

# autumn forecast of economic trends 2011



## **Autumn Forecast of Economic Trends 2011 (Jesenska napoved gospodarskih gibanj 2011)**

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## Summary

**Economic growth will remain modest this year, at 1.5%.** In the first half of this year, positive impulses came from the international environment, stimulating GDP growth, which reached 1.6% in real terms year-on-year. According to the forecasts by international institutions, these impulses are set to ease in the second half of the year. In contrast to export movements, domestic consumption has yet to show more visible signs of recovery this year, given the aggravated labour market conditions and the deepening crisis in construction. Moreover, economic activity is also impeded by difficulties in accessing finance for businesses. Following an 8.0% real decline in 2009 and last year's 1.4% growth, GDP will increase by 1.5% in real terms this year.

**Economic growth will not accelerate much in 2012 either, and is projected to be at 2.0%.** The public finance situation and the financial conditions for businesses will also influence the continuation of the relatively slow recovery of Slovenia's economy next year. In addition, the growth of foreign demand, which has been the main driver of economic activity over the last two years, is beginning to slow. Nonetheless, GDP growth is expected to be slightly higher next year (2%), mainly as a result of the winding up of the expressly negative movements in investment consumption. However, no major shift is expected in household consumption, in view of the forecast for disposable income, while government consumption will decline under the impact of increased fiscal efforts to reduce the public finance deficit.

**The deterioration of labour market conditions has slowed this year, but we expect no significant improvement next year.** In 2011, the number of employed persons continues to decline, but to a lesser extent than in the previous two years, and will be 1.5% lower in the year as a whole than last year. After declining from January to August this year, registered unemployment is projected to increase somewhat by the end of the year, so that the average number of registered unemployed persons will climb to 111 thousand in 2011, which is nearly 10% more than in the previous year. The average registered unemployment rate will stand at 11.8%. Due to a further adjustment of employment to lower economic activity and growing structural imbalances, the labour market situation is not yet anticipated to improve next year, and the numbers of employed and unemployed persons will remain at roughly the same levels as this year.

**The nominal growth of the gross wage per employee will hover around 2.5% in 2011 and 2012 and will be, as in 2010, mainly underpinned by wage rises in the private sector.** In the private sector, the average nominal gross wage will be 3.2% higher in 2011 than last year. This is less than in 2010 (5.1%), when its relatively strong growth was significantly influenced by the increase in the minimum wage, and, to a certain extent, changes in employment structure. The contribution of the adjustment to the new level of the minimum wage (in enterprises where this has not been done yet) is much smaller this year. The effect of changes in employment structure is also decreasing. In 2012, gross wages in the private sector are set to increase at similar rates as this year, considering a further, albeit only gradual, strengthening of economic activity and persistent high unemployment. The nominal wage growth in public sector activities has been modest for the second successive year as a result of austerity measures (0.5%); given the general economic and public finance situation, the restrictions on more visible wage growth will also remain in place next year (0.6%).

**Amid weak GDP growth and with the government mitigating changes in petroleum product prices by adjusting excise duties, inflation is hovering at a low level in 2011, which will also continue next year.** After the increase in y-o-y inflation in September (due to the base effect as a result of last year's reduction in prices of school meals), price movements are expected to be moderate until the end of the year and y-o-y inflation will hover around 1.7%. At the annual level, price growth will largely stem from higher prices of energy and food. The economic situation in Slovenia is also unlikely to put upward pressure on prices in 2012. Assuming moderate commodity prices on international markets, inflation will remain low in 2012 (1.9% y-o-y).

**The greatest risk to GDP growth is a further aggravation of the sovereign debt crisis in certain euro area countries.** A further tightening is also the main risk to economic activity in the euro area, and consequently, the activity of Slovenia's economy. Scenarios assuming 3 p.p. lower economic growth in the euro area than according to the baseline scenario show that Slovenia's GDP would decline by 1.7% in real terms in 2012.

### Autumn forecast of Slovenia's main macroeconomic aggregates

	2010	2011	2012	2013
		Autumn forecast 2011 (Sept. 2011)		
<b>ECONOMIC ACTIVITY</b>				
Gross domestic product, real growth, in %	1.4	1.5	2.0	2.5
GDP in EUR m, current prices	35,416	35,924	37,334	38,871
<b>EMPLOYMENT, WAGES AND PRODUCTIVITY</b>				
Employment according to the SNA, growth in %	-2.5	-1.5	0.0	0.0
Number of registered unemployed (annual average, in '000)	100.5	110.9	110.6	110.2
Registered unemployment rate, in %	10.7	11.8	11.8	11.8
ILO unemployment rate, in %	7.2	8.0	8.0	8.0
Gross wage per employee, real growth, in %	2.1	0.9	0.6	0.6
Private sector	3.2	1.6	1.3	1.4
Public sector	-1.8	-1.1	-1.2	-1.5
Labour productivity (GDP per employee)	4.0	3.0	2.0	2.5
<b>INTERNATIONAL TRADE - balance of payments statistics</b>				
Exports of goods and services, real growth, in %	9.5	7.9	6.3	6.7
Exports of goods	11.0	8.7	6.9	7.1
Exports of services	4.1	4.6	3.8	4.9
Imports of goods and services, real growth, in %	7.2	5.2	4.6	4.9
Imports of goods	8.0	5.5	4.6	4.9
Imports of services	2.6	3.1	4.9	5.4
Current account balance, in EUR m	-297	-351	-181	378
- as a % of GDP	-0.8	-1.0	-0.5	1.0
External balance of goods and services, in EUR m	103	153	692	1,209
- as a % of GDP	0.3	0.4	1.9	3.1
<b>DOMESTIC DEMAND</b>				
Final consumption – real growth, in %	-0.1	0.1	0.1	0.4
of which:				
Private consumption	-0.7	0.0	0.2	0.5
Government consumption	1.5	0.3	-0.5	0.1
Gross fixed capital formation	-8.3	-7.5	6.0	5.0
<i>Change in inventories and valuables, contribution to GDP growth, in p.p.</i>	1.9	1.1	-0.5	-0.3
<b>EXCHANGE RATES AND PRICES</b>				
USD/EUR exchange rate	1.327	1.418	1.434	1.434
Inflation (December–December)	1.9	1.7	1.9	1.9
Inflation rate (annual average)	1.8	1.6	1.8	2.0
Oil price (Brent crude, USD/barrel)	79.6	110.0	105.0	105.0

Source: up to 2010 SORS, BS; 2011–2013 forecasts by IMAD.

# **autumn forecast of economic trends 2011**

### **Background documents and data for the Autumn Forecast of Economic Trends 2011–2013**

*The Autumn Forecast of Economic Trends for 2011–2013 takes into account figures, information available and economic policy measures in force at the time of finalising the document (8 September 2011).*

The Autumn Forecast of Economic Trends 2011 is based on IMAD's expert estimates using the following source data: (i) data on gross domestic product, the main aggregates of national accounts and employment in the first half of 2011 and new annual data for 2007–2010 (SORS), the balance of payments for the first half of 2011 and revised data for 2008–2010; (ii) available statistical data on other current economic trends; (iii) data on GDP growth in the international environment in the first half of 2011; (iv) forecasts by international institutions on economic trends in the international environment released by 8 September 2011; (v) prevailing expectations of international institutions regarding future oil price movements; (vi) results of the dynamic factor model and other econometric models used in forecasting; (vii) consultations with other organisations that prepare forecasts for Slovenia.

The Autumn Forecast is based on the orientation of fiscal policy at the time of the preparation of the revised budgetary documents for 2011 and 2012 and the draft budget for 2013. In line with this orientation, the reduction of the general government deficit is focussed on limiting the compensation of employees in the public sector, transfers to individuals and households, capital and capital transfers of the government, and subsidies.

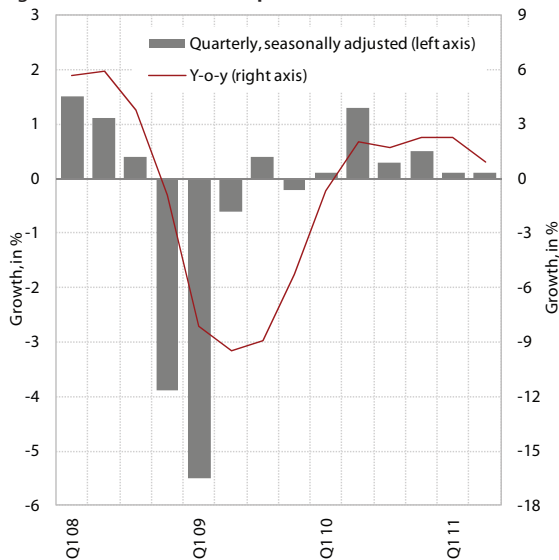
*This publication represents a more detailed analysis of the Autumn Forecast of Economic Trends 2011, of which the Government of the RS took note on 14 September 2011.*



## Economic growth – main demand aggregates

**Economic activity in Slovenia increased very modestly in the first two quarters of this year. It was still driven by exports and held back by domestic consumption.** In both quarters, GDP rose by a mere 0.1% (seasonally adjusted), which is a significant deceleration relative to last year (see Figure 1). Y-o-y growth eased as well, from 2.3% in the first quarter to 0.9% in the second. In the first half of the year as a whole, GDP was up 1.6% in real terms from the same period last year.

Figure 1: Gross domestic product

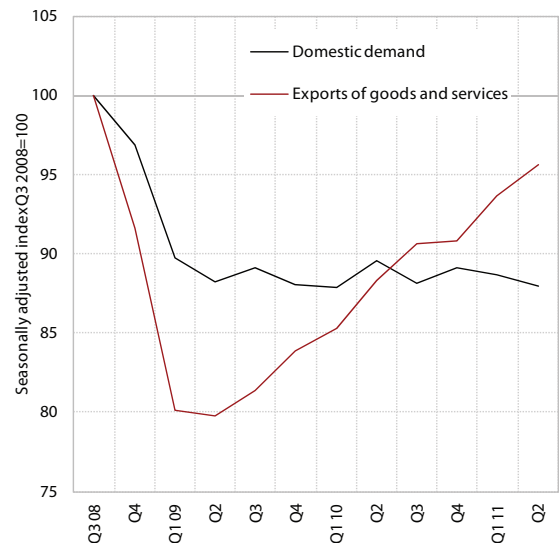


Source: SORS.

**Economic growth will remain modest this year, at 1.5%.** In the first half of 2011, positive impulses came from the international environment, but they will ease in the second, according to the forecasts by international institutions. In contrast to export movements, domestic consumption has not yet shown visible signs of recovery this year, given the aggravated labour market conditions and the deepening crisis in construction. Moreover, economic activity is also impeded by difficulties in accessing finance for businesses. Following an 8.0% real decline in 2009 and last year's 1.4% growth, GDP will increase by 1.5% in real terms this year.

**Exports will remain the key driver of the otherwise modest economic growth and will be up 7.9% in real terms.** Slovenia's merchandise exports recorded one of the largest drops in the EU at the onset of the economic crisis. The recovery, having started in the second quarter of 2009, slowed somewhat in the second quarter of 2011. Real growth in merchandise exports eased relative to that in the first quarter of this year, according to both seasonally adjusted (from 4.0% to 3.4%) and y-o-y data (from 11.9% to 9.6%). The data show that the y-o-y decline in the second quarter mainly resulted from a smaller contribution of growth in exports to the EU. The

Figure 2: Movements of real exports and domestic consumption since the beginning of the economic crisis



Source: SORS; calculations by IMAD.

contribution of growth in exports to other countries declined less.<sup>1</sup> The second quarter of 2011 was marked by subdued economic growth in Slovenia's main trading partners in the EU, and the movements of short-term indicators of economic activity and confidence indicators also indicate a continuation of low economic growth in the EU in the second half of the year. This is a consequence of deteriorated expectations about export demand and

Figure 3: Contribution of EU and other countries to total nominal growth of merchandise exports



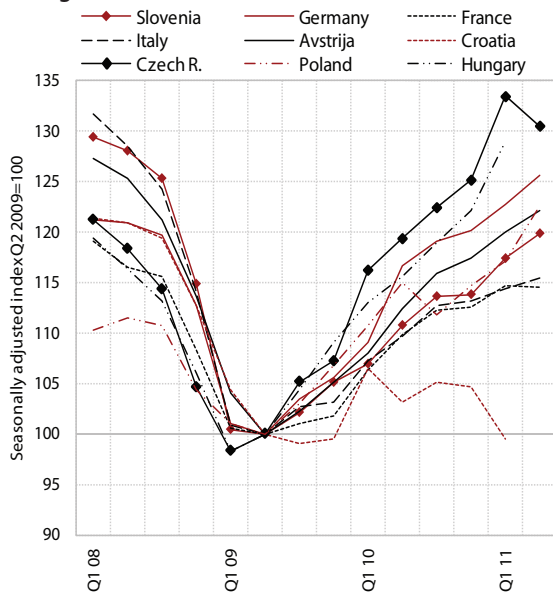
Source: SORS; calculations by IMAD.

<sup>1</sup> In the first half of this year, the greatest contributions to nominal growth in exports to the EU came from electrical equipment and machinery, iron and steel, and general industrial machinery, while growth in exports to non-EU countries was mainly underpinned by exports of electricity, road vehicles, and medical and pharmaceutical products.

the expected introduction of new austerity measures for public finance consolidation to stem the deepening of the sovereign debt crisis (see Box 1). In the second half of 2011, y-o-y real growth in merchandise exports will drop from 10.7% recorded in the first, to average 8.7% in the year as a whole, which is less than last year. Growth in services exports (5.2%), which are recovering more slowly from the crisis than merchandise exports, was mainly underpinned by exports of transport and travel services in the first half of the year. In 2011, it will reach 4.6%, which is a slightly higher figure than last year.

**In a number of EU countries, exports are rising faster than in Slovenia, which indicates a weakening of the export competitiveness of the Slovenian economy.** A comparison between the speeds of recovery of exports in Slovenia and certain other EU countries shows that the exports of the latter are increasing even faster than Slovenian exports (see Figure 4), due to the competitive advantages arising from a different geographical orientation of exports, a higher level of technology intensity or the cost advantages of production, which shows that these countries are able to better exploit the growing global demand.

Figure 4: Exports of goods and services in Slovenia and its main trading partners relative to the lowest level during the crisis (Q2 2009)

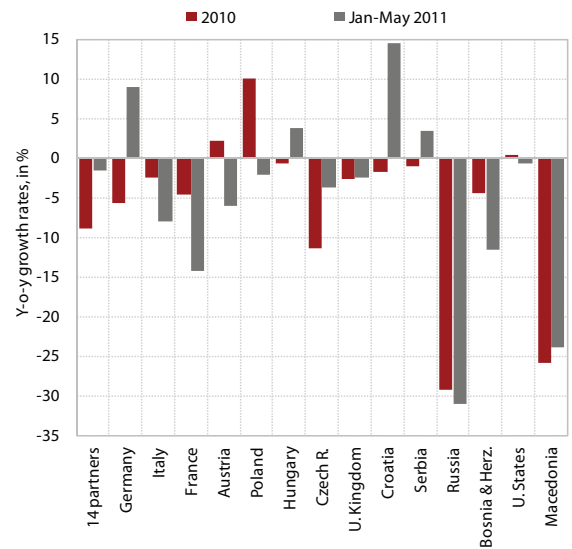


Source: Eurostat.

