region with the highest value was a respective 3.7-times and 3.1-times higher than in the region with the lowest value. The lowest regional differences were recorded in Ireland and Sweden (in both the factor was 1.6). Large regional differences in GDP per capita were recorded in both old and in new member states; however, data for 2002 and 2003 show that the differences are slowly narrowing in both groups of countries. Moderate regional differences in GDP per capita (factor around 2) were almost always only found in old member states and in Bulgaria (Regions, 2006).

Between 2000 and 2003 regional differences in gross domestic product per capita widened slightly, mostly in the direction of Osrednjeslovenska increasing its advantage over other regions, while in 2004 the differences narrowed. The coefficient of variation[2] is a better indicator of regional differences than the comparison of extreme values. From 1998 to 2003 the coefficient of variation rose slowly, while in 2004 it fell by 0.6 p.p. to 25.7%. Despite the decrease in the last year, the coefficient of variation was still 3.7 p.p. higher than in 1995. If Osrednjeslovenska as the strongest region enjoying the highest GDP per capita is excluded from the analysis, the coefficient of variation drops to between 14.4% and 17% in the 1995-2004 period. The difference between the former and the latter coefficient of variation shows the bulk of economic activity takes place in the Osrednjeslovenska region, which indicates that this region is playing the role of the national centre of the economy and is thus strongly affecting the regional differences in Slovenia.

Table: **Gross domestic product per capita, indices, Slovenia = 100**

Statistical region	1995	2000	2001	2002	2003	2004
SLOVENIA	100.0	100.0	100.0	100.0	100.0	100.0
Osrednjeslovenska	137.1	139.7	140.6	140.9	144.1	142.9
Obalno-kraška	108.4	104.9	103.9	103.7	103.4	103.2
Gorenjska	88.6	87.4	88.3	88.0	86.9	86.1
Goriška	97.1	98.2	98.7	97.1	95.4	95.8
Savinjska	93.9	90.3	88.5	89.3	88.8	89.2
Jugovzhodna Slovenija	90.0	91.6	91.9	90.5	90.2	90.9
Pomurska	77.7	70.6	70.6	69.5	68.5	69.0
Notranjsko-kraška	76.4	79.4	78.2	78.6	76.4	77.0
Podravska	81.8	82.8	82.9	84.1	83.3	84.5
Koroška	79.3	81.8	81.5	80.4	78.0	77.5
Spodnjeposavska	83.5	84.5	85.4	84.4	79.9	79.6
Zasavska	83.6	79.3	75.1	72.8	71.7	71.8

Source: *National accounts, Regional gross domestic product* (SORS), 2006.

[1] At the NUTS 2 level of regions. Nineteen out of 27 member states have this level of NUTS. In Slovenia the differences were measured at the NUTS 3 level (statistical regions), which is not fully comparable with data from other member states. At lower territorial levels regional differences are usually even greater.

[2] The coefficient of variation is defined as the ratio of standard deviation from the average, with the formula being adjusted for the regions' different sizes.

Regional variation in unemployment

In most regions the registered unemployment rate has been on a steady decrease since 2000 so the relative differences among regions according to this indicator remain more or less the same. The drop in the registered unemployment rate is the result of more jobs having become available in the regions while many people have also been struck off unemployment registers for various other reasons. Compared to 2000, in 2006 the registered unemployment rate dropped the most in the Podravska (by 5.5 p.p.), Notranjsko-kraška (by 3.4 p.p.) and Gorenjska regions (by 3.2 p.p.), while it increased only in two regions: in Goriška and Koroška (in both by 0.2 p.p.). Compared to 2005, the registered unemployment rate decreased in all statistical regions, most notably in Zasavska (by 1.8 p.p.). In 2006, the highest unemployment rate was again registered in Pomurska (15.7%), exceeding the Slovenian average by about 66%. The unemployment rate registered in Pomurska has been among the highest in the country for several years and the highest in Slovenia since 2002 when it surpassed the rate in Podravska. In 2006, the Slovenian average was also exceeded by the Podravska, Zasavska, Savinjska, Spodnjeposavska, and Koroška regions.

In 2006, regional differences in registered unemployment rates were the lowest since 2000. In terms of this indicator Slovenia is ranked in the middle of EU member states. In 2006 the registered unemployment rate in Pomurska was 2.5-times higher than in Goriška where it was the lowest. Between 2000 and 2006 the ratio declined by 0.6 p.p.; compared to 2005, it declined by 0.1 p.p in 2006. The coefficient of variation, which is a better indicator of regional differences than the ratio between two regions at the two extreme ends, dropped to 30% in 2006, which is the lowest value since 2000. Regional differences in the unemployment rate, measured by the coefficient of variation, are still much lower in Slovenia than the EU-25 average. According to this indicator, Slovenia was somewhere in the middle of the 21 countries that provided such data at the NUTS 3 level in 2005. If we compare Slovenia with the neighbouring countries, regional differences are slightly smaller in Hungary (29.9%) than in Slovenia (30.9%), while in Italy they are much larger since in 2005 Italy had the highest coefficient of variation as regards regional unemployment in the EU (62.5%). Compared to 2004, regional differences in the unemployment rate at the NUTS 3 level decreased in eleven member states and increased in ten memebre states. Countries in which regional differences decreased include Slovenia, Hungary, Italy, and Austria.

Despite the drop in the registered unemployment rate, structural problems increased in some regions last year, even in those regions with low registered unemployment rates. Long-term unemployment, which is the highest in Pomurska, Savinjska, Jugovzhodna Slovenija, and Spodnjeposavska, jumped in Osrednjeslovenska and in Jugovzhodna Slovenija (both regions with below-average registered unemployment rates) and in Savinjska, whose registered unemployment rate is above the national average. In all these regions, more than a half of job-seekers had been out of work for over a year. In all statistical regions except Obalno-kraška the share of the unemployed who have completed at least higher education rose, while the share of the unemployed with the lowest education has been falling. The highest share of unemployed people with at least a higher education was observed in regions with the most educated populations (Osrednjeslovenska, Goriška, Obalno-kraška, and Gorenjska) as well as in Notranjska. In these regions, highly educated people represent more than a tenth of all unemployed people in the region. This share was the highest in the Osrednjeslovenska region (13.1%). The share of job-seekers aged over 50 is rising as well. In 2006, the highest share of job-seekers aged over 50 was