**The decline in Slovenia's market share on the global merchandise market is easing this year, but as the market share was also dropping in the preceding three years, it remains much smaller than in the pre-crisis period.** This year, the decline in Slovenia's market share on the global merchandise market is slowing chiefly due to resumed growth in the market shares in Germany and Croatia. Owing to the increase in Germany and on certain

relatively less important EU markets,<sup>2</sup> Slovenia's market share in the EU expanded once again, according to data for the first five months (0.4% y-o-y), despite the ongoing contraction on the French, Italian and Austrian markets, which are, in addition to the German market, Slovenia's main markets in the EU. The falling of Slovenia's market shares outside the EU, which deepened last year, has also slowed this year, as the market shares in Croatia and Serbia expanded again. The decline of Slovenia's market share on the global market was, consequently, also smaller (-3.5%, data for Q1; last year -8.4%). The market shares on other main markets outside the EU, Russia, Macedonia and Bosnia and Herzegovina, have continued to shrink (see Figure 5).

Figure 5: Change in Slovenia's market share in its main trading partners



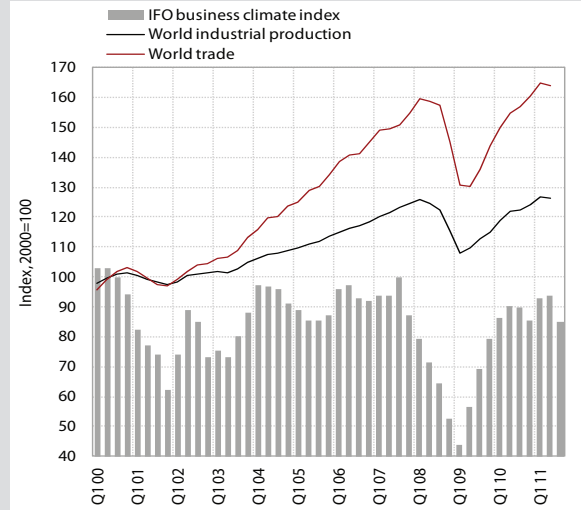
Source: SORS, Eurostat, WIIW, US Census Bureau; calculations by IMAD.

<sup>2</sup> Hungary, the Netherlands, Belgium, Denmark, Greece, Finland, Sweden, Romania and Cyprus.

### Box 1: Assumptions of the spring forecast – international environment

**International institutions forecast a slowdown of the global economic recovery.** The confidence in the stability of the recovery in the euro area has deteriorated significantly over recent months, under the impact of various factors, such as elevated risks associated with the sovereign debt crisis in the euro area, and uncertain future economic growth in the US amid a possible withdrawal of stimulus measures. According to the forecasts by international institutions available at the beginning of September 2011, global economic growth will slow from last year's 5.1% to around 4% both this year and in 2012, mainly as a result of a moderation in advanced economies. Growth in emerging markets, particularly in Asia, will remain relatively strong. The slowdown is already expected for the second half of this year. It is indicated by confidence indicators, which are at the lowest levels since the beginning of the recovery in several most important economies. According to CPB data, the volume of global trade, which underpinned global industrial output growth, also declined in the second quarter for the first time in two years.

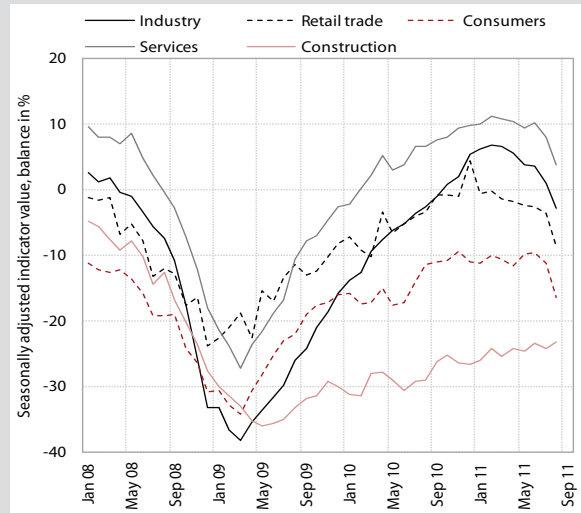
Figure 6: Volume of world trade, industrial output and business climate indicator



Source: CPB, IFO; calculations by IMAD.

**GDP growth in the euro area is expected to slow in the second half of the year to total 1.8% in 2011 and 1.4% in 2012, with increasing downside risks for 2012.** In the first quarter of this year, GDP increased more than expected in most of Slovenia's trading partners in the euro area (0.8%, seasonally adjusted); in some of them, it has already exceeded the pre-crisis levels recorded in the third quarter of 2008 (e.g. in Germany, Austria and France). Economic growth eased considerably in most of the main trading partners (except Austria) and in the entire euro area (0.2%, seasonally adjusted) in the second quarter. The main reasons for the deceleration are reduced trade flows and a stall in the recovery of domestic demand amid high oil prices and increased uncertainties about a possible further deepening of the sovereign debt crisis, as well as the expected measures for public finance consolidation in euro area. International institutions also forecast sluggish growth for the second half of the year. Economic growth in the EMU will stand at around 1.8% in 2011, as it did last year. Due to the favourable results in the first quarter, it will be even somewhat higher than expected in the spring. For 2012, international institutions predict a moderation of growth (to 1.4%, see Table 1). It will still be mainly driven by foreign demand, but judging by deteriorated expectations about new orders and exports in manufacturing, foreign demand will also decline (see Figure 7). Uncertainty about economic growth in 2012 remains high, mainly due to the growing risks that are largely related to the aggravation of the sovereign debt crisis in the euro area during the summer months (see the section Risks to the realisation of the autumn forecast).

Figure 7: Economic sentiment indicators in the euro area



Source: Eurostat.

**In view of their strong trade and financial ties to the EU, the prospects for certain main partners outside the euro area have also deteriorated, even though they will largely enjoy higher growth than the euro area.** Assumptions for Slovenia's main trading partners in the area of the former Yugoslavia and in Central and Eastern Europe are slightly lower than in the spring forecast. This is largely due to uncertainties in financial markets that may significantly affect capital inflows and postpone investment growth to the following years. Given that their exports are strongly oriented to Western European markets, export growth in these countries will also decline due to weaker growth in demand on those markets.

**Box 1: Assumptions of the spring forecast – international environment - continue**

**Commodity prices have stabilised at a high level, after they increased in the spring.** Having climbed to around EUR 95 a barrel in January this year, the price of Brent oil had been rising further until May, when it reached USD 125 a barrel, and then stabilised around USD 110 a barrel in later months. This is also the technical assumption of the autumn forecast for this year, meaning a 33% increase relative to last year. For the next two years, we assume an only slightly lower oil price than for this year, USD 105 a barrel. Growth in non-energy commodity prices will also be high this year (23%), but lower than oil price growth, while these prices are assumed to remain at this year's level in the next two years.

**The euro appreciated considerably against the dollar this year.** The technical assumption for the USD/EUR exchange rate by the end of this year and in the following two is based on the average exchange rate between 1 and 30 August this year and totals EUR 1.434 to EUR 1 (in the spring, USD 1.365 to EUR 1).

Table 1: IMAD's autumn forecast assumptions of economic growth in Slovenia's main trading partners

Real growth rates, in %	2010	2011	2012	2013
		Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)
EU	1.8	1.8	1.6	1.8
Euro area	1.8	1.8	1.4	1.6
Germany	3.6	3.0	1.8	1.7
Italy	1.3	0.8	0.8	1.0
Austria	2.1	3.0	1.8	1.8
France	1.5	1.7	1.6	1.7
United Kingdom	1.4	1.1	2.0	2.0
Czech Republic	2.3	2.2	2.2	3.0
Hungary	1.2	1.8	2.5	3.0
Poland	3.8	3.9	3.9	3.8
Croatia	-1.2	1.0	2.0	3.0
Bosnia and Herzegovina	0.9	2.0	3.0	3.0
Serbia	1.5	2.7	3.5	3.5
Macedonia	0.7	2.0	3.0	3.0
US	3.0	1.8	2.4	3.0
Russia	4.0	4.5	4.4	4.4

Source: Eurostat for 2010; Consensus Forecasts, August 2011; Eastern Europe Consensus Forecasts, August 2011; EU Country Reports (for Serbia, Croatia, Russia), August 2011; WIIW Current Analysis and Forecasts, July 2011; ECB staff macroeconomic projections for the euro area, June 2011; IMF World Economic Outlook Update, June 2011; IMAD estimate.

**Domestic consumption will stagnate this year.** The greatest impediments to economic growth stem from the domestic environment, with problems in the construction sector, in particular, deepening further during the year. Domestic consumption recorded a y-o-y decline in the first half of 2011 (-0.5%); a more visible positive contribution came only from changes in inventories (1.9 p.p.), which continue to grow after the 2010 increase and will also make a significant contribution to annual GDP growth (1.1 p.p.). Among other domestic consumption aggregates, gross fixed capital formation was still lower than in the same period of 2010, while government and private consumption enjoyed modest growth. As such movements will also mark the second half of the year, total domestic consumption will not be higher than last year (-0.4%).

**In 2011, household final consumption expenditure is projected to remain at the same level as last year.**

After declining in real terms over the past two years, household consumption expenditure is expected to remain at last year's level in 2011. It already maintained the 2010 level in the first half of the year (0.1%); the data show that spending on non-durable goods picked up, while purchases of durable goods (vehicles, furniture and household appliances) declined. The available short-term indicators for the second half of the year do not yet show any reversal towards higher household consumption, which is expected, considering the estimate of disposable income for this year. Amid a y-o-y decline in employment and modest real growth of wages, household wage-related incomes, which form the bulk of household budgets, dropped relative to last year, while household incomes from social transfers increased due to a higher number of recipients of social transfers. At the same time, households have been repaying more in consumer loans this year than they have taken out (see Box 4).

### Box 2: Revision of the main national accounts aggregates used in the Autumn Forecast

**According to the revised data released in August 2011, the estimate of nominal GDP for 2010 declined significantly, while the estimate of real growth is slightly higher than before the revision.** At the end of August 2011, SORS released the first annual estimate of GDP, main national accounts aggregates and employment, and a routine annual revision of these data for 2007–2009. According to the revised data, GDP 2010 at current prices amounted to EUR 35,416 m, which is EUR 645 m (1.8%) lower than initially estimated by quarterly accounts. On the expenditure side, the largest downward revisions of nominal values were made for household consumption (-EUR 440 m) and gross fixed capital formation (-EUR 377 m), while on the income side, the largest revision was for the gross operating surplus (-EUR 602 m). On the production side, value added was reduced the most in manufacturing (-EUR 306 m) and in construction (-EUR 183 m). Real GDP growth in 2010 stood at 1.4%, according to the new estimate, 0.2 p.p. higher than in the initial estimate by quarterly accounts. On the production side, real growth was revised the most in financial and insurance activities (5%, before the revision -4.2%) and in construction (-19.9%, before the revision -14.3%). Within consumption components, downward revisions were made for gross fixed capital formation (-8.3%, before the revision -6.7%) and private consumption (-0.7%, before the revision 0.5%), while exports and imports were revised upwards (exports from 7.8% to 9.5% and imports from 6.6% to 7.2%). The new estimate of the contribution of foreign trade to real GDP growth in 2010 thus amounts to 1.5 p.p. (before the revision 0.8 p.p.). The annual estimate of real government consumption growth is also higher (by 0.7 p.p.). The new estimates of nominal and real GDP in 2007–2009 do not differ significantly from the previous estimates.

Table 2: Gross domestic product before and after revision

	2007	2008	2009	2010
Gross domestic product, SORS, August 2011, EUR m	34,562	37,280	35,311	35,416
Gross domestic product, SORS, March 2011, EUR m	34,568	37,305	35,384	36,061
Change (%)	0.0	-0.1	-0.2	-1.8
New estimate of growth rates (%)	6.9	3.6	-8.0	1.4
Former estimate of growth rates (%)	6.9	3.7	-8.1	1.2
Change (p.p.)	0.0	-0.1	0.1	0.2

Source: SORS.

**With the routine annual revision of the balance of payments data for the 2008–2010 period, the Bank of Slovenia revised the estimates of certain transactions with the rest of the world, which were also taken into account in the revision of the main national accounts aggregates.** The revised current account deficit for 2008 amounted to 2,574 m (before the revision EUR 2,489 m), for 2009 to EUR 456 m (before the revision EUR 526 m) and for 2010 to EUR 297 m (before the revision EUR 409 m). The largest revisions were made for 2010, as the deficit decreased by EUR 112 m. Taking into account imports of foreign companies with a Slovenian tax number, the deficit in merchandise trade increased significantly (by EUR 231 m) amid essentially unchanged exports. The lower estimate of the deficit in current transactions was, however, due to even greater changes in services trade and in the balance of factor incomes. According to data from the surveys, the average non-resident expenditure in Slovenia (exports of travel services) increased by one quarter, which also contributed the most to the increase of EUR 251 m in the surplus in trade in services. The new estimate of non-resident expenditure also had a significant impact on the revision of the estimate of private consumption.<sup>5</sup> The deficit in the balance of factor incomes was lower, largely due to the inclusion of the actual data on reinvested earnings, with both Slovenian enterprises abroad and foreign enterprises in Slovenia reducing the value of capital or realising losses.

<sup>5</sup> Due to the methodology for calculating private consumption, which takes into account the difference between imports and exports of travel services.

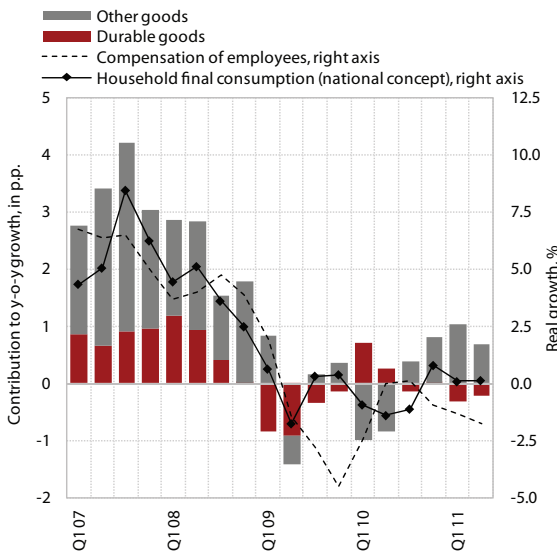
**Government consumption expenditure is not expected to grow much either (0.3%).** In the first half of 2011, government final consumption expenditure was 1.0% higher in real terms than in the same period last year. Within that, individual consumption expenditure<sup>3</sup> grew slightly more, by 1.8% in real terms, while collective consumption expenditure<sup>4</sup> dropped by 0.3% in real

terms. In the second half of the year, growth is expected to ease off somewhat, to average 0.3% in 2011. Namely, the new estimate of public finance revenue at the end of the first half of the year necessitated the adoption of a set of measures that have curbed government consumption by limiting the use of public funds to obligations already incurred and by a revision of the state budget. In 2011, the fastest growth is again expected for expenditure on social benefits in kind. Real growth in the compensation of employees and expenditure on government intermediate consumption continues to slow, given the restrictive pay policy and slower employment growth in the general government sector (see Box 7).

<sup>3</sup> Expenditure on administrative, defence, economic, R&D and other non-market government services.

<sup>4</sup> Expenditure on non-market government services in education, health and social care, culture and sport, and on market goods and services such as medicines, orthopaedic aids, concessions to the private sector and health-resort services.

Figure 8: Household consumption expenditure with regard to durability of goods and compensation of employees



Source: SORS; calculations by IMAD.

Note: Compensation of employees is deflated by the CPI; consumption on the domestic market (by non-residents and residents) is divided into durable and other goods; only consumption expenditure incurred by residents is included in the expenditure structure of GDP (the national concept).

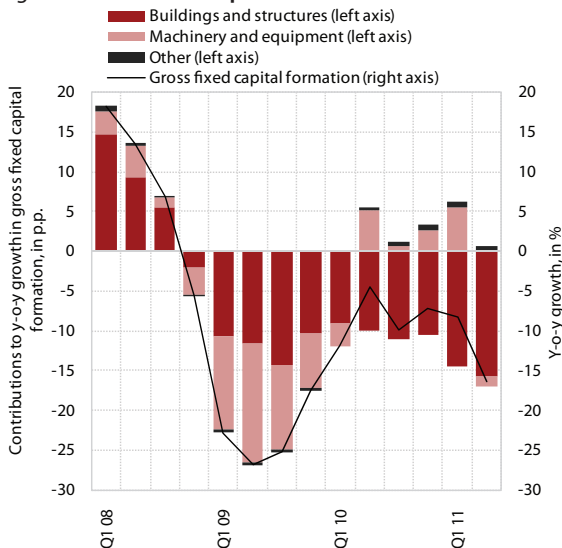
**Gross fixed capital formation shrank by 12.4% in real terms in the first half of the year, mainly due to a further drop in investment in buildings and structures.** The latter has been declining steadily since mid-2008 and was down 26.9% year on year in the first half of 2011. Investment in residential construction dropped under the impact of limited sources of finance and growing stocks of unsold flats. Investment in non-residential buildings and infrastructure shrank as well, partly due to limited public funds. The decline in investment in buildings

and structures in the first half of the year is also related to difficulties on the supply side, as some of the already started construction projects were temporarily halted due to bankruptcy or compulsory settlement procedures in certain major contracting companies. Only investment in machinery and equipment was up year-on-year, by a real 6.2%, but its growth slowed in comparison with that in 2010 (see Box 3).

**Gross fixed capital formation is projected to decline by 7.5% in 2011.** In the second half of the year, construction investment activity will remain low. Data on issued building permits indicate a further fall in residential investment. At the same time, they also show a strengthening in the construction of certain non-residential buildings (related to the industrial tradable sector). Investment growth in the tradable sector will continue to propel growth in investment in machinery and equipment. The outlook for investment activity in the non-tradable sector is not so good (particularly in services), as this sector is investing much less than before the crisis due to deleveraging and relatively less favourable domestic demand. Regardless of further growth in investment in machinery and equipment due to developments in construction, we thus expect gross fixed capital formation to shrink by 7.5% in 2011.

**Inventories have continued to increase this year.** In the first half of the year, they were up EUR 515 m (2.9% of GDP) and contributed as much as 2.1 p.p. to GDP growth. Detailed data on the growth structure are not available, but we estimate that in industry and in wholesale and retail trade inventories have increased and that inventories in the construction/real estate sector have not yet been adjusted downward significantly. Growth in inventories is expected to slow considerably by the end of 2011, so that the contribution of changes in inventories to GDP growth will be neutral in the second half of the year. At the annual level, the contribution of changes in inventories to GDP growth will remain relatively high (1.1 p.p.), due to a substantial strengthening until the middle of the year.

Figure 9: Gross fixed capital formation



Source: SORS; calculations by IMAD.

### Box 3: Investment in machinery and equipment

After it started to increase last year, investment in machinery and equipment continues to grow this year, albeit at a slower pace. In the following, we present more detailed data on the structure of investors in machinery and equipment, and a short outline of the forecast until the end of the year, based on dynamic factor models of a higher number of variables.

**The main investor in machinery and equipment is the industrial sector, i.e. manufacturing.** Investment by the industry sector accounted for nearly 40% of all investment in machinery and equipment in 2009 (see Table 3). Traditional service activities also contributed a considerable share, particularly land transport.

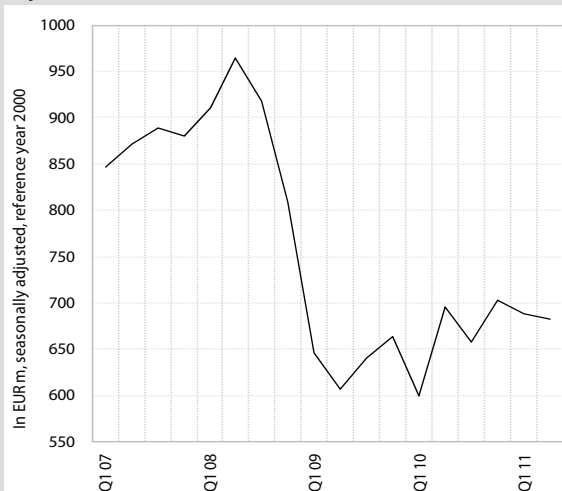
Table 3: Investment structure according to activities and institutional sectors, 2009, in %

	Gross fixed capital formation	Buildings and structures	Machinery and equipment	Intangible fixed assets
A Agriculture, forestry and fishing	2.9	0.8	5.7	0.5
BCDE Mining and quarrying, manufacturing, electricity and water supply, waste management	22.4	12.6	39.6	20.6
of which: C Manufacturing	14.2	5.1	29.8	15.5
F Construction	3.8	3.8	4.4	0.7
GHI Trade, transportation and storage, accommodation and food service activities	20.7	21.0	22.0	9.4
J Information and communication	3.6	1.4	5.5	15.9
K Financial and insurance activities	2.9	1.8	2.3	20.1
L Real estate activities	18.8	31.2	0.7	0.7
MN Professional, scientific, technical, administrative and support services	3.9	3.2	4.5	7.8
OPQ Public administration, education, human health and social work	19.0	22.6	12.6	22.3
RST Other service activities	2.0	1.6	2.7	1.9
Total activities	100.0	100.0	100.0	100.0
S.11 Non-financial corporations	55.9	47.4	71.1	54.2
S.12 Financial corporations	2.4	1.0	2.2	19.8
S.13 General government	19.7	23.5	12.7	24.3
S.14 Households	21.5	27.6	13.4	1.6
S.15 NPISH	0.5	0.5	0.6	0.1

Source: SORS; calculations by IMAD.

**The data indicate that investment in machinery and equipment in manufacturing recorded a below-average decline during the economic crisis and has strengthened fastest during the recovery.** Total investment in machinery and equipment increased by a real 7.7% per year in 2000–2008, on average, then dropped by 29.5% in 2009, and rose again in 2010 (by 4.4%). Having dropped by more than half, investment in the construction sector declined most notably in 2009, in addition to that in services (particularly in transport, financial services, telecommunications, distributive trades, and accommodation and food service activities). Investment in manufacturing and energy supply posted a below-average decline, while government investment picked up. Investment in the manufacturing sector strengthened in 2010, according to our estimates, which is related to stronger exports, while investment in machinery and equipment in other main sectors continued to shrink. Investment in machinery and equipment otherwise eased slightly in the first half of this year (see Figure 10), but was still higher than in the same period of 2010 (by 6.2% in real terms).

Figure 10: Investment in machinery and equipment, constant prices, reference year 2000 (EUR m), seasonally adjusted



Source: SORS; calculations by IMAD.

**Box 3: Investment in machinery and equipment - continue**

**Uncertainty regarding the current and expected economic situation at home and abroad also weighs on the expected volume of investment in machinery and equipment in the future.** After the decline in this investment in the first two quarters of this year (which was otherwise also partly due to the relatively strong growth in the last quarter of 2010) and amid an uncertain financial environment and deteriorating indicators of business trends in Slovenia and abroad, the level of uncertainty in forecasts for investment in machinery and equipment is also high, as they are very volatile even in more stable economic conditions. The forecast for investment in machinery and equipment presented in the following paragraph is based on dynamic factor models using 111 time series, which cover activity in various sectors of the economy, their expectations, interest rates and loans, both in Slovenia and in the EU. The forecast approach based on these models is generally better suited for short-horizon forecasting than the alternative methods of univariate time series, VAR modes, etc.<sup>6</sup>

**Model-based forecasts indicate mild quarterly growth in investment in machinery and equipment in the third quarter, and a stagnation or decline in the last quarter of the year.** This is projected by the best models selected on the basis of their forecasting performance in the period from the first quarter of 2007 to the second quarter of 2011. A breakdown of factors contributing the most to the variability of the forecasts for investment in machinery and equipment shows that factor weights are highest in business trend indicators in Slovenia (particularly export orders and expected exports in manufacturing), the indicator of confidence in industry in the euro area, interest rates, and the Ifo business climate index for the euro area, which measures expectations for the next six months, and the ZEW indicator of economic sentiment for Germany and the EU. The forecast is made using data available by the end of August and thus also captures the deterioration in these indicators in recent months. Amid such movements in the second half of this year, investment in machinery and equipment will grow by 2.6% in 2011 as a whole.

<sup>6</sup> For more on these models and their use, see: Brezigar Masten et. al: Forecasting macroeconomic variables in Slovenia using dynamic factor models, IMAD.

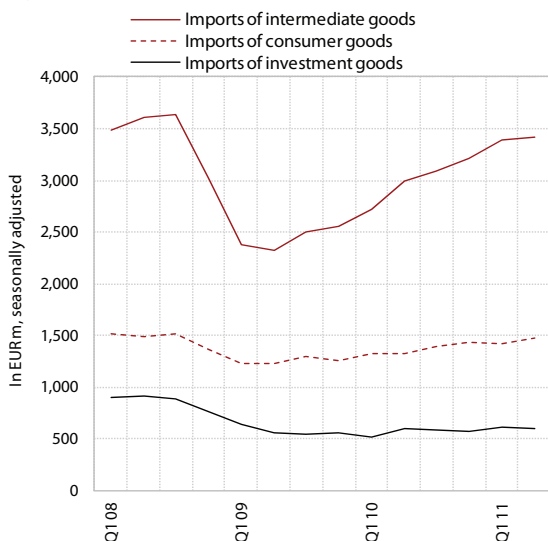
**The growth of imports has also slowed in 2011 (5.2%) relative to the previous year.** In the first half of 2011, merchandise imports were up 7.3% year-on-year in real terms. Against the background of modest domestic consumption, this year's growth in merchandise imports is mainly propelled by growth in imports of intermediate goods in export-oriented manufacturing industries, but this is also slowing due to lower growth in exports than in 2010 and will amount to 5.5% in 2011 as a whole. Imports of services were only 1.4% higher y-o-y in real terms in the first half of the year. Based on nominal values, the

greatest contributions to growth came from imports of various miscellaneous, professional and technical services, along with imports of communications services, while spending on travel by residents plummeted. Annually, imports of services are set to increase by 3.1% in real terms, somewhat more than last year.

**The recovery of Slovenia's economy will remain sluggish in the next two years.** The aggravated public finance situation and deteriorated financial business environment will continue to be the main factors underlying the relatively slow recovery of Slovenia's economy in the next two years. The growth of foreign demand, which was the main engine of GDP growth over the last two years, is also beginning to slow. The greatest risks to Slovenia's economic activity in this period are still associated with the tight situation on international financial markets (see also the Risks to the realisation of the autumn forecast section).

**For 2012, we forecast 2% GDP growth.** Economic growth in Slovenia's main trading partners from the euro area is expected to be 1.4% next year, nearly half a percentage point lower than this year (see Table 1). Taking into account these assumptions, the real growth of Slovenian exports will be lower than this year (6.3%). GDP growth in Slovenia is nonetheless expected to accelerate slightly, mainly as a result of the winding up of the expressly negative movements in investment consumption. In 2012, the strong shrinkage recorded in the last three years will be followed by growth in construction activity arising from a resumption of construction work on certain projects that were halted temporarily this year due to financial difficulties of contractors. Investments

**Figure 11: Imports by end-use product group, seasonally adjusted**



Source: SORS; calculations by IMAD.



in rail and energy infrastructure will also increase, which will, with further growth in investment in machinery and equipment, contribute to renewed total real growth in gross fixed capital formation (6% in 2012).<sup>7</sup> Total domestic consumption growth will, however, remain very low in the short term (0.8% in 2012), in light of the necessary fiscal consolidation, which will restrict the compensation of public sector employees, transfers to individuals and households, capital and capital transfers and subsidies. In view of the forecast of disposable income, we therefore do not expect any major shift in household consumption, which will rise by 0.2% in real terms. The foreseen stronger efforts to reduce the public finance deficit in 2012 will also be reflected in government consumption. It is projected to be down 0.5% from this year in real terms as a result of restrictive wage policy, limited hiring and rationalisation

of expenditure in all general government accounts. Inventories will make a negative contribution to GDP growth next year as a result of the expected adjustment of inventories in real estate/construction, while the strong growth of inventories in industry and wholesale and retail trade (following the decline in inventories in these sectors in 2009) will come to a halt.

**Amid slightly stronger growth in domestic and export demand, GDP growth will rise to 2.5% in 2013.** In the international environment, GDP growth is expected to improve somewhat again in 2013. The strengthening of domestic consumption growth will arise from a further increase in investment activity, also in residential construction, as well from recovering private consumption.

Table 4: Forecast for economic growth

Real growth rates, in %	2010	2011	2012	2013
		Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)
GROSS DOMESTIC PRODUCT	1.4	1.5	2.0	2.5
Exports	9.5	7.9	6.3	6.7
Imports	7.2	5.2	4.6	4.9
External balance of goods and services (contribution to growth in p.p.)	1.5	1.9	1.3	1.5
Private consumption	-0.7	0.0	0.2	0.5
Government consumption	1.5	0.3	-0.5	0.1
Gross fixed capital formation	-8.3	-7.5	6.0	5.0
Change in inventories and valuables (contribution to growth in p.p.)	1.9	1.1	-0.5	-0.3

Source: SORS; 2011–2013 forecasts by IMAD.

<sup>7</sup>The level of investment will nevertheless remain low, at 20.8% of GDP, which is 0.8 p.p. less than in 2010, 8.0 p.p. less than in 2008, and 2.5 p.p. less than at the bottom of the previous cycle in 2003.