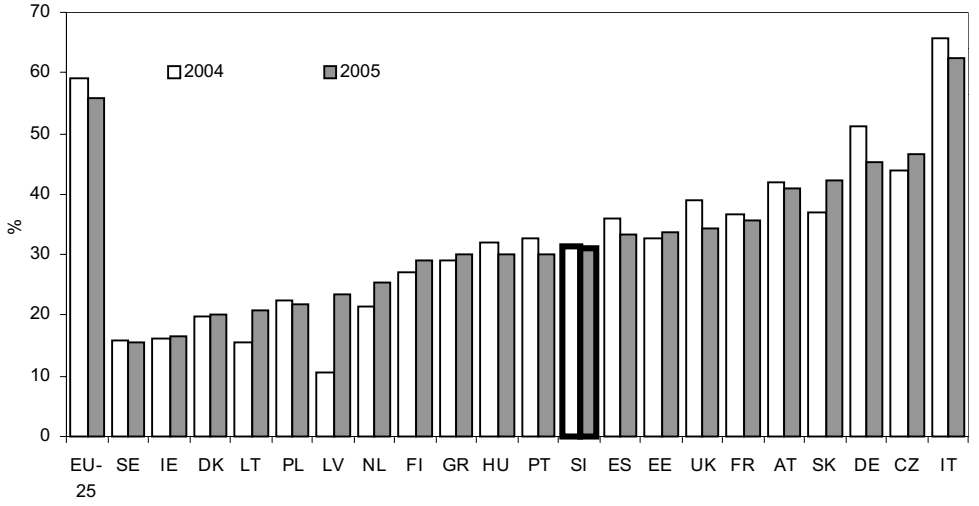
observed in Gorenjska (35.1%). In the past year, the highest increases in this indicator were observed in Gorenjska, Notranjsko-kraška, in Goriška. Frequently a high share of the unemployed over 50 years of age is linked to a high share of workers who were permanently laid off[1], who represent about a fifth of all unemployed persons in Gorenjska, Notranjsko-kraška and Spodnjeposavska. In most regions the share of unemployed women is on the rise (bankruptcies in the textile industry); in all regions it has already exceeded half of the unemployed, while the highest shares are recorded in the Spodnjeposavska and Zasavska regions.

Table: **Registered unemployment rates by region, 2000-2006, %**

Statistical region	2000	2001	2002	2003	2004	2005	2006
SLOVENIA	11.8	11.2	11.3	10.9	10.3	10.2	9.4
Osrednjeslovenska	8.8	8.0	7.7	7.5	7.5	7.6	7.2
Obalno-kraška	8.8	8.7	8.3	8.0	7.9	7.5	7.2
Gorenjska	9.7	8.7	8.2	8.0	7.6	7.3	6.4
Goriška	5.9	5.6	6.1	6.3	6.7	6.5	6.2
Savinjska	13.1	13.1	13.6	13.1	12.5	12.7	11.6
Jugovzhodna Slovenija	10.4	9.6	9.7	8.4	8.2	8.8	8.6
Pomurska	16.7	16.3	17.7	17.6	16.8	17.1	15.7
Notranjsko-kraška	10.4	9.4	8.8	8.6	8.1	7.9	7.0
Podravska	18.1	17.4	17.1	15.8	14.2	13.5	12.7
Koroška	9.9	9.9	11.3	12.2	11.4	10.6	10.1
Spodnjeposavska	13.4	13.9	14.1	14.6	12.7	11.5	10.5
Zasavska	14.9	14.3	14.8	15.6	14.4	13.8	12.0

Source: SORS.

Figure: **Coefficients of variation of regional unemployment at the NUTS 3 level[1], 2005**



Source: Eurostat.
Note: [1]The source for comparisons is Eurostat data on the coefficient of variation at the NUTS 3 level, which the Eurostat calculates from Labour Force Survey data, and from data on registered unemployment sent by national statistical institutes or other authorised national institutions.

[1] Unemployed people who have lost their jobs due to a permanent reduction in the number of workers in their company.

Issued building permits

The growth of the floor area of buildings planned by building permits accelerated strongly in 2006. The total floor area of buildings planned by issued building permits grew by 6.0% in 2005 and by as much as 34.6% in 2006. The total floor area thus increased for the fifth consecutive year (by a total of 74.8% in four years).

As regards residential building the total floor area planned for all types of buildings increased in 2006. After three years of decline, the planned floor area of residential buildings rebounded in 2003-2005 (by a total of 55.3%). A year later it went up by another 19.4%. The total floor area grew by 12.7% in one-dwelling buildings, by 8.8% in two-dwelling buildings, and by 35.1% in buildings with several flats. The proportion of the area of two- and more dwelling buildings to all buildings thus increased to 30.5%, while it still totalled only 8.9% in 1999.

The total floor area of planned non-residential buildings rose strongly in 2006. In 2002 and 2003 the total floor area of planned non-residential buildings grew by 21.6%, while in 2004 it went down by 8.4%. The floor area of planned non-residential buildings increased by 2.4% in 2005 and by as much as 52.9% in 2006, especially due to the surge in the floor area of planned wholesale and retail trade buildings (by 80.8%) and industrial buildings and warehouses (by 44.7%). Compared to 1999[1], the share of industrial buildings and warehouses grew the most (by 13.5 p.p. to 32.3%), while the share of administrative and office buildings fell by 21.3 p.p. to total 6.0%.

The number of dwellings planned by building permits issued in 2006 was the highest in the past seven years. In the 1999-2002 period the number of planned dwellings fell by 9.8%, while in the next three years it rose by 42.4%. Growth accelerated in 2006: the number of planned dwellings rose by 18.3%, mainly due to the large growth in three- and more-dwelling buildings (up 32.8%).

The overview of planned total floor area by statistical regions shows considerable fluctuations between years[2]. In the period until 2005 the shares of the Gorenjska and Obalno-kraška regions rose while particularly the share of Goriška has been shrinking. 2006 saw a surge in the shares of the Podravska region and Jugovzhodna Slovenia. The share of the Osrednjeslovenska region continues to be at approximately the same level; however, the structure within the region changed according to the latest data for 2005.

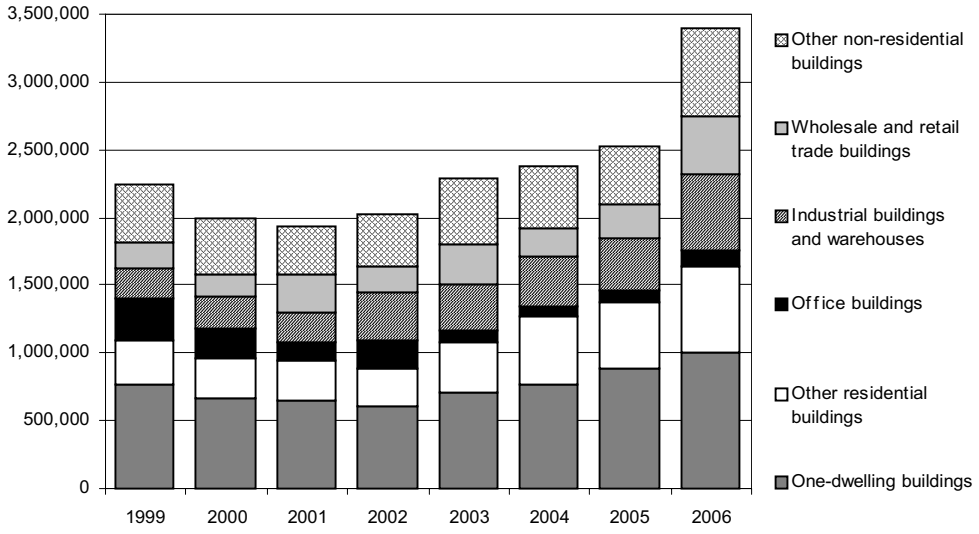
Both as regards the floor area of residential and non-residential buildings, the Osrednjeslovenska region still has the highest share; however, within this region, the share of the urban municipality Ljubljana decreased according to the latest data for 2005. In 2005, building permits in the Osrednjeslovenska region were issued for 25.8% of the total floor area of the buildings planned in Slovenia (29.8% for residential and 21.1% for non-residential buildings), which is not much different from trends in recent years. However, compared to previous years, major changes happened within this region. The floor area of all buildings planned in the urban municipality of Ljubljana halved in 2005, representing only 6.6% of the total floor area planned in the country. On the other hand, the share of other municipalities in the Osrednjeslovenska region increased; their