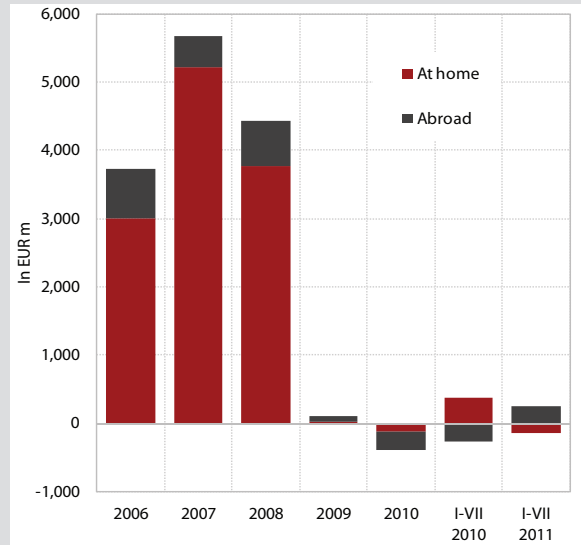
#### Box 4: Financial markets in 2011 and prospects

**The financial situation continued to tighten in the first seven months.** The volume of domestic bank loans to domestic non-banking sectors practically stagnated. Household net borrowing shrank and enterprises, non-monetary financial institutions and the government made net repayments of loans taken out from domestic banks. Total net flows of domestic bank loans to domestic non-banking sectors thus amounted to EUR 24.8 m in the first seven months of this year, which is less than 3% of the amount in the same period last year, when the net flow had already slowed significantly relative to that in the period before the crisis (see Figure 12). On the other hand, corporate and NFI borrowing abroad increased, unlike last year.

**Corporate and NFI repayments of domestic loans were due to both supply and demand.** Net repayments amounted to EUR 143.1 m in the first seven months, while in the same period of last year the net flow was still positive (EUR 375 m). These movements could be explained by weak economic activity and deleveraging of enterprises and NFIs, in which the ratio of debt to equity is too high. Limited availability of loans is another important reason for lower lending activity. In view of the current, relatively low, capital adequacy of the Slovenian banking system and highly limited sources of finance, banks are averse to taking additional risks. The limited availability of loans is particularly troublesome for enterprises that cannot borrow abroad. Borrowing abroad otherwise increased this year, as certain enterprises started to take advantage of the revival in lending activity abroad and thus the possibility of taking out foreign loans, which is, from the aspect of interest rates, much more favourable than borrowing in Slovenia. Corporate and NFI borrowing abroad thus amounted to EUR 255.0 m in the first seven months, in contrast to the same period last year when enterprises and NFI made net repayments in a similar amount. The total net flows of corporate and NFI loans, therefore, did not shrink this year and were only slightly lower (at EUR 111.9 m) than in the same period of last year (see Figure 12).

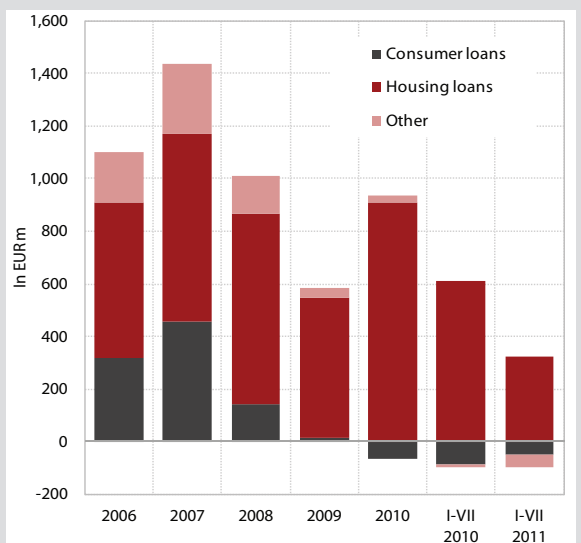
**Household net borrowing has contracted considerably this year.** Households recorded EUR 225 m in net borrowing from domestic banks in the first seven months of this year, just above 40% of the amount in the same period last year. The slowdown is largely due to lower borrowing in the form of housing loans, and, to a certain extent, higher net repayments of loans for other purposes (see Figure 13). As in business sector borrowing, the slowdown is attributable to the limited supply of loans due to liquidity pressures on banks and the deteriorating quality of banks' assets, as well as to weaker demand. Specifically, the labour market conditions have not yet started to improve, and there is high uncertainty regarding the general economic situation and the future movements in the real estate market.

Figure 12: Net flows of corporate and NFI loans at home and abroad



Source: BS; calculations by IMAD.

Figure 13: Net flows of household loans

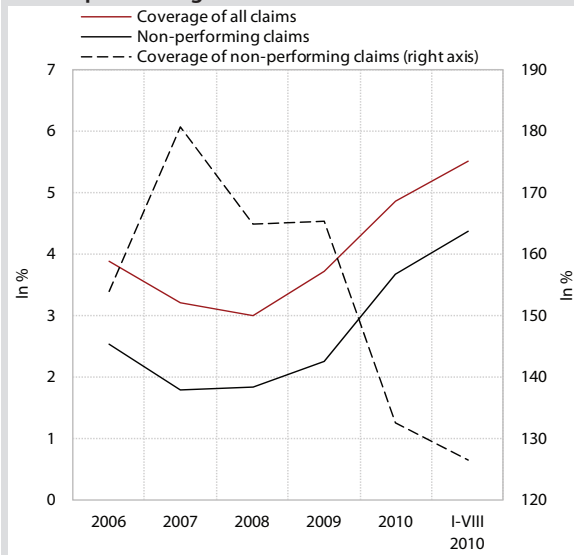


Source: BS; calculations by IMAD.

#### Box 4: Financial markets in 2011 and prospects - continue

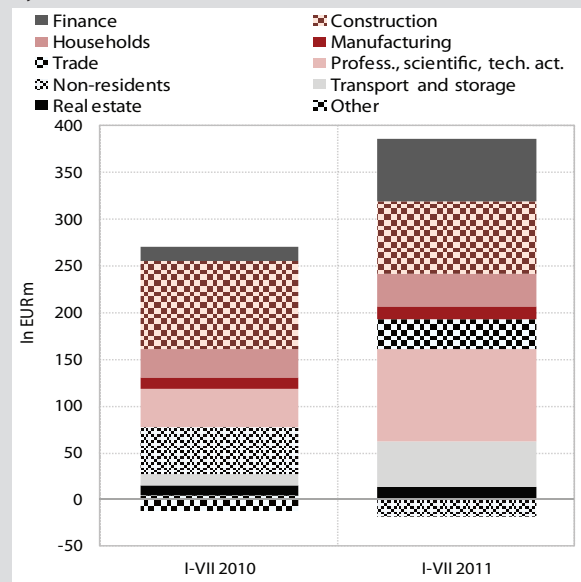
**Because of a further deterioration in the quality of their assets, banks are still increasingly creating impairments and provisions this year.** They added EUR 459.3 m in impairments in the first eight months of 2011, which is nearly one quarter more than in the same period last year. The relatively strong creation of bank provisions is expected to continue in the coming months, given the decline in the coverage of non-performing claims by impairments in the recent period (see Figure 14). The share of non-performing claims climbed to 4.4% in the first seven months, which is a 0.7 p.p. higher figure than in December 2010. Deterioration in the quality of banks' assets is in great part due to activities related to management take-overs and developments in the construction sector (see Figure 5).

**Figure 14: Coverage of all claims and non-performing claims by impairments and the movement of the share of non-performing claims**



Source: BS; calculations by IMAD.

**Figure 15: Net flows of non-performing claims by activities**



Source: BS; calculations by IMAD.

**Risks to the revival of the lending activity in Slovenia's economy will persist in the following years.** The liquidity pressures on the Slovenian banking system are expected to strengthen in 2012, when even more liabilities to foreign banks fall due. This can additionally aggravate lending activity if banks are not able to refinance matured liabilities or do not manage to sell enough assets to repay them. Moreover, a continued slow recovery of the economy will also affect demand for loans and represent a risk of an additional worsening of the quality of banks' assets.

## Dynamics of value added by activity

**In the first half of the year, value added was up 1.7 % in real terms relative to that in the same period last year.**

Y-o-y growth was down to 0.9% in the second quarter from 2.3% in the first. Value added by activities continues to reflect the substantial gap between foreign and domestic demand. The greatest contributions to value-added growth again came from industrial activities, particularly manufacturing, which is the most export-oriented part of Slovenia's economy. However, with investment demand continuing to fall, activity declined once again in construction, where it has also been impeded by obstacles on the supply side in recent months due to the bankruptcy of large construction companies. Amid modest domestic demand, y-o-y growth in services also remained subdued.

**Value added in manufacturing was up 8.0% y-o-y in the first half of the year. The greatest contributions to growth came from export-oriented industries.**

After growing modestly in the second half of 2010 (seasonally adjusted), value added rose 1.2% and 3.5% in the first two quarters of this year, respectively. Due to a low base, it was up 9.7% year-on-year in the first quarter, and 6.2% in the second. With growing foreign demand, production volume increased more notably in export-oriented industries in the first half of the year.<sup>8</sup> The strongest growth was recorded in the high-technology manufacture of ICT and electrical equipment and in the manufacture of other machinery and equipment, in the medium-low technology metal industry and the low-technology leather industry.<sup>9</sup> After the robust growth in 2010, the manufacture of transport equipment<sup>10</sup> posted more modest growth, while the production of rubber and plastic products declined. Modest domestic demand related to the adverse situation in the construction sector and on the labour market contributed to sluggish activity in industries that are mainly oriented to the domestic market.<sup>11</sup> Production volume was again down year-on-year in the furniture industry and in the manufacture of other non-metal mineral products, while production volume in the textile industry (which has dropped most notably since the beginning of the crisis) maintained a similar level as in the same period last year.

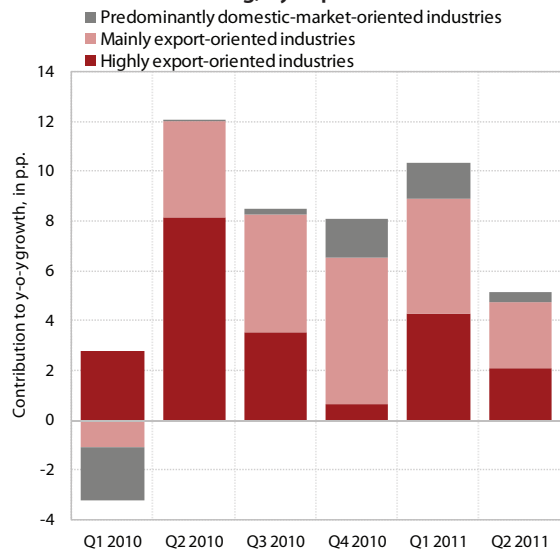
<sup>8</sup> Total manufacturing turnover on foreign markets was up 7.6% y-o-y.

<sup>9</sup> These industries generate more than 50% of turnover on foreign markets (estimate based on statistical data from the balance sheets and profit and loss statements of commercial companies).

<sup>10</sup> Also due to the expiry of measures to stimulate new passenger car purchases in France and the natural disaster in Japan in the second quarter of 2011, which affected the supply-chain in the automotive industry.

<sup>11</sup> Manufacturing industries' turnover on the domestic market was up 3.5% y-o-y, which is 4.1 p.p. weaker growth than on foreign markets.

Figure 16: Contributions of individual groups of manufacturing industries to total growth in value added in manufacturing, by export orientation



Source: SORS; calculations by IMAD.

**Construction activity plummeted again in the first half of the year so that value added was 22.7% lower than the same period last year.**

The decline in construction activity is related to investment demand, which remains weak, and in recent months also to difficulties on the supply side as a number of businesses have gone bankrupt<sup>12</sup> or are in compulsory settlement proceedings. Data on the value of construction put in place for the first half of the year indicate that activity dwindled again in all construction sectors, the least in civil engineering. Non-residential construction activity has shrunk significantly this year, which we estimate is, as last year, mainly attributable to lower activity in the construction of buildings for distributive trade and other service activities (non-tradable sector). The value of completed work in residential construction has also dropped substantially,<sup>13</sup> which has to do with a large stock of unsold flats and the aggravated financial situation of households (see also Boxes 4 and 5).

<sup>12</sup> Altogether, 988 enterprises which had been listed in the construction sector in 2009 failed to submit their final financial statements in 2010 or have since changed their main activity. This number is otherwise comparable to that in 2009 (943), but last year these companies were much larger, on average: their net revenues from sales accounted for 6.3% of all construction companies' revenues at the end of the preceding year (compared with only 1.9% a year previously). We estimate that the winding up of large companies may also have a considerable impact on the current data on construction activity as these companies still account for an over-proportional share in the survey on completed construction work (the survey is already designed in a way to include larger companies).

<sup>13</sup> In interpreting the figure on the value of residential construction put in place, it should be noted that it does not include smaller enterprises, which are mainly engaged in the construction of residential buildings, according to our estimates.

**Box 5: Performance of companies in construction in 2008–2010**

Construction activity plummeted in the past two years. In the following, we analyse the situation in the construction sector based on indicators of business performance of commercial companies in 2008–2010.

**Last year, commercial companies in construction recorded a significant decline in activity for the second consecutive year.** The number of employees dropped by 12.7% in 2010, value added by 17.1%. Activity declined in all three construction segments; in residential construction, the decline followed the vigorous construction in previous years and a consequent increase in the stock of unsold flats. One of the reasons for the decline was the financial crisis, which also affected activity in non-residential construction. In civil engineering, the decline was mainly due to the moderation in infrastructure construction, which was partly related to the completion of certain projects in previous years, but also to deteriorating public finances and the nature of deficit reduction during the economic crisis.<sup>14</sup> Last year, construction activity was also affected by the winding up of a number of companies and consequent delays in the execution of already started projects (new invitations for tenders, etc.).

Table 5: Selected commercial company performance indicators for the construction sector, 2008–2010

	2008	2009	2010
Number of companies	6,746	6,814	6,803
Number of employees <sup>1</sup>	56,817	53,328	46,535
Share in employment of all companies, in %	11.1	11.1	10.1
Share in value added of all companies, in %	8.7	8.3	6.8
Difference between net profit and net loss in an accounting period, in EUR '000	152,858	11,489	-236,289
Operating efficiency	1.043	1.024	0.986
Return on assets, %	2.2	0.1	-3.1
Return on revenues, %	2.0	0.2	-4.4
Value added/employee, in EUR	27,685	25,538	24,257
Share of debt in total assets, in %	81.6	81.0	82.0
Share of short-term liabilities in total assets, in %	64.4	62.3	60.7

Source: IMAD calculations based on data by AJPES (Statistical data from company balance sheets and profit and loss accounts).

Note: <sup>1</sup> The data on the number of employed persons reflect the average number of employees based on hours worked in an accounting period and thus differ from the data on the number of employed persons released by SORS.

**Business results in the construction sector deteriorated significantly in 2010.** After several years of growth, followed by a decline in the positive difference between net profit and net loss in 2008 and 2009, the sector realised a loss last year. Returns on assets, capital and revenues declined, which is mainly related to deteriorated operating results (operating loss in the amount of EUR 75.9 m, deterioration by 218 m relative to the previous year). The loss from financial operations increased as well, though relatively insignificantly (from EUR 24 m to EUR 161 m). Among individual construction activities,<sup>15</sup> the operating results worsened the most in civil engineering, where the net loss increased by EUR 145 m.

**The debt of construction companies declined in 2010, but relatively less than their equity.** The total debt (as part of liabilities other than equity) dropped by EUR 425 m (6.6%) and equity by EUR 189 m (12.6%) so that the share of debt increased again. Debt reduction was mainly due to lower operating liabilities (EUR 365 m). Financial liabilities to banks declined as well (by EUR 47 m). On the assets side, the reduction was mainly due to operating receivables (EUR 402 m).<sup>16</sup> The decline in operating receivables (with regard to the non-consolidated balance sheet of construction companies) mainly reflects lower operating liabilities. The drop in assets was also due to inventories, which fell by EUR 122 m last years after several years of growth.

<sup>14</sup> General government expenditure was mainly reduced by cutting the planned expenditure on investment (public sector investment is mainly related to construction).

<sup>15</sup> Gradbeništvo je razdeljeno v tri oddelke: gradnja stavb (oddelek 41), gradnja inženjerskih objektov (oddelek 42) in specializirana gradbena dela (oddelek 43), ki po dodani vrednosti predstavljajo približno vsak po tretjino dejavnosti gradbeništva.

<sup>16</sup> More than half of the decline was due to companies that did not submit final financial statements for 2010.

**Box 5: Performance of companies in construction in 2008–2010 - continue**

**Last year, the values of non-consolidated indicators in construction were strongly impacted by the winding-up of certain construction companies.** Altogether, 988 companies that had been engaged in construction in the preceding year were wound up<sup>17</sup> last year, which is a similar figure as in 2009 (943), but last year these companies accounted for a larger share of all companies in the construction sector (see Table 6). Their share in total employment represented almost one tenth, in stocks and operating liabilities even somewhat more. The winding up of these companies had been crucial for the above-mentioned decline in operating liabilities (and thus debt), as their operating liabilities accounted for EUR 338 m of the total decline (EUR 365 m). At the end of 2009, these companies recorded EUR 230 m in financial liabilities to banks, while in 2010, financial liabilities to banks of other construction companies even increased.<sup>18</sup>

**Table 6: Construction companies that were wound up in 2009 and 2010**

	2009	2010
Number of companies	943	988
Number of employees in the preceding year <sup>1</sup>	2,327	4,641
Share in total employment in the construction sector in the preceding year, in %	4.1	8.7
Share in net revenues from sales in the construction sector in the preceding year, in %	1.9	6.3
Share in operating liabilities of the construction sector at the end of the preceding year, in %	3.4	11.5
Share in operating receivables of the construction sector at the end of the preceding year, in %	2.8	8.6
Share in financial liabilities to banks of the construction sector at the end of the preceding year, in %	1.5	9.9
Share in inventories of the construction sector at the end of the preceding year, in %	1.8	12.2

Source: IMAD calculations based on data by AJPES (statistical data from company balance sheets and profit and loss accounts).

Note: <sup>1</sup>The data on the number of employed persons reflect the average number of employees based on hours worked in an accounting period and thus differ from data on the number of employed persons released by SORS.

**Last year, activity declined particularly in larger companies and to a lesser extent in smaller ones.** The results for 2010 indicate a relatively larger decline in companies with more than 50 employees. Their operating results also deteriorated more: value added in these companies dropped by as much as 29.9%; in other companies only by 1.8% (see Table 7).<sup>19</sup> Large companies had generated more than half of value added in the construction sector in 2008 and 2009, but in 2010, this share dropped by 8.4 p.p. to 46.1%.

**Table 7: Performance of construction companies by company size, 2008–2010**

	2008	2009	2010
Share of large companies in value added of construction companies, in %	55.0	54.5	46.1
Share of large companies in net sales of construction companies, in %	57.4	57.5	52.8
Share of large companies in employment of construction companies, in %	50.3	49.5	45.1
Growth of value added in large companies, in %	-	-14.2	-29.9
Growth of value added in other companies, in %	-	-12.5	-1.8
Return on assets in large companies, in %	2.4	-0.1	-6.7
Return on assets in other companies, in %	1.9	0.4	-1.0
Share of debt in total assets in large companies, in %	80.6	80.1	83.9
Share of debt in total assets in other companies, in %	82.5	81.8	80.8

Source: IMAD calculations based on data by AJPES (statistical data from company balance sheets and profit and loss accounts).

<sup>17</sup> In this analysis, the term 'winding-up' is used for all companies that failed to submit annual financial statements. Some of them may actually still be active and just did not submit the statements, or are in a bankruptcy proceeding and therefore not included in the AJPES database, which is the subject of the analysis, but we estimate that all of them significantly reduced their activity.

<sup>18</sup> Liabilities (both operating and financial) of companies that were wound up were otherwise not annulled and the creditors are trying to recover their debts.

<sup>19</sup> We compare indicators with regard to company size. The indicators are not 'cleansed' of the impact of activities and other influences; the analysis is aimed at results with regard to the size rather than the impact of the size on the result/activity.

Figure 17: Value of construction put in place



Source: SORS; calculations by IMAD.

**As in 2010, y-o-y growth in value added in services (G-N; R-T) was modest in the first half of the year (2.7%).**

The strongest growth was posted for financial and insurance activities, due to an improvement in the claims ratio of insurance companies, while the banking sector remained in bad shape.<sup>20</sup> Among other market services, above-average y-o-y growth was also recorded for value added in the group of traditional services (wholesale and retail trade, accommodation and food service activities, transport; G-I), in which activity had last year increased the most in the sale of motor vehicles (the sale of cars to legal persons) and in the retail sale of automotive fuels. Rail freight transport also enjoyed strong y-o-y growth, as it had last year. Amid the crisis in the construction sector and no improvement in private consumption, much more modest growth was recorded in retail trade (except in the sale of automotive fuels), and, according to our estimate, in wholesale trade activities related to construction, as well as in accommodation and food service activities, in which growth mainly reflected a higher number of foreign tourists. The volume of road freight transport, which had mainly shrunk last year, is picking up this year but was still below last year's level in the first half of the year. Against the background of meagre domestic demand, y-o-y growth rates were also modest in more knowledge-based services (particularly information and communication activities, and professional, scientific and technical activities; J and M) and real estate (L). Value added in other service activities (R-T), which comprise arts, entertainment and recreation, personal care services, etc., was slightly lower year-on-year in the first half of 2011.

<sup>20</sup> Y-o-y growth in net interest income of banks eased appreciably in the first half of the year. Amid modest lending activity, its dynamics was mainly determined by the movements of interest payments, which have been growing this year.

**In public services, y-o-y growth in value added eased slightly in the first half of the year (2.3%), which was related to lower growth in employment (0.8%).**

As a result of measures restricting hiring in bodies and organisations financed by the state budget, coupled with a lower volume of funds for wages, employment growth slowed in all public service activities, particularly public administration, where the number of employed persons dropped by 1.5% year-on-year, most notably in the civil part of public administration. In education, employment growth eased somewhat relative to previous years in pre-school education (to 5.2%), although the number of newly enrolled children still increases considerably (4,800 a year, on average). Employment growth in primary schools and in higher education was also much lower, while activity continued to strengthen in the field of other education and training, which is mainly carried out by private providers. Within health and social work activities, somewhat stronger growth was recorded for employment in health care, while employment in social work grew somewhat less than in previous years, on average, due to a lower volume of new capacities in the care of older and disabled persons.

**In the second half of this year, we expect a similar structure of value added growth, which will exceed last year's level by 1.6% in real terms in the year as a whole.**

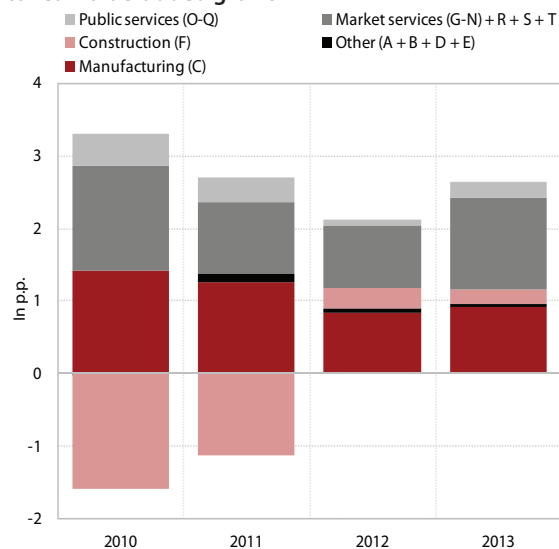
Growth in value added in 2011 will thus be similar to that last year (1.7%). In the rest of the year, the main impetus for growth will again mainly come from foreign demand, but this will increase more slowly than in the first half of the year, according to the forecasts by international institutions (see Box 1). Through lower growth in merchandise exports, this will be reflected in export-oriented *manufacturing industries*, where by the end of the year, activity will rise only slightly above the level recorded at the end of the second quarter. Annual growth in value added in manufacturing will thus average 6.3% in 2011. Value added in *construction*, which kept declining in the first half of the year and is expected to stabilise at the achieved level by the end of the year, will be 18.0% lower in 2011, on average, than in 2010. Value added in *market services* will remain low in the second half of the year, averaging 2.0% in 2011. Growth in value added in *public services* will average 1.9% in the year as a whole.

**In the next two years, growth in value added will increase only slightly, to 2.1% in 2012 and 2.6% in 2013.**

The recovery will still be mainly driven by export-oriented *manufacturing activities*, even though the growth rates of value added will be somewhat lower than in 2011 (4.0% in 2012 and 4.3% in 2013) due to the expected slowdown of GDP growth in Slovenia's main trading partners and hence lower growth in merchandise exports. After shrinking strongly for three years, value added in *construction* is also expected to pick up next year, particularly in infrastructure construction (railway and energy facilities) and in the construction of non-residential buildings (especially investment of the

tradable sector). This will contribute to somewhat more vigorous growth in individual market services that are related to construction activity, such as architectural and engineering activities, administrative and support service activities, and, to a certain extent, wholesale trade and road freight transport. However, amid a continued unfavourable situation on the labour market, which will show in modest growth in private consumption, and with stagnant government consumption, the total growth of value added in *market services* will remain modest. In *public services*, value added growth will continue to ease due to limited public sources for financing service providers, particularly in public administration. Activity is expected to increase (albeit slowly) only in areas, where demographic trends require more hiring, i.e. kindergartens and social work, in mainly market-oriented activities in other education and training, and in private higher education.

Figure 18: Contributions of individual groups of activities to real value-added growth



Source: SORS; forecasts by IMAD.

Table 8: Autumn forecast of value added by activity

Real growth rates, in %	2010	2011	2012	2013
		Autumn forecast (Sept. 2011)		
A Agriculture, forestry and fishing	-4.6	0.0	1.0	1.0
BCDE Manufacturing, mining and quarrying and other industry	6.6	5.7	3.5	3.7
of which: C Manufacturing	7.4	6.3	4.0	4.3
F Construction	-19.9	-18.0	5.5	4.0
GHI Trade, transportation and storage, accommodation and food service activities	2.5	2.2	1.9	2.3
J Information and communication	3.5	2.5	3.0	3.5
K Financial and insurance activities	5.0	4.0	0.0	3.0
L Real estate activities	1.2	0.6	1.1	1.5
MN Professional, scientific, technical, administrative and support services	4.9	2.0	3.2	4.0
OPQ Public administration, education, human health and social work	2.5	1.9	0.5	1.3
RSTU Other services	0.8	-0.5	0.0	0.5
<b>VALUE ADDED</b>	1.7	1.6	2.1	2.6
a) Taxes on products and services	-0.6	0.8	1.2	1.5
b) Subsidies on products and services	2.7	2.0	-5.0	-5.0
<b>GROSS DOMESTIC PRODUCT</b>	1.4	1.5	2.0	2.5

Source: SORS, forecasts by IMAD.



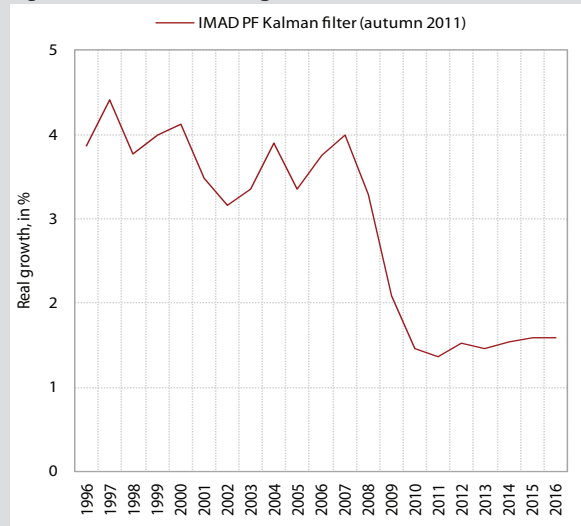
### Box 6: Potential GDP growth

**Based on IMAD's autumn forecast, we estimated potential GDP growth and production gap using a production function method.** The estimate is based on annual data, with IMAD's autumn forecasts of economic trends taken into account for the period from 2011 onwards. Figure 19 shows potential GDP growth calculated by a production function method using a bivariate Kalman filter approach (KF) to extract the cyclical component of total factor productivity.<sup>21</sup> The calculation is based on a production function method (PF), which does not differ substantially from the method used by the European Commission.<sup>22</sup>

**The calculations show almost half lower potential GDP growth in the coming years than before the crisis.** The calculations using the PF show that, after the steep declines in 2008 and 2009, potential GDP growth dropped to around 1.5% from around 4% in the period before the crisis.

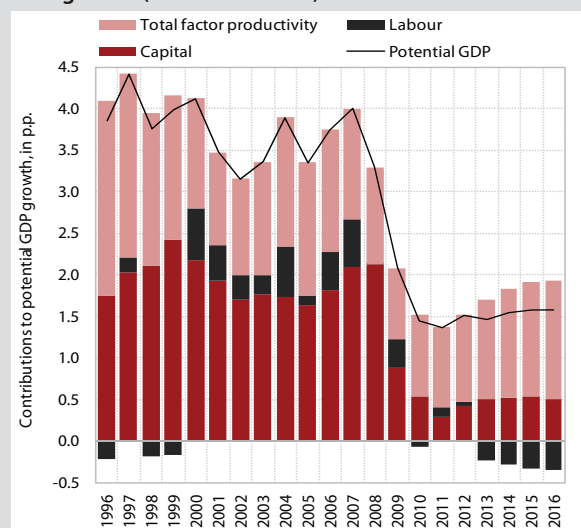
**Among individual components of potential GDP growth (calculated using the PF based on the KF), the contribution of capital declines most notably relative to the previous period.** After the steep decline in 2009, the contribution of capital decreased further last year (to 0.5 p.p.) and is expected to remain at the achieved (i.e. low) level also in the medium term. The contribution of labour to potential growth, which is already relatively small throughout the previous period, turns negative in the following years. In 2011 and 2012, the positive contributions of the participation rate and active population still offset the impact of the expected increase in the natural unemployment rate (NAIRU),<sup>23</sup> while in the following years the negative contribution of labour is mainly influenced by the shrinkage of the active population according to Eurostat's demographic projections taken into account in the calculations. During the crisis we also recorded a steep decline in the contribution of total factor productivity, but these movements are not expected to continue (see Figure 20).

Figure 19: Potential GDP growth



Source: calculations by IMAD.

Figure 20: Contributions of individual components to GDP growth (PF Kalman filter)



Source: IMAD.