[1] Data are available from 1999 on.

[2] E.g. the share of Podravska in the total floor area of buildings planned in 1999 in Slovenia was 21.6%, while in 2000 it fell to 16.2%.

planned floor area rose by 86.1%, representing 19.3% of the planned national floor area. The drop in the planned floor area in the capital city and the rise in other municipalities of the Osrednjeslovenska region was observed in both residential and non-residential buildings.

Figure: **Floor area of buildings planned by issued building permits, m²**



Source: *SI-STAT data portal – Building permits* (SORS), 2007.

Household expenditure on culture

In 2004 (the latest available data), the share of household expenditure on culture[1] continued to grow. The rise in the human well-being in Slovenia is also reflected in the constantly increasing share of household expenditure on recreation and culture. In 2000, expenditure on culture represented 8.5% of total household expenditure, while in 2004 the share rose to 11.1%. About a third of this expenditure is spent on cultural goods and services; after a slight drop in 2001 and 2002 their share rose in the following two years. About 60% of expenditure is intended for the printed, television, and radio media. As a result of the growing supply, the share of expenditure on television and radio has grown considerably in the last two years. It is encouraging that in 2004 the trend of the growing expenditure on cinema, theatre and concert tickets continued; since 2000, when households spent 1.3% of total expenditure on tickets, the share has increased to 4.7%. On the other hand, data on the purchase of books and picture and sound recording media (records, cassettes, videocassettes, discs, CDs, CD-ROMs, filmstrips, photo films, etc.) are less favourable; the share of household expenditure on buying scientific books and literature has been falling since 2002.

In recent years the share of household expenditure on recreation and culture in Slovenia has been at the level of EU average. Compared to other member states, Slovenia's household expenditure on recreation and culture in 2005 was similar to that in Germany and much higher than in Poland, where only 6.5% of total household expenditure was spent on recreation and culture, Italy (7.1%), Hungary (7.9%), etc. However, as regards household expenditure on recreation and culture, Slovenia is way behind the United Kingdom, where more than 12% of total household expenditure (since 2000) goes for this purpose. Available data for the EU-10 show that in recent years the shares of expenditure on culture have been rising, except in the Czech Republic and Poland where they have been falling.

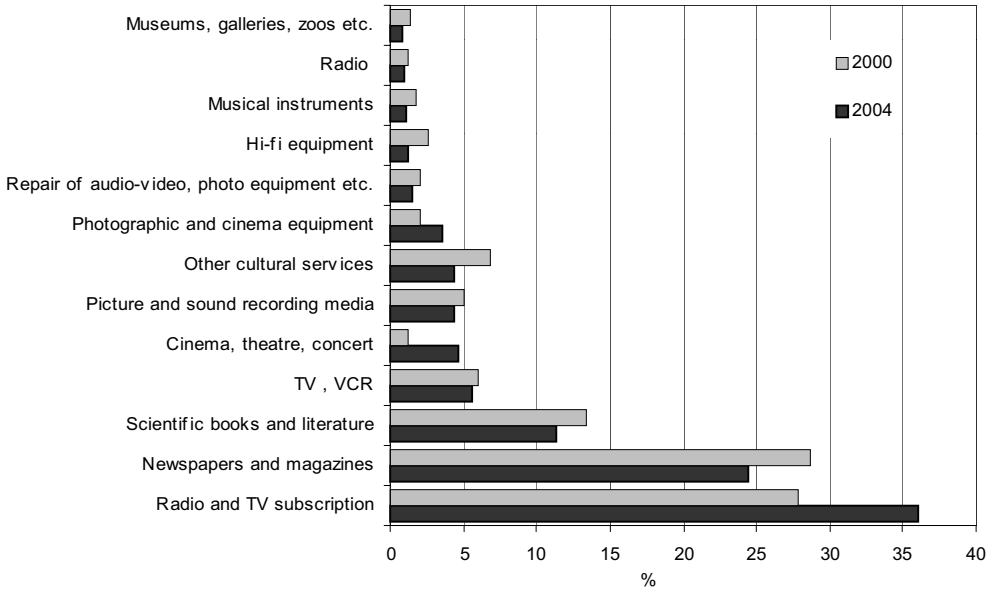
[1] Based on the SORS Household Budget Survey.

Tabela: **Recreation and culture, percentage of total household expenditure**

	1995	2000	2001	2002	2003	2004	2005
EU-25	**9.1**	**9.8**	**9.7**	**9.7**	**9.6**	**9.6**	**9.6**
Austria	11.1	12.0	12.0	11.9	11.7	11.7	11.8
Belgium	9.1	10.1	9.8	9.3	9.3	9.2	9.2
Cyprus	7.4	7.6	7.7	7.9	7.9	8.1	8.0
Czech Republic	11	11.5	11.6	11.8	11.4	11.8	11.6
Denmark	10.2	11.0	10.9	10.8	10.5	10.6	N/A
Estonia	5	7.0	6.8	6.7	6.8	6.6	7.9
Finland	10.7	11.4	11.4	11.1	11.1	N/A	11.4
France	8.5	8.9	8.9	9.0	9.0	N/A	9.2
Greece	5.1	5.6	5.7	5.8	5.8	6.0	N/A
Ireland	7.7	7.4	7.6	7.0	6.9	7.3	7.5
Italy	7.3	7.5	7.5	7.5	7.3	7.4	7.1
Latvia	3.6	5.8	6.8	6.8	7.1	N/A	N/A
Lithuania	2.8	6.2	6.7	N/A	N/A	N/A	7.4
Luxembourg	8.5	7.7	8.2	8.1	8.3	N/A	7.9
Hungary	8.0	7.5	7.6	7.7	7.8	7.9	7.9
Malta	N/A	10.6	11.1	10.8	10.6	11.1	10.9
Germany	9.2	10.1	9.9	9.7	9.5	9.4	9.5
Netherlands	11.0	11.2	11.0	10.9	10.6	10.3	10.1
Poland	8.1	8.6	7.3	7.0	7.2	N/A	6.5
Portugal	6.3	6.6	6.6	6.6	6.6	N/A	N/A
Slovakia	7.5	8.5	9.3	9.3	8.5	8.4	8.7
Slovenia	**8.0**	**9.3**	**9.4**	**9.4**	**9.5**	**9.7**	**9.6**
Spain	8.5	8.5	8.5	8.4	8.4	N/A	N/A
Sweden	10.4	11.9	12.1	11.8	11.9	11.9	11.8
United Kingdom	11.5	12.1	12.1	12.4	12.6	12.7	12.6

Source: *Eurostat - National Accounts*, 2006.