<sup>21</sup> The cyclical component of TFP and unemployment (NAIRU) were estimated using the programme GAP (Christophe Planas and Alessandro Rossi, European Commission, Joint Research Centre, 2010) available at [eemc.jrc.ec.europa.eu/Software-GAP.htm](http://eemc.jrc.ec.europa.eu/Software-GAP.htm). NAIRU and the cyclical component of TFP were estimated by using the series of wage growth and capacity utilisation in a bivariate unobserved component model.

<sup>22</sup> For a more detailed description of the methodology, see F. D'Auria, Cécile Denis, K. Havik, K. Mc Morrow, C. Planas, R. Raciborski, W. Röger and A. Rossi: »The production function methodology for calculating potential growth rates and output gaps,« Economic Papers 420, July 2010, DG ECFIN.

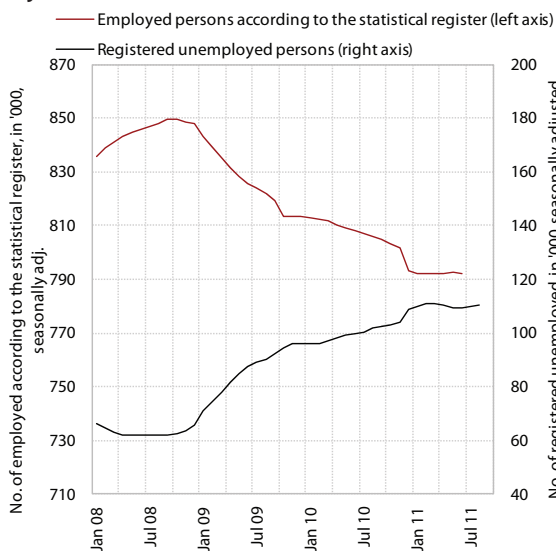
<sup>23</sup> When calculating the natural unemployment rate (NAIRU), we took into account the forecasts for the survey unemployment rate which do not show a significant recovery in the medium term (see also the Labour market section). NAIRU was estimated by a bivariate unobserved component model using the wage growth series besides the unemployment series. The calculations show an increase of NAIRU and a gradual slowdown at a level just above 7%. The increase in NAIRU, which cannot be directly observed, is indirectly indicated by an increase in long-term unemployment.

## Labour market

### Employment and unemployment

**The deterioration of labour market conditions has slowed this year.** Employment continues to decline, but to a lesser extent than over the past two years. According to the statistics of national accounts, the number of employed persons was down 1.9% year on year in the first half of 2011.<sup>24</sup> Inflows into unemployment eased as well, but given the hike in unemployment at the end of 2010 and the beginning of 2011, the number of registered unemployed persons was still 13.1% higher than in the same period last year.

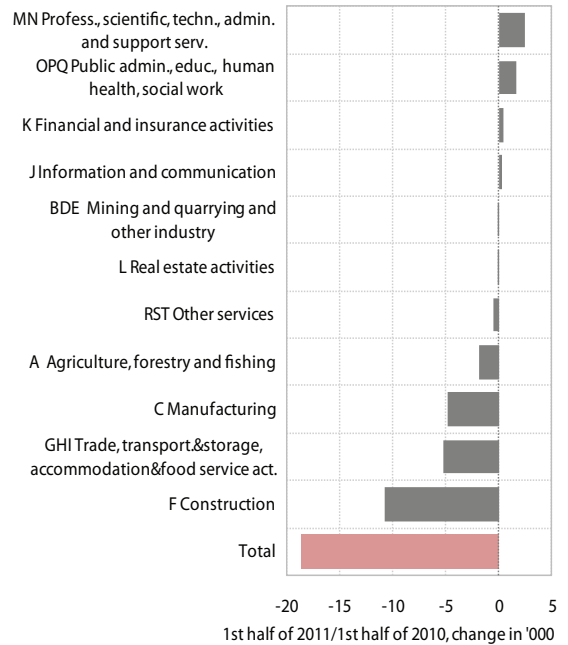
**Figure 21: Employed persons according to the statistical register and registered unemployed, seasonally adjusted**



Source: SRE-SORS, ESS.

**The average number of employed persons in 2011 is expected to be 1.5% lower than last year (according to the statistics of national accounts). The largest decline will be again recorded in construction.** Except in construction, which has seen a stronger decline in the number of employed persons this year due to a further drop of activity, the negative movements in the private sector are projected to abate (manufacturing, traditional market services) and some activities will even create jobs (information, communication, insurance activities, miscellaneous professional and technical activities). Employment growth in public services and in the general government sector is declining this year due to limited public funds for wages (it is expected to drop to 0.3% this year from 1.5% last year, see Box 7).

**Figure 22: Change in the number of employed persons by activity, 1st half of 2011/1st half of 2010**

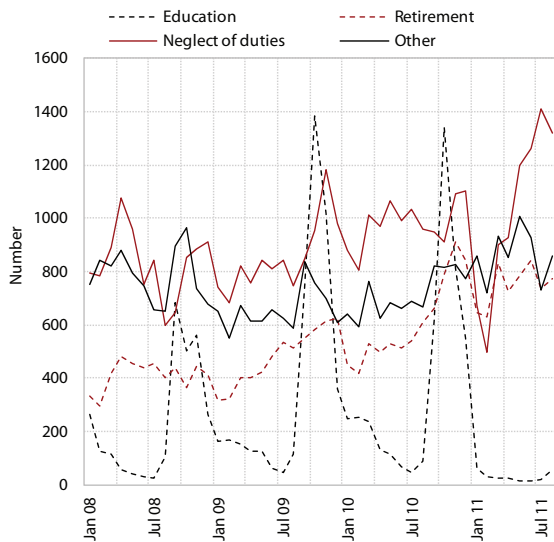


Source: SORS, National-Accounts Statistics.

**In August 2011, the number of registered unemployed persons was by roughly 8 thousand lower than in January.** After substantial increases in December last year (to around 110 thousand) and January 2011 (to 115 thousand), registered unemployment has mainly declined this year and totalled 107 thousand in August. The decline is only partly a result of growth in economic activity. The number of unemployed persons who were deleted from the register because they found work did increase, but there was also a strong outflow from unemployment for reasons other than employment, i.e. retirement, deletions from the register because of neglect of duties, etc. Unemployment will rise again by the end of the year due to the inflows of first-time job-seekers and people who will lose work due to the termination of temporary employment contracts, which tend to increase in the second half of the year. Moreover, we also expect further dismissals for business reasons and due to bankruptcies. The number of unemployed persons will average 110.9 thousand in the year as a whole (100.5 thousand last year); the average rates of registered unemployment and survey unemployment will be 11.8% and 8.0%, respectively.

<sup>24</sup> According to the statistical register of employment (employed and self-employed persons excluding self-employed farmers), the number of employed persons in the first half of the year was 2.3% lower than in the same period last year.

Figure 23: Outflows from the unemployment register for reasons other than employment

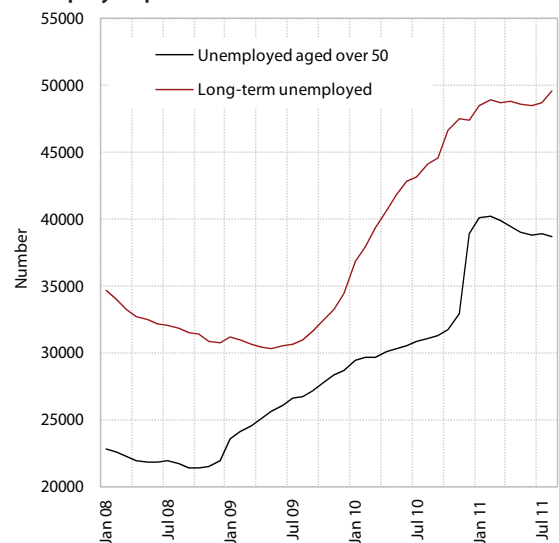


Source: ESS.

**Amid the sluggish economic recovery, employment is expected to stagnate in the next two years, while unemployment will remain relatively high.** Due to a further adjustment of employment to weaker economic activity and growing structural imbalances reflected in increased long-term and natural unemployment rates, the labour market situation is not yet projected to improve in the short term. In the coming two years, the number of employed persons (according to the national-accounts statistics) will remain at roughly the same level as in 2011 in both the private and the general government sectors, but dynamics will vary across activities. In the private sector, employment is projected to decline further in manufacturing, wholesale and retail trade and transport activities, albeit to a lesser extent than in 2011 and 2010, while certain business services will continue to create jobs. Restrictions on public spending, which have already slowed hiring in the general government sector this year, are expected to stay in place in the next two years. We

estimate that their impact will be, as this year, most visible in public administration. Restrictions on employment due to limited public sources for financing public service providers also represent a challenge for outsourcing these services to the private sector, particularly in child care, various private education activities, and health care and social work. In view of the growing needs for these services, we expect increased hiring by these providers, and hence slight employment growth in public service activities. In 2012 and 2013, unemployment will remain high, given the expected relatively weak economic growth and the absence of overall growth in employment, as well as due to the age structure and the structure of educational attainment of the unemployed, with the number of older unemployed persons and those with a lower education increasing over the last two years. The average number of registered unemployed persons will thus remain around 110 thousand, and the registered unemployment rate around 11.8% (the survey unemployment rate 8%).

Figure 24: Movements of long-term and older unemployed persons



Source: ESS.

Table 9: Forecasts for employment and unemployment

	2010	2011	2012	2013
		Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)
Employment according to the SNA, growth in %	-2.5	-1.5	0.0	0.0
Number of registered unemployed, annual average, in '000	100.5	110.9	110.6	110.2
Registered unemployment rate, in %	10.7	11.8	11.8	11.8
ILO unemployment rate in %	7.2	8.0	8.0	8.0

Source: SORS, ESS, 2011–2013 forecasts by IMAD.

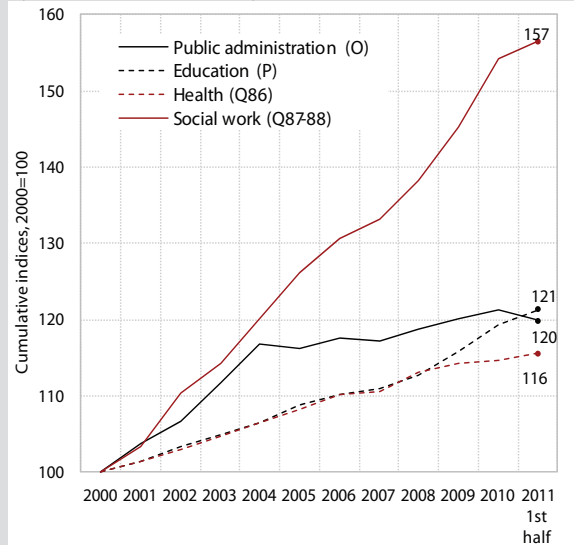
### Box 7: Employment in public service activities

**Employment growth in public service activities (O–Q) has slowed this year due to the aggravated public finance situation and consequent wage bill limitations for budget users.** According to the statistics of national accounts, it increased by 0.9% y-o-y, on average, in the first half of the year (2.2% in 2009 and 2010). According to data on persons in employment, employment declined in public administration activities (O) and growth slowed in education (P) and health and social work activities (Q).

**Employment has been rapidly increasing in all public service activities in recent years.<sup>25</sup> The greatest pressure on public finances comes from employment growth in public administration and primary education activities, which are financed almost entirely with public funds. Public administration activities** recorded strong employment growth particularly in the years of Slovenia's accession to the EU and NATO. Employment dropped slightly only in 2005 and 2007 and in the first half of this year (-1.2% y-o-y). The whole period has been marked by the absence of measures to stem employment growth by measuring and improving the efficiency of the public administration and rationalising public administration tasks. The data of the Ministry of Public Administration otherwise show that in 2010, employment was already successfully cut in public administration bodies (with the exception of the non-civil part), and agencies and funds at the central government level, which are limited by human resources plans, but employment at non-governmental budget users, at the local level (municipalities), and in judicial activities continued to grow. In **education**, employment growth has strengthened especially in the period after 2008, most notably in *kindergartens* due to a higher number of births, and since 2008, also due to the new legislation providing for free kindergarten for the second child in a family. Employment growth in *primary schools* did not ease until the first half of this year, even though the gradual introduction of the nine-year primary school had already been completed in 2008 and the number of primary school pupils continues to decrease. With a growing network of new faculties and programmes, employment is also increasing in higher education. Broken down by individual levels of education, the greatest pressure on public finance comes from hiring in primary education, which is almost entirely financed from public funds. The hiring needs in **health** activities expand mainly due to the development of new technologies and medicines that prolong life, as well as due to the rising expectations of the population. However, the estimates of the Ministry of Health show possibilities for streamlining business processes in public health institutions, primarily by optimising the number of non-healthcare employees. **Social work activities** (Q87–88) recorded the strongest growth of all public service activities in the last decade, which was mainly related to the rapid growth in capacities in long-term care of elderly people, which is otherwise mainly financed from private sources.

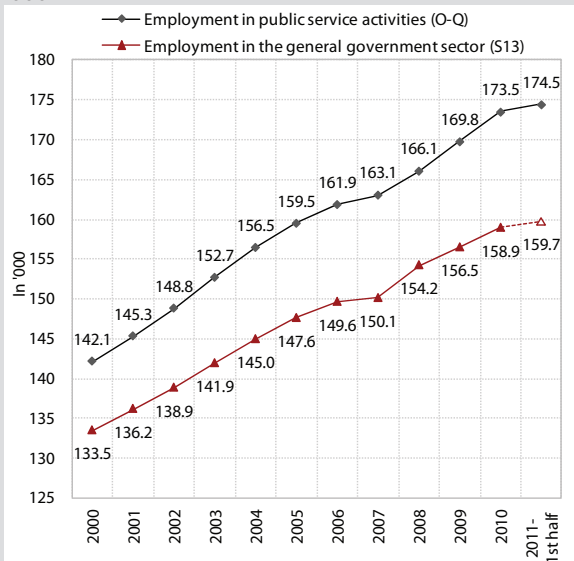
<sup>25</sup> In the national accounts, SORS releases quarterly data on total value added and employment in public services O–Q. For the analysis according to individual activities by quarter, we therefore used the monthly statistics on employed persons according to SRE.

Figure 25: Growth in the number of employed persons by public service activity in 2000 – 1st half of 2011



Source: SORS, Employed according to SRE; calculations by IMAD.

Figure 26: Employment in public service activities (O–Q) and the general government in 2000–1<sup>st</sup> half of 2011, in '000

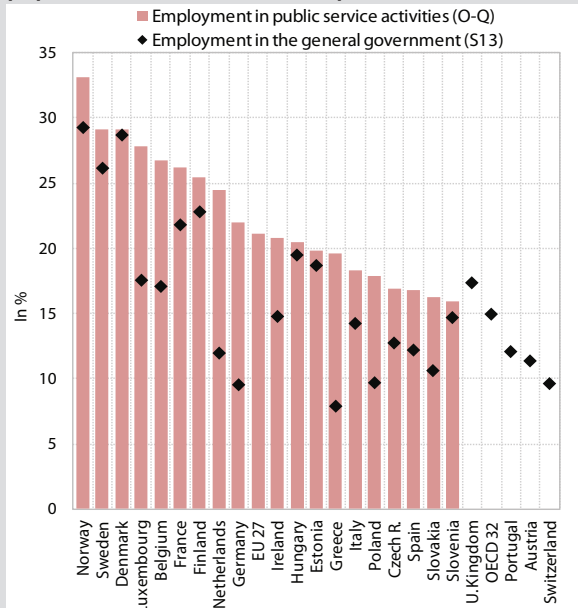


Source: SORS, National Accounts; calculations by IMAD. Note: The figure for the first half of 2011 for the general government is an IMAD estimate. In addition to budget users in activities O–Q, which are mainly financed from public sources, the general government includes certain public institutes, agencies and funds registered in other SCA activities (particularly public institutes in the fields of R&D, culture and economic, agricultural and other activities).