Figure: **Household expenditure on culture by type of goods. Slovenia, 2000 and 2004[1]**



Source: *Survey on household expenditure on culture* (SORS). 2006. calculations by the Ministry of Culture. Note: [1] Data for 1999-2001 are calculated to 2000 as the reference year. Data for 2003-2005 are calculated to 2004 as the reference year.

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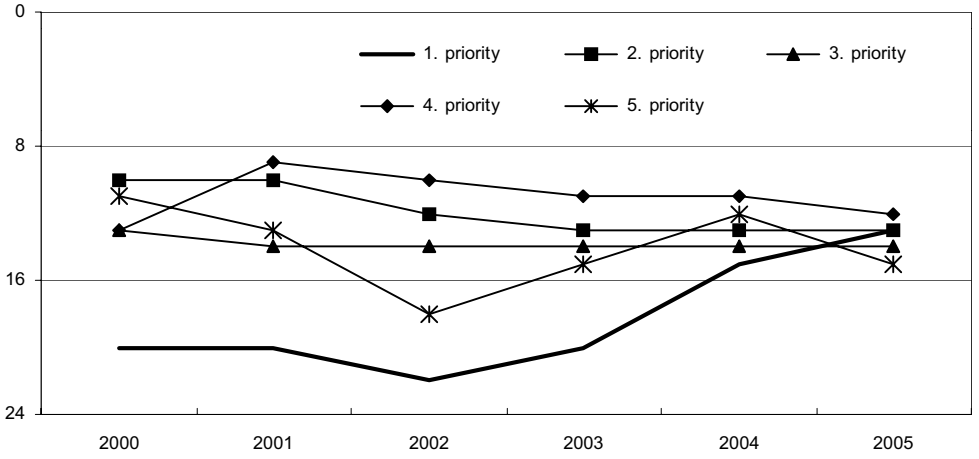
Appendices

1. An attempt at a model-based estimate of Slovenia's development using selected indicators

The model-based estimate of Slovenia's development based on selected indicators applies a methodology that complements the Development Report's expert approach with a quantitative analysis[201]. The applied mathematical model enables the computation of standardised relative values (estimates of development) from an arbitrary number of selected indicators and thus allows international and longitudinal comparisons of the country's development level on the basis of selected indicators that exclude any subjective evaluation. The main difficulty of the applied model-based approach is the selection of the included indicators which is significantly limited by data availability (many data are still not available even for 2005 for all the countries included) and even more by the fact that the numerically measurable indicators cannot capture all the important dimensions and factors of development.

The model proffers a comparative assessment of Slovenia's development from the viewpoint of the country's development priorities. The selected indicators were clustered into groups according to the priorities of Slovenia's Development Strategy (SDS), which allowed us to evaluate development achievements from the perspective of Slovenia's own development goals. This approach is appropriate for the evaluation of Slovenia in comparison with other countries, however it is unsuitable for the ratings of other countries since they may have different development priorities. Due to several methodological constraints (see

Figure 1: **Slovenia's ranking according to the priorities of Slovenia's Development Strategy**



Source: model-based calculation by S. Mićković.

[201] Also see Development Report 2006, where this method was first used.

the box) the model-based estimates are experimental. Therefore, the presentation of the results is limited to those that recorded significant progress or divergence, since the existing analytical tool is not sufficiently precise for an analysis of changes that occurred in individual indicators or years.

The main finding of the model-based assessment of development is that Slovenia has made ***significant progress in the area of its first development priority*** *in recent years. In addition, it now scores similarly high in all priority areas of development.* In the area of the first priority (a competitive economy and faster economic growth), Slovenia was, until 2003, ranked among the lowest third of those EU countries which could be included in the analysis based on data availability (Figure 1). Since 2003, the development in this area (measured by selected indicators) has accelerated strongly and Slovenia is now ranked in the lower part of the second third of countries (between 10th and 15th place) in all development priorities. Moreover, the differences between the estimated progress achieved in individual priorities have narrowed (see Figures 2-6).

Box: **Methodology for calculating development estimates**

Development is estimated by means of a special methodology (Mićković, 2005) for the calculation of a relative development estimate. Since development is the result of the combined effect of different factors operating simultaneously, a development estimate must express the total effect of all indicators that reflect these factors and are used to evaluate progress in time and space. The procedure of calculating the relative value (estimate) of development is based on the computation of discrete optimisation. By comparing each country with other countries we calculated the appropriate relative value (development estimate) for the given country and hence its relative ranking. The results are presented structurally because the country with the recorded indicator values is analysed concurrently with all the compared countries. The method allows an estimate of development that reflects the collective effect of all indicators used in the calculation, whereas the number and measures (dimensions) of indicators are irrelevant. A consistent set of indicators in the time dimension allows for an analysis of the temporal dynamics of development.

Slovenia's development is evaluated by means of selected indicators at three levels: first, the level of specific problem sets within each priority; second, the level of development priorities; and third, the collective level that reflects the combined development results of all priority areas. The assessment of development covers the period 2000-2005 and is presented in comparison with the progress of other EU countries. The selection of indicators by priorities and problem sets was carried out in accordance with the required model criteria regarding data completeness for the analysed period and compared countries. Malta and Cyprus were excluded from the analysis due to incomplete data while Luxembourg was excluded due to its specificity. For some indicators, data for 2005 (and exceptionally for other years) were unavailable and were therefore replaced by the values for the previous year. Due to the differences in the selected indicators (some support development while others inhibit it) we carried out a polarisation procedure whereby indicators were divided into the positively and the negatively correlated ones.

We should be cautious in interpreting the development results arrived at by the method applied. The main reason for such caution is the too small number of indicators. In some cases, the quality and explanatory power of indicators are also questionable as some SDS areas are not covered by adequate, internationally comparable indicators. We should also bear in mind that the ranking of a country in international comparisons can also change due to the changes in other countries observed and does not necessarily reflect better or poorer results of that country itself.