### Box 7: Employment in public service activities - continue

**In the last decade, employment growth in public services (O–Q) in Slovenia was mainly linked to employment growth in providers, which are under central or local government control and are mainly financed with public funds.** The share of the general government sector<sup>26</sup> in public service activities in Slovenia is very large in comparison with that in other countries of the EU (see Figure 27), which mainly reflects the absence of systemic changes that would, with appropriate regulations and control, facilitate financing of certain public services from private sources or provision of these services by private providers. The number of employees in public services is thus highly influenced by employment movements in the general government sector. Employment in public service activities (O–Q) rose by 2.0% per year, on average, in 2000–2010; employment in the general government was increasing at an only slightly lower rate (1.8%). Within public service activities, the share of persons employed by private providers increased only marginally, according to the statistics of national accounts by SORS, from 10% in 2001 to 13% in 2010. The largest shares of private providers are recorded in social work (62%) and in health activities (21%). In education, private providers account for only 8% and for less than 1% in public administration. Due to the underdeveloped private provision of public services in Slovenia, the anticipated restrictions on employment at budget users in the following years will probably have a greater impact on the provision of public services in Slovenia than in countries where a significant part of supply and growth in employment in these activities was transferred to private providers. However, the pressure of the rising demand, particularly for child care, health and social work services, is nevertheless expected to spur systemic changes in the following years and, amid appropriate regulations and through public-private partnership, increase the possibilities for the private provision of these services.

Figure 27: Employment in public service activities (O–Q) and the general government as a share of active population – international comparison for 2008



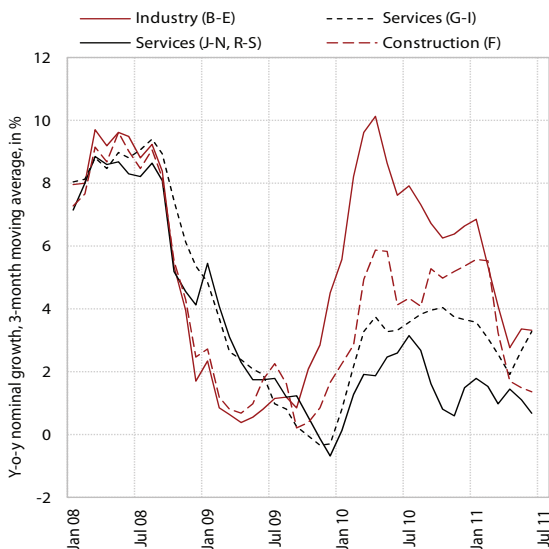
Source: For the general government: OECD, Government at a glance 2011; for activities O–Q: Eurostat.

<sup>26</sup> According to the statistics of national accounts, the general government (S.13) includes direct and indirect budget users (according to the Register of Budget Users), which are mainly financed from public sources (receiving on average more than 50% of total revenues from public sources). The general government and the public sector as defined in the Public-Sector Salary System Act largely overlap, only that the public sector includes all budget users (according to the Register of Budget Users), i.e. also those that are mainly financed from private sources.

## Wages

**The nominal growth of the average gross wage per employee in Slovenia will total 2.5% this year, and will be, as in 2010, mainly underpinned by wage rises in the private sector.** In the private sector, the gross wage was up 3.3% in nominal terms y-o-y in the first half of 2011. It is projected to grow by 3.2% in the year as a whole, which is less than in 2010 (5.1%), when its relatively strong growth was significantly influenced by the increase in the minimum wage, and, to a certain extent, changes in employment structure.<sup>27</sup> The contribution of the adjustment to the new level of the minimum wage (in enterprises where this has not been done yet) is much smaller<sup>28</sup> this year. The effect of changes in employment structure is also decreasing. Moreover, this year has three working days less than 2010. The y-o-y wage growth in industry slowed significantly due to the vanishing effect of the increase in the minimum wage but remains the highest in the sector. Y-o-y growth is lowest in certain service activities, but in recent months the gaps have been closing (see Figure 28). In public sector activities,<sup>29</sup> the gross wage per employee is set to be up 0.5% in nominal terms this year (0.2% in the first half of the year). Despite the freeze on most wage policy components,<sup>30</sup> it is still growing slightly as a result of payments for overtime work and transfers of employees to other assignments, in addition to a general wage adjustment in January (by 0.55%). Wage movements at the end of the first six months (see Figure 29) indicate that this year the average gross wage will be slightly higher than last year in public administration and education activities, and somewhat lower in health care.

Figure 28: Gross wage per employee in private sector activities

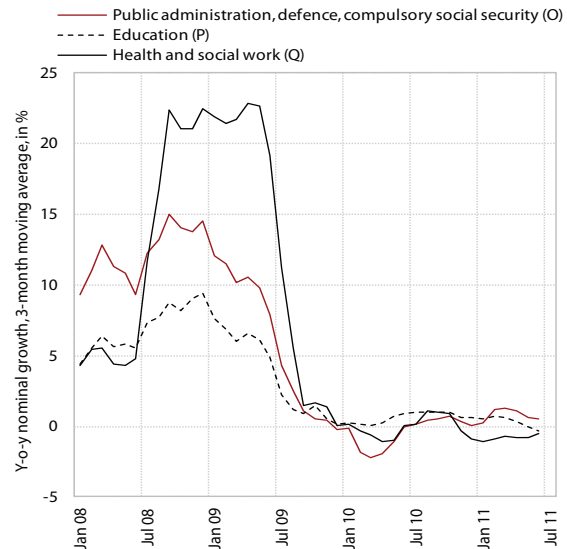


Source: SORS; calculations by IMAD.

<sup>27</sup> Changes in employment structure are due to a relatively higher number of dismissed low-wage employees.

<sup>28</sup> As many as 80% of minimum wage recipients have already received the minimum wage in the highest category (EUR 698 to EUR 748) this year.

Figure 29: Gross wage per employee in public sector activities



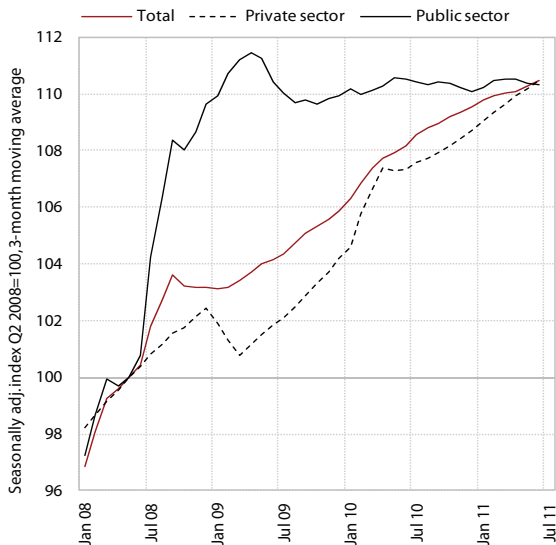
Source: SORS; calculations by IMAD.

**Wage growth dynamics in the private and public sectors differed in the last three years for various reasons but resulted in similar wage rises in both sectors relative to the second quarter of 2008, i.e. before the economic crisis and the beginning of the elimination of wage disparities in the public sector.** The response of the private sector to the crisis had been immediate (at the beginning of 2009), but then wage growth accelerated, at first statistically due to changes in employment structure, and in 2010 also due to the increase in the minimum wage. In the public sector, wages increased substantially due to the disbursement of the first two quarters of funds for the elimination of wage disparities (in August 2008 and January 2009). After that, austerity measures brought wage growth to a halt and public sector wages have remained virtually unchanged in nominal terms for more than two years. In the middle of 2011, the levels of private and public sector wages were thus 10.5% and 10.3% higher in nominal terms, respectively, than in the second quarter of 2008 (seasonally adjusted, see Figure 30).

<sup>29</sup> Due to the lack of more appropriate data, we monitor wage movements in the public sector using data on wages in public service activities. Public service activities are defined as activities O–Q, while all other activities (A–N, R–S) of SCA 2008 are defined as private sector activities. We adjusted the delimitation between private sector and public services activities to the SORS delimitation of activities in the quarterly release of data on GDP, which also enables consistent comparisons of wage growth and labour productivity growth by sector at the quarterly level. We have therefore also calculated anew the growth rates of the average gross wage per employee in the private and public sectors for 2009 and 2010, but the differences are minimal.

<sup>30</sup> In line with the Act of Intervention Steps and Annex No. 4 to the Collective Agreement for the Public Sector.

Figure 30: Gross wage per employee relative to that in Q2 2008



Source: SORS; calculations by IMAD.

**In the next two years, gross wages in the private and public sectors will increase at similar rates as this year.**

A further, but only gradual strengthening of economic activity, the efforts of enterprises to maintain their competitive position domestically and on global markets, persistent high unemployment and relatively low inflation in the following years will create an environment that will not be conducive to visible growth in private sector wages. Taking into account similar dynamics of extraordinary payments as in the last two years and the distribution of working days, the gross wage in the private sector will increase by 3.1% in nominal terms in 2012, and by 3.4% in 2013. The restrictions on wage growth in the public sector will remain in place in this period as well, given the general economic and fiscal situation. Considering the forecast that consumer price growth will not exceed 2% in 2011, the conditions for the general adjustment of wages (in January) will not be met next year. Moreover, the inflation rate is also set to remain at similarly low levels in 2012 and 2013. Economic growth will also not exceed 2.5% in the period of the forecast, which would be a reason for disbursement of the remaining two quarters of funds for the elimination of wage disparities. Taking into account these movements, the average gross wage in the public sector will increase by 0.6% in nominal terms in 2012, and by 0.5% in 2013.

Table 10: Forecasts for growth in the gross wage per employee

Growth rates, in %	2010	2011	2012	2013
		Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)
Nominal growth				
Gross wage per employee	3.9	2.5	2.4	2.6
Private sector	5.1	3.2	3.1	3.4
Public sector	-0.1	0.5	0.6	0.5
Real growth				
Gross wage per employee	2.1	0.9	0.6	0.6
Private sector	3.2	1.6	1.3	1.4
Public sector	-1.8	-1.1	-1.2	-1.5

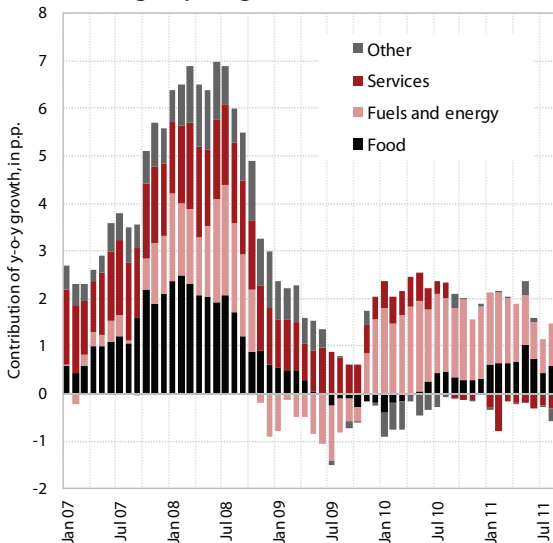
Source: SORS; 2011–2013 forecasts by IMAD.

## Inflation

**Amid subdued economic growth, inflation continues to hover at a low level in 2011.** In the first eight months of the year, consumer prices rose by 1.0%, the lowest in the last ten years. In the first eight months, the greatest contribution to price growth came from higher prices of food and energy, while the exceptionally low growth of services prices and a further decline in prices of non-energy industrial goods reflected weak economic activity, which is set to continue, according to the forecast.

**Food and energy price rises mainly reflect short-term impacts from the international environment.** Following robust growth in the prices of oil, other commodities and food on the global market at the end of last year, domestic energy and food prices also rose this year. Energy prices contributed around 0.9 p.p. to the 1% inflation in the first eight months of the year and were, amid moderate growth in prices that are under direct government control (0.7%), the main driver of administered price growth in that period (5.1%). Owing to deteriorated economic conditions, the pass-through of the food price shock into domestic retail prices was much smaller than when a comparable shock was experienced in 2007. Food price rises contributed around 0.7 p.p. to inflation; within that, the rises of processed food prices accounted for about 0.8 p.p., while the prices of non-processed food dropped as a result of developments in the international environment (decline in vegetable prices in some countries after the outbreak of infections linked to vegetables) after the substantial growth in 2010 and at the beginning of 2011.

Figure 31: Breakdown of y-o-y inflation into contributions of individual groups of goods and services

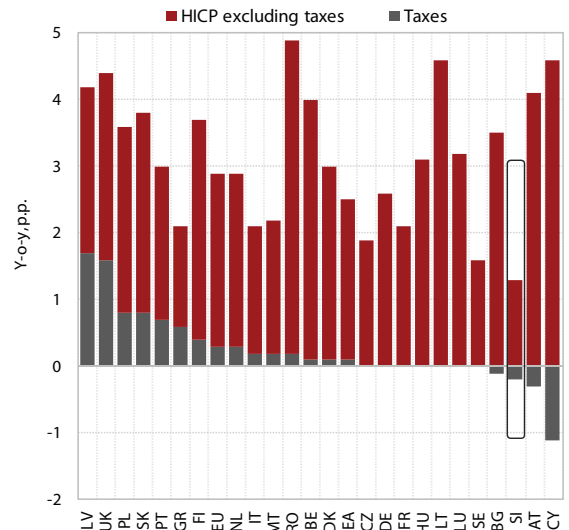


Source: SORS; calculations by IMAD.

**Core inflation remains moderate this year.** Core inflation indicators<sup>31</sup> moved between 0.3% and 1.4% in the first eight months, similar to what had been recorded in the same period last year. Similar to last year, moderate labour costs and poor labour market conditions do not put much pressure on growth in retail prices this year, particularly not in prices of services and non-energy industrial goods. The former rose by 3.3% in 2011, recording the smallest increase in this period in the last ten years, while the latter dropped by roughly 5%, which is a similar amount as in the last three years.

**The effect of tax changes on inflation was neutral this year, while in most countries of the euro area it was positive.** In contrast to 2009 and 2010, when it was among the largest in the euro area (1 p.p. in 2009 and just over 0.6 p.p. in 2010), the tax effect on inflation was neutral in Slovenia in the first eight months of this year (in August, slightly negative y-o-y). To mitigate the fluctuations arising from oil price movements, the government was adjusting excise duties on liquid fuels for transport and heating, which reduced price growth in the first eight months (-0.2 p.p.). Excise duties on tobacco and tobacco products were raised in April (0.2 p.p.), in line with the stipulations in the Excise Duty Act.