*Looking at the **first SDS priority** (a competitive economy and faster economic growth), Slovenia made the greatest progress in the area of macroeconomic stability, whereas the competitiveness of the economy witnessed a slower improvement, especially in the competitiveness of services where Slovenia remains at the tail end of the analysed countries.* In the observed period, the estimated development in the first priority area was faster in Slovenia than on average in the new member states, which in turn recorded faster development than the EU as a whole. The estimated macroeconomic stability[202] has been rising since 2003; in 2000-2002, however, it recorded similar trends to the average of the old member states where the development estimates even declined somewhat. In 2004-2005, Slovenia's estimated macroeconomic stability was already significantly higher than the average of all EU countries. The estimated competitiveness of the business sector[203] has also been improving since 2002, albeit relatively slowly. The Slovenian business sector's competitiveness is estimated to have been higher than the average of the new member states in 2005 but it remains far below the competitiveness achieved in, for example, Ireland, Belgium, and the Netherlands, countries comparable to Slovenia in terms of their size and openness of the economy. According to the competitiveness of services, however, Slovenia was ranked at the tail end of all the analysed countries[204]. Although the development estimate in this area has been improving faster than the corresponding EU average since 2000, the original gap was too large for Slovenia to be able to reduce it quickly.

*As regards the **second SDS priority** (efficient use of knowledge for economic development and high-quality jobs), the estimated progress is stagnating at the achieved level after the initial deterioration.* The estimate of development deteriorated significantly in 2000-2002 and has remained at the achieved level since (Figure 2). Among the analysed EU member states, all three Nordic countries are at the forefront. Within the two problem sets covered by the second priority,

[202] The estimated progress in macroeconomic stability is based on the relative values of the following indicators: real growth of GDP, inflation, general government sector balance, general government debt, and balance of payments.

[203] The estimated progress in the business sector's competitiveness is based on the achieved relative values in the following indicators: labour productivity, high-tech products as a share of goods exports, exports and imports as a share of GDP, foreign direct investment (outward and inward).

[204] The estimated progress in the competitiveness of services is defined in the model on the basis of the relative values of the following indicators: non-financial market services as a share of GDP and the indicator of financial services' level of development that includes data on banks' total assets, insurance premiums, and market capitalisation.

Slovenia scores better in the area of education and training[205]. At the beginning of the observed period, Slovenia was even ranked among the top third of the EU countries, whereas at the end of the period it scored in the middle. In the area of R&D and innovation[206] Slovenia scores lower. In 2005[207], it was ranked in the latter part of the second third of the analysed EU countries.

*According to the **third SDS priority** (an efficient and more economical state), Slovenia is ranked at the end of the second third of the analysed countries.* According to the estimated progress in the area of a more efficient and economical state, measured by the indicators of taxes and general government expenditure, Slovenia is slightly above the EU-15 average (Figure 3)[208]. This rating ranked Slovenia at the tail end of the second third of the EU countries in 2005[209]. Interestingly, new member states score appreciably higher according to this estimate. The first five places are occupied by four new member states and Ireland; all these countries have low taxation rates.

*With regard to the **fourth SDS priority** (a modern welfare state), the estimated progress is now hovering around the achieved level following the improvement at the beginning of the period.* In this priority, Slovenia scores only slightly lower than the old member states on average and much higher than the new member states (Figure 4). The best results were recorded in labour market indicators[210] where Slovenia advanced from the middle of the scale to the lower part of the leading third of countries in 2000-2005. Particularly Denmark, Sweden, the Netherlands, and the United Kingdom can serve as role models for successful policies in this field. The estimated quality of living conditions and risk of poverty[211] for 2005 are also relatively favourable, ranking Slovenia only slightly below the EU-15 average and considerably above the EU-10 average. The estimated progress

[205] The estimated progress in education and training is based on the relative values of three indicators: share of the population with a tertiary education, total public expenditure on education, and expenditure on educational institutions per student.

[206] The estimated progress in R&D and development is derived from the relative values of the following indicators: gross domestic expenditure on research and development, science and technology graduates, and number of patents (EPO).

[207] Due to the data shortage we assumed that the values of two out of three indicators (science and technology graduates, and number of patents) for 2005 were the same as the year before.

[208] The estimated progress in the area of an efficient and more economical state is based on the relative values of two composite indicators: public expenditure according to the classification of the functions of government (joined figures on the general government sector expenditure and capital transfers and investment) and economic structure of taxes and contributions (total tax burden, tax burden on labour).

[209] The estimated progress in this priority also needs to be considered with some reservation since we assumed that the value of one out of the two indicators for 2005 (economic structure of taxes and contributions) was the same as in 2004.

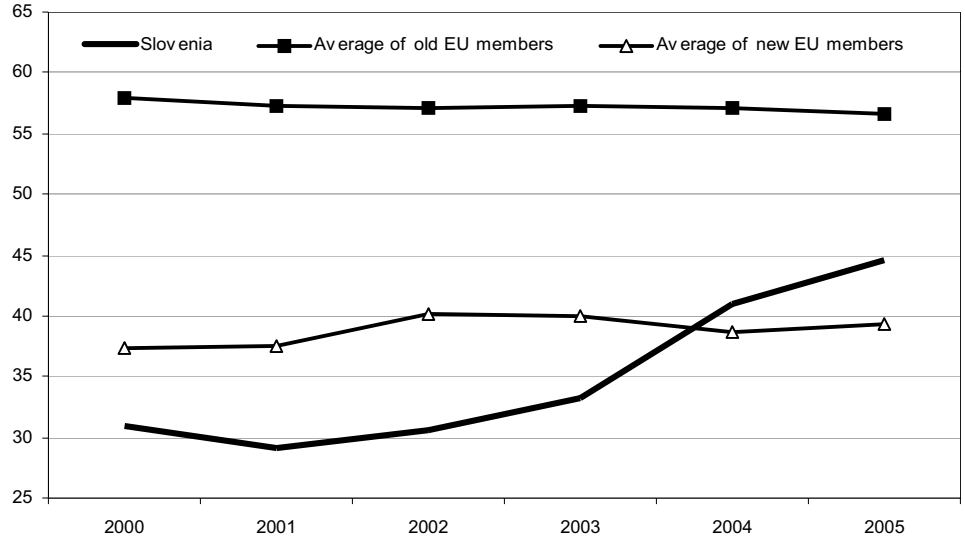
[210] The estimated progress in the labour market is based on the relative values of the following indicators: employment rate, unemployment rate, long-term unemployment rate, and labour market flexibility, which combines the data on the prevalence of part-time and temporary employment and the share of self-employed people.

[211] The estimated progress in the quality of living conditions and risk of poverty is based on the relative values of the following indicators: at-risk-of-poverty rate, number of physicians and nurses, life expectancy and infant mortality, and participation in education.

in this area improved considerably in 2000-2003 while it deteriorated somewhat in the last two years.

*Slovenia's estimated progress in the **fifth SDS priority** (integration of measures to achieve sustainable development) declined in the observed period amid strong swings across the years.* Slovenia's development ranks the country in the second third among all countries and is close to the estimated progress of the new member states (Figure 5). The main reason for the lower estimates in the analysed period is the deterioration in the area of sustained population replacement[212]. On the other hand, regarding the integration of environmental standards into sectoral policies and consumption patterns[213], Slovenia is very close to the scores achieved by the old member states and much better than the average score of the new member states. This ranks Slovenia close to the top third of all countries analysed. The estimates fluctuate considerably across the years, which may also reflect the lower reliability or explanatory power of the indicators used.

Figure 2: **Estimate of Slovenia's development (relative values) in the first priority**

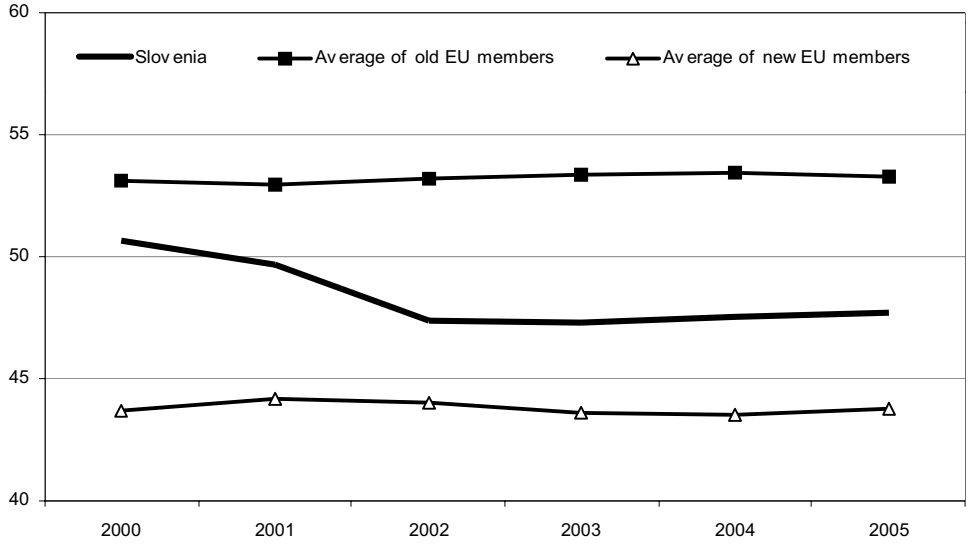


Source: model-based calculation by S. Mićković.

[212] The estimated progress in population replacement is based on the relative values of two indicators, namely migration coefficient and fertility rate.

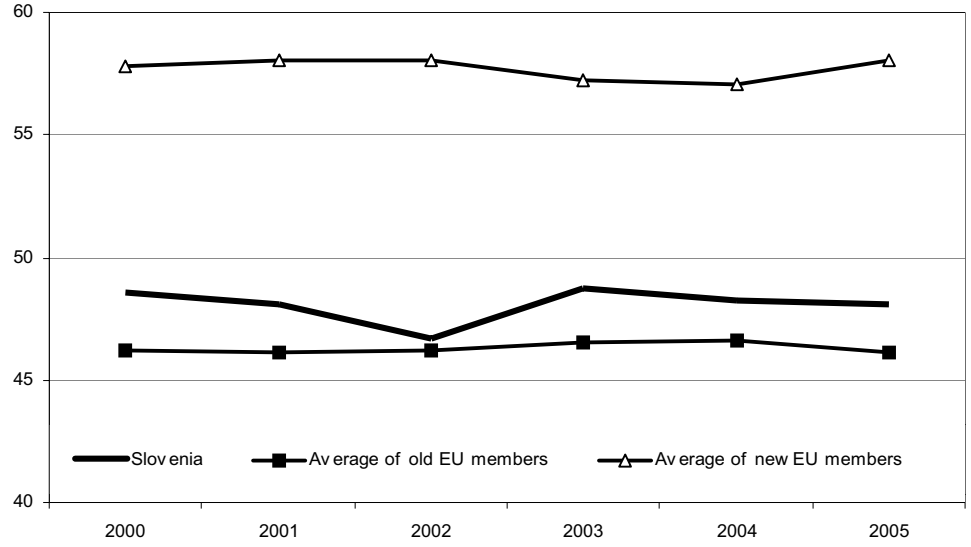
[213] The estimated progress in the integration of environmental measures into sectoral policies and consumption patterns is based on the relative values of the following indicators: share of road transport in total goods transport, energy intensity, renewable energy sources, agricultural intensity (average yield of wheat and average milk yield per animal), and share of landfilled municipal waste.

Figure 3: **Estimate of Slovenia's development (relative values) in the second priority**



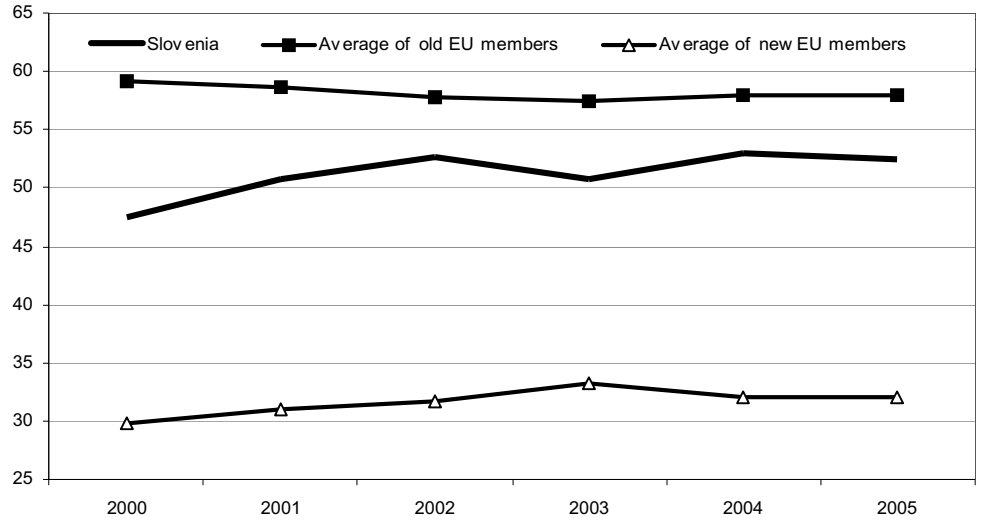
Source: model-based calculation by S. Mićković.

Figure 4: **Estimate of Slovenia's development (relative values) in the third priority**



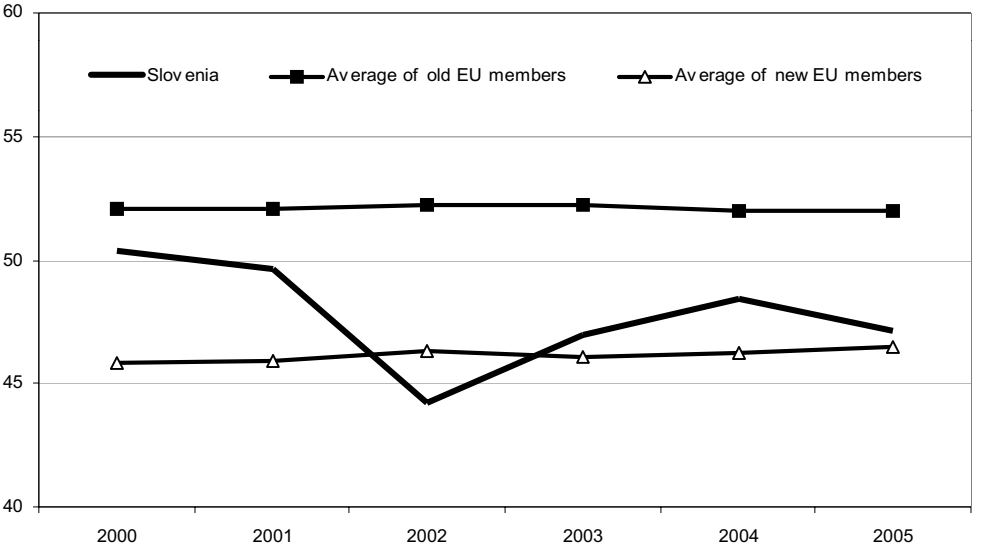
Source: model-based calculation by S. Mićković.

Figure 5: **Estimate of Slovenia's development (relative values) in the fourth priority**



Source: model-based calculation by S. Mićković.

Figure 6: **Estimate of Slovenia's development (relative values) in the fifth priority**



Source: model-based calculation by S. Mićković.

2. Data Appendix

Table 1: **Global competitiveness of Slovenia, other EU members and the USA according to the WEF Report 2006-2007**

	Global competitiveness of Slovenia, other EU members and the USA according to the WEF indices													
	WEF aggregate indices				Sub-indices of GCI factors						BCI sub-indices			
	GCI[4] - Global Competitiveness Index		Business Competitiveness Index		Basic requirements of competitiveness: institutions, infrastructure, macroeconomy, health, and primary education		Efficiency enhancers: higher education and training, market efficiency, technological readiness		Innovation and sophistication factors[2]: business sophistication, innovation		Company operat. and strategy		Quality of the national business environment	
	05	**06**	05	**06**	05	**06**	05	**06**	05	**06**	05	**06**	05	**06**
Countries[1]	r/v	**r/v**	r	**r**	r/v	**r/v**	r/v	**r/v**	r/v	**r/v**	r	**r**	r	**r**
Austria	15/5.3	17/5.3	12	12	14/5.7	18/5.6	21/5.2	20/5.2	13/5.3	12/5.3	11	14	11	10
Belgium	20/5.2	20/5.3	18	17	21/5.5	**17/5.6**	23/5.0	23/5.1	15/5.2	14/5.2	20	**17**	13	13
Cyprus	41/4.4	46/4.4	34	45	36/5.1	37/5,0	40/4.3	44/4.3	41/3.9	49/3.8	34	43	47	67
Czech Rep.	29/4.8	29/4.7	26	32	37/5.0	42/4.9	28/4.6	27/4.7	27/4.4	27/4.5	28	32	27	28
Denmark	3/5.7	4/5.7	4	5	1/6.2	1/6.2	3/5.6	6/5.6	7/5.5	7/5.4	4	6	5	6
Estonia	26/5.0	25/5.1	27	**24**	29/5.3	30/5.3	24/5.0	**19/5.2**	34/4.1	32/4.2	25	24	32	35
Finland	2/5.7	2/5.8	3	3	2/6.1	3/6.1	5/5.5	4/5.6	5/5.7	6/5.7	2	3	8	8
France	12/5.4	18/5.3	10	16	16/5.7	15/5.7	18/5.2	22/5.1	9/5.4	13/5.3	12	18	10	11
Greece	47/4.3	47/4.3	45	49	42/4.8	40/5.0	42/4.2	47/4.2	47/3.8	45/3.9	47	47	46	53
Ireland	21/5.2	21/5.2	21	22	22/5.5	23/5.5	14/5.2	18/5.2	19/4.9	19/5.0	21	23	16	17
Italy	38/4.5	42/4.5	37	38	44/4.8	48/4.7	36/4.4	40/4.4	30/4.3	31/4.3	38	42	30	32
Latvia	39/4.5	**36/4.6**	48	47	41/4.8	41/4.9	37/4.3	36/4.5	62/3.6	**58/3.7**	48	48	50	**47**
Lithuania	34/4.5	40/4.5	39	43	43/4.8	45/4.8	35/4.4	38/4.4	40/3.9	44/4.0	41	45	42	**37**
Luxembourg	24/5.0	22/5.2	n/p	n/p	10/5.8	10/5.7	26/4.8	24/5.0	24/4.7	23/4.8	n/p	n/p	n/p	n/p
Hungary	35/4.5	41/4.5	38	39	49/4.7	52/4.6	30/4.5	32/4.6	39/4.0	39/4.1	37	35	43	43
Malta	44/4.3	**39/4.5**	46	**41**	39/4.9	39/5.0	39/4.3	**33/4.6**	70/3.5	**53/3.8**	44	**40**	59	**63**
Germany	6/5.6	8/5.6	2	2	8/5.8	9/5.8	19/5.2	17/5.2	3/5.9	3/5.9	3	2	2	2
Netherlands	11/5.4	**9/5.6**	7	6	9/5.8	8/5.9	16/5.2	**9/5.5**	12/5.3	11/5.4	7	5	9	7
Poland	43/4.4	48/4.3	44	53	57/4.6	57/4.6	38/4.3	48/4.2	45/3.9	51/3.8	46	53	40	49
Portugal	31/4.6	34/4.6	28	28	30/5.3	34/5.2	32/4.5	37/4.5	35/4.0	37/4.1	27	26	41	40
Slovakia	36/4.5	37/4.6	43	**40**	47/4.7	47/4.7	34/4.4	34/4.6	43/3.9	43/4.0	43	**39**	54	**45**
Slovenia	30/4.6	33/4.6	33	36	32/5.1	36/5.2	29/4.5	30/4.6	31/4.2	34/4.2	33	36	29	34
Spain	28/4.8	28/4.8	25	30	28/5.3	25/5.4	27/4.7	28/4.6	28/4.4	30/4.3	26	31	24	31
Sweden	7/5.6	**3/5.7**	11	**7**	7/5.8	7/6.0	9/5.4	**2/5.7**	6/5.5	5/5.7	13	**8**	7	**3**
UK	9/5.5	10/5.5	5	8	17/5.6	**14/5.7**	4/5.6	7/5.6	11/5.3	10/5.4	6	7	4	9
EU-25	25/4.9	26/5.0	25	27	27/5.3	28/5.3	25/4.8	26/4.9	28/4.6	28/4.6	26	27	29	27
EU-10[3]	36/4.5	37/4.6	38	40	41/4.9	43/4.9	33/4.5	34/4.6	43/3.9	43/4.0	38	39,5	42	45
EU-15	18/5.2	19/5.2	16	17	18/5.6	18/5.6	20/5.0	20/5.1	18/5.0	18/5.0	17	18	16	17
USA	1/5.9	6/5.6	1	1	18/5.6	27/5.4	1/5.9	1/5.7	1/6.1	4/5.8	1	1	1	1

Source: *WEF Global Competitiveness Report 2006-2007;* calculations by IMAD.
Notes: The WEF's Report for 2006 is based on data from 2004 and 2005 and the surveys of top executives carried out at the beginning of 2006. The report rates 125 countries (the newcomers are Barbados, Burkina Faso, Burundi, Lesotho, Mauritania, Nepal, and Suriname; Angola and Zambia were reincluded). The WEF computes the indices using 90 indicators and weights them in accordance with the growth theory. It is best to use the rankings when comparing the performance of countries across the years. Due to the methodology, index values are not fully comparable between the years and are primarily intended to compare the relative differences between the factors and countries in a given year. For 2005, the WEF recalculated the ranks of both indices using the 2006 methodology. [1]The group of reference countries includes the EU-25 countries and the USA. [2]Factors of business sophistication and innovation of products and processes. [3]New member states. [4]According to the new methodology of measuring global competitiveness, the WEF no longer measures the aggregate growth competitiveness index (see SEM 1/2006:19); r - rank; v - value; bold print - an increase in the country's ranking by at least three places (significant improvement); grey cells - a fall by at least three places (significant deterioration).

Table 2: **World competitiveness of Slovenia, other EU members and the USA according to the IMD Report 2006**

	Aggregate index (WCI)		Economic performance		Government efficiency		Business efficiency		Infrastructure	
	2005[1]	**2006**	2005[1]	**2006**	2005[1]	**2006**	2005[1]	**2006**	2005[1]	**2006**
Country[2]	r/v	**r/v**	r/v	**r/v**	r/v	**r/v**	r/v	**r/v**	r/v	**r/v**
Austria	17/74,33	**13/79,30**	26/50,79	29/45,08	20/58,88	**15/60,25**	12/68,94	**5/75,90**	21/60,86	**13/65,74**
Belgium	24/67,46	27/68,09	20/54,06	23/47,88	42/41,88	**38/41,55**	24/51,28	29/48,20	16/64,77	15/64,51
Czech Republic	36/60,13	**31/63,00**	36/45,2	**25/46,76**	44/40,33	**34/44,67**	32/47,69	34/43,99	30/49,46	29/46,36
Denmark	7/82,55	5/86,03	31/6,96	31/4,63	4/74,33	3/76,58	7/77,07	**3/80,84**	5/73,98	3/71,84
Estonia	26/66,71	**20/71,42**	16/54,42	**12/56,22**	13/65,25	11/64,96	29/49,27	**22/53,18**	39/40,07	**35/41,11**
Finland	6/82,63	10/80,89	32/46,07	38/41,04	3/75,86	5/73,00	9/75,65	10/68,89	4/75,09	7/70,41
France	30/64,20	35/60,81	9/58,93	17/50,66	45/38,63	**48/31,63**	45/37,46	48/30,59	17/63,96	21/60,14
Greece	50/50,33	**42/54,15**	49/40,18	49/36,35	52/31,11	**46/35,61**	49/31,07	47/32,75	37/41,13	**33/41,66**
Ireland	12/77,85	11/80,65	6/61,81	9/57,01	10/68,91	**7/71,75**	10/73,43	**6/74,84**	31/49,39	**27/48,76**
Italy	53/45,82	56/43,53	37/44,16	50/36,13	58/18,05	60/13,67	53/21,63	55/15,67	36/41,6	39/38,42
Luxembourg	10/80,31	9/81,51	2/77,22	2/74,40	12/66,5	16/59,57	19/60,83	17/64,36	24/58,86	22/57,48
Hungary	37/59,87	41/57,32	50/39,82	**42/38,98**	38/44,84	41/39,74	33/47,36	40/37,36	29/49,6	32/42,95
Germany	23/67,84	26/68,64	23/52,45	22/8,33	35/45,9	33/45,31	36/44,73	**31/44,18**	11/70,44	10/66,50
Netherlands	13/77,40	15/75,93	10/58,4	18/ 50,48	23/56,22	**18/54,28**	15/67,92	15/65,94	13/69,22	18/62,79
Poland	57/39,02	58/39,96	55/35,48	53/35,14	56/21,22	58/16,15	58/11,46	60/7,62	50/30,06	**44/30,68**
Portugal	45/52,43	43/52,81	44/42,39	48/36,47	41/42,2	42/39,28	51/25,12	50/23,97	35/42,16	34/41,27
Slovakia	40/58,62	39/57,44	56/33,77	54/34,59	17/61,43	23/52,25	37/44,06	37/40,25	41/37,39	42/32,42
Slovenia	52/49,30	**45/51,64**	39/43,29	**35/42,87**	49/33,32	49/31,48	52/21,8	52/21,24	38/40,98	36/40,75
Spain	38/59,43	36/58,38	25/50,81	34/43,12	30/47,81	40/40,19	48/34,31	**43/34,61**	33/46,96	**30/45,39**
Sweden	14/76,26	14/76,99	30/49,2	28/5,71	22/57,94	22/53,61	16/67,61	**12/67,47**	8/72,46	6/70,95
UK	22/68,52	21/71,39	14/56,49	**8/58,15**	27/51,02	26/48,29	26/51	24/52,38	25/57,71	23/56,53
EU-21[3]	29,1/64,8	28,4/65,7	29/49,6	29,9/46,2	30,5/49,6	30,2/47,32	31,5/48,1	30,2/47,23	25,9/54,1	24,7/52,2
NMS-6[3]	41,3/55,6	39,0/56,8	42/42,0	**36,8/42,4**	36,2/44,4	36,0/41,54	40,2/36,9	40,8/33,94	37,8/41,3	36,3/39,0
EU-15	24,3/68,5	24,2/69,3	23,9/ 52,7	27,1/47,7	28,3/51,7	27,9/49,64	28,0/52,5	**25,9/52,55**	21,1/59,2	20,1/57,5
USA	1/100,00	1/100,00	1/100,00	1/97,00	16/62,72	14/61,47	3/84	4/76,56	1/95,45	1/94,85

Source: *IMD Competitiveness Yearbook 2005*, 2006; calculations by IMAD.
Notes: [1]IMD World Competitiveness Yearbook 2005. [2]Reference countries include EU member states and the USA. [3]The IMD does not publish data for four new member states (NMS) (Cyprus, Latvia, Lithuania, Malta). r - rank, v - index value. Bold figures indicate a rise in the country's competitiveness by at least three ranks - a visible improvement. Grey cells indicate a drop by at least three ranks - a visible deterioration.

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