Figure 32: Impact of tax changes on inflation in the EU, July 2011



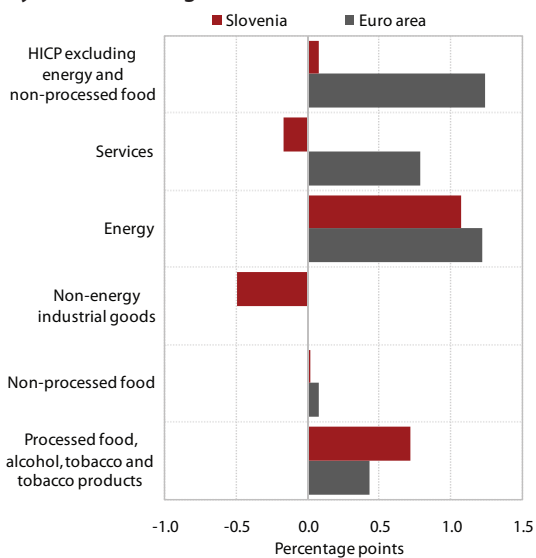
Source: Eurostat.

<sup>31</sup> Indicators, excluding from the CPI the impact of prices of goods and services that face most volatile movements (such as energy and non-processed food), and indicators, removing a certain percentage of goods and services that have had the largest price changes in a given month.



**Y-o-y inflation in Slovenia is lower than in the euro area.** Amid the same key drivers of inflation (sluggish economic growth, higher food and energy prices), y-o-y inflation in Slovenia has been lower than in the euro area since February this year. The primary reason is growth in services prices, which was (until September this year) influenced by a decline in the prices of school meals due to the subsidy introduced in September 2010. Because of the reduction of excise duties, energy prices in Slovenia increased less than in the euro area. The difference in prices of non-energy industrial goods is even larger. They were down -1.7% y-o-y in August while remaining unchanged in the euro area.

**Figure 33: Contribution of individual price groups to y-o-y inflation in August 2011**



Source: Eurostat; calculations by IMAD.

**Y-o-y inflation is projected to hover around 1.7% at the end of 2011 and will average 1.6% in 2011.** In September, inflation will increase more visibly y-o-y (from 0.9% in August) due to the effect of last year's reduction of the prices of school meals. After that, it will move around 1.7% until the end of the year amid similarly moderate price movements as in the last few months of 2010 and 2009. This is a 1.3 p.p. lower figure than according to the spring forecast, mainly on account of slower-than-assumed growth in energy prices (considering the movements of the exchange rate and excise duties) and deteriorating economic conditions, which keep the rate of core inflation very low.

**In 2012, y-o-y inflation will rise to 1.9% and average 1.8%.** Assuming a further moderation of commodity prices on international markets and continued weak economic activity in Slovenia and in the euro area, inflation will be close to 2% in the following two years. However, given the uncertainties in the international and domestic environment, the risks to the forecast remain considerable and are fairly symmetrically distributed (see the section Risks to the realisation of the autumn forecast).

**Table 11: Inflation forecasts**

In %	2010	2011	2012	2013
		Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)
Inflation - annual average	1.8	1.6	1.8	2.0
Inflation - Dec/Dec	1.9	1.7	1.9	1.9

Source: SORS; 2011–2013 forecasts by IMAD.

### Box 8: Price and cost competitiveness

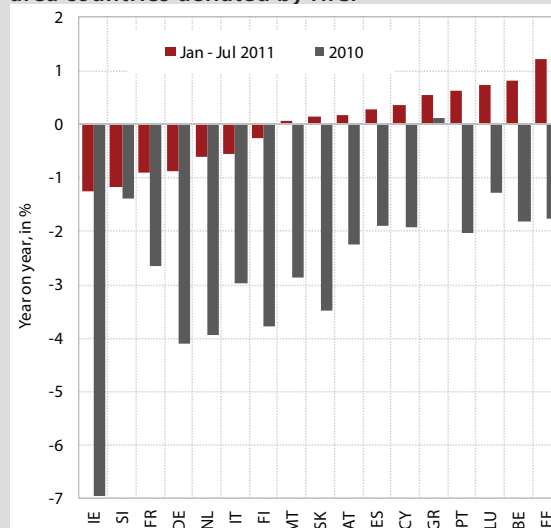
Price and cost competitiveness are improving this year under the impact of lower relative prices and costs. However, because of the deterioration in previous years, Slovenia's competitive position has not improved much. In 2012, when the forecasts predict relatively more equal consumer price growth in Slovenia and its main trading partners, price competitiveness is expected to remain at the same level as this year. Productivity growth, which will otherwise be markedly below the long-term average recorded before the crisis, will continue to surpass wage growth next year, so that the cost competitiveness of the economy will improve.

*In the first seven months of this year, the price competitiveness of the economy largely improved due to the decline in relative prices and Slovenia is among the euro area countries where the improvement was most pronounced.* Price competitiveness in Slovenia deteriorated more than in most other euro area countries in 2007–2009 and improved less in 2010. Despite the improvement in the last two years, Slovenia has not yet managed to make up for the deterioration in its position in previous years. The nominal effective exchange rate in July was somewhat higher (0.3%) than in December, due to the appreciation of the euro against US dollar, British pound and Japanese yen. It dropped y-o-y in the first seven months (-0.3%), but less than in the same period last year (-1.2%). The real effective exchange rate deflated by the HICP was down in July relative to December due to the decline in relative prices, while in all other euro area countries it increased. It also dropped in the first seven months relative to the same period last year (-1.2%); a larger decline than in Slovenia was only recorded for Ireland (see Figure 34). After several years of a gradual deterioration of Slovenia's relative position, this year's improvement reflects more favourable movements of relative prices and the nominal exchange rate. Specifically, Slovenia recorded one of the largest declines of relative prices in the euro area, while relative prices even increased in some euro area countries. However, lower consumer price growth in Slovenia than in its trading partners is, in addition to weak economic activity, also due to the one-off impact of the reduction of the prices of school meals in Slovenia in September 2010, which will cease to exist in the last four months of this year. The improvement of Slovenia's relative position was also influenced by the nominal exchange rate of the euro this year, as the impacts of the appreciation of the euro on Slovenia's price competitiveness were relatively smaller, due to the structure of Slovenia's external trade.<sup>32</sup>

*The improvement in price competitiveness under the impact of lower relative prices is expected to mark the all of 2011, while in 2012, price competitiveness will remain at the achieved level.* The nominal effective exchange rate will be stable in 2011 and 2012, on the technical assumption of USD 1.434 USD per EUR since September 2011. The real effective exchange rate deflated by relative consumer price growth will drop this year (-1%), with price growth in Slovenia expected to be lower than in its trading partners. In 2012, when the forecasts anticipate relatively similar consumer price growth in Slovenia as in its trading partners, the real effective exchange rate will remain at roughly the same level as this year (-0.2%).

*Under the impact of declining relative unit labour costs, the cost competitiveness of the economy is improving y-o-y in 2011, to a similar extent as on average in the EU, and more than in the euro area.* Amid a more moderate growth in compensation of employees per employee due to slower wage growth, real unit labour costs declined y-o-y in the first half of the year (-1.2%) after more than three years of growth. Labour productivity growth also dropped in the first half of 2011, largely under the impact of slower growth in economic activity, but was higher than growth in the compensation of employees. In the first half of the year, the decline in real unit labour costs in Slovenia was at the level of the EU average and somewhat above the euro area average, in contrast to last year, when Slovenia was still in a small group of (three) EU countries and the only euro area country where real unit labour costs increased.<sup>33</sup> The turn in real unit labour cost movements in Slovenia was, amid lower growth in economic activity, largely due to a further decline in employment, which has already started to increase in the EU and euro area. The real effective exchange rate, which had already declined last year due to the depreciation of the euro, albeit less than in other euro area members, dropped (-2%)<sup>34</sup> in the first half of 2011, mainly as a result of the decline in relative unit labour costs.

Figure 34: Real effective exchange rates of euro area countries deflated by HICP



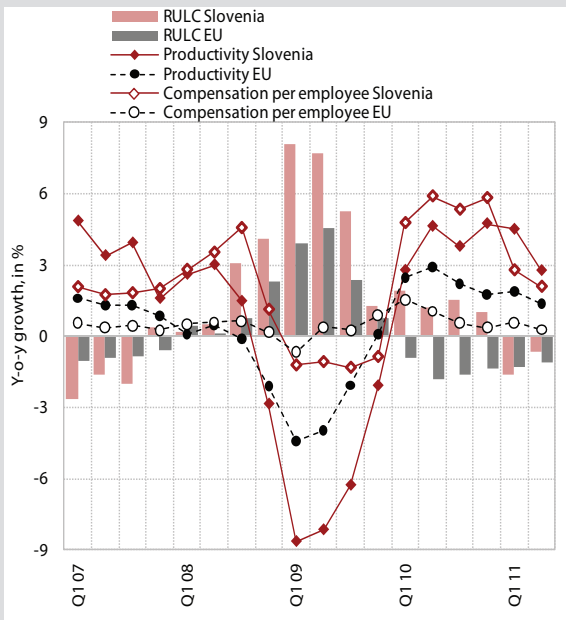
Source: ECB; calculations by IMAD.

<sup>32</sup> As Slovenia has an above-average share of merchandise trade with the euro area, the appreciation of the euro has a smaller impact on the nominal effective exchange rate in Slovenia than in most other euro area countries, and vice versa: the positive impacts of the falling of the euro on the movement of the nominal effective exchange rate are also relatively smaller.

### Box 8: Price and cost competitiveness - continue

**The cost competitiveness will improve this year and in 2012 due to wage growth lagging behind labour productivity growth.** Real unit labour costs will thus fall (-0.5% and -1.5%, respectively), as will the real effective exchange rate deflated by relative unit labour costs (-1.3% and 0.9%, respectively).

Figure 35: Real unit labour costs (RULC) in Slovenia and EU average



Source: Eurostat; calculations by IMAD.

<sup>33</sup> According to the data from the annual national accounts for 2010, real unit labour costs increased also in 2010, while the first estimate according to the quarterly accounts still indicated a slight decline.

<sup>34</sup> According to IMAD's estimate. The ECB's data for euro area countries are not yet available.

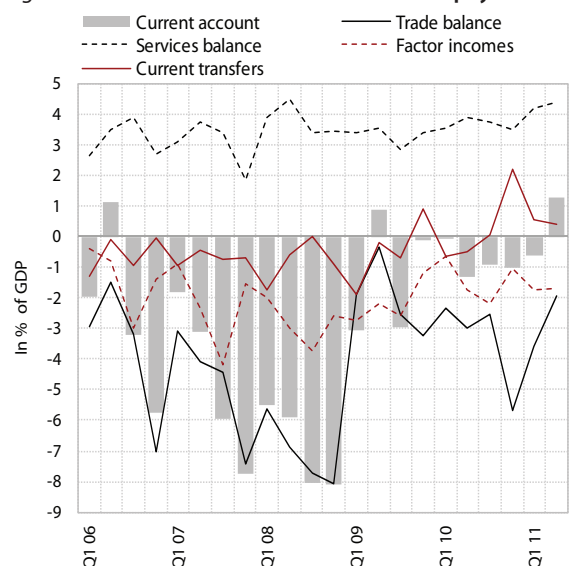
## Current account of the balance of payments

**The current account of the balance of payments remains roughly balanced this year.** In the first half of this year, it recorded a surplus in the amount of EUR 68.1 m, compared with a deficit of EUR 122.3 m in the same period last year. The change in the balance of current transactions was mainly attributable to increased inflows of EU funds and a higher surplus in the balance of trade in services.

**In the first half of this year, the deficit in merchandise trade remained similar to that in the same period last year.** It totalled EUR 478.4 m (last year EUR 462.8 m). The terms of trade deteriorated by 2.5%<sup>35</sup> in the first half of the year, as import prices grew faster than export prices, but real growth in exports was much higher than in imports. The merchandise trade deficit remains relatively low, which also reflects the structure of the economic recovery in Slovenia, which relies on exports, while domestic demand has yet to recover.

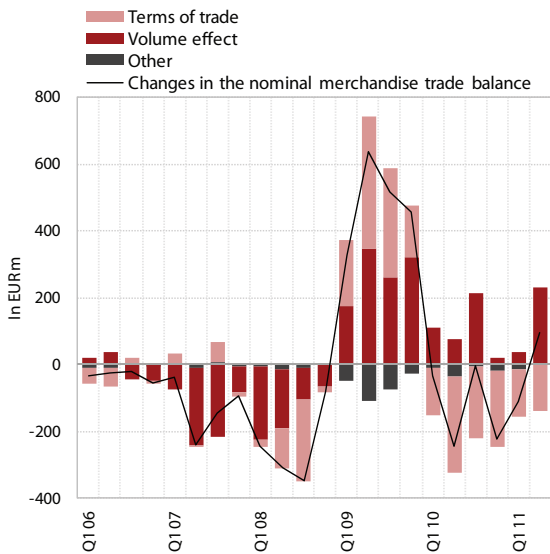
<sup>35</sup> Growth in import prices (7.8%) was mainly underpinned by higher prices of energy and intermediate goods, while import prices of investment goods declined slightly. With prices growing in all main end-product groups, export prices were up 5.1%.

Figure 36: Current account of the balance of payments



Source: BS; calculations by IMAD.

Figure 37: Breakdown of changes in merchandise trade balance



Source: SORS; calculations by IMAD.

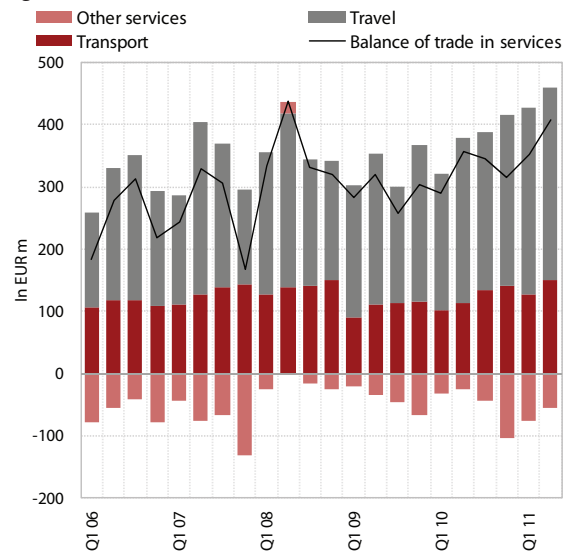
Note: The calculation of the effect of the terms of trade and the volume effect is based on data from the national accounts statistics. The contribution of the terms of trade shows the contribution of growth in foreign trade prices to the y-o-y change in the nominal balance, taking into account the volume of merchandise trade in the same quarter of the previous year, while the contribution of the volume effect indicates the contribution of real merchandise trade growth based on the terms of trade in the same period last year. The item 'Other' shows the cross-terms of the interaction of volume and price changes.

**In the first half of this year, the services balance recorded a higher surplus than in the same period last year.** The trade in services recorded EUR 761.0 m in surplus in the first half of the year (EUR 646.7 m in the same period last year), which was mainly due to a higher trade surplus in travel services as a result of growing exports of travel services and declining domestic household spending on travel, as well as to a higher surplus in trade in road freight transport services. Within the group of other services, the largest y-o-y increase was recorded for the deficit in trade in miscellaneous business, professional and technical services. The surplus in trade in construction services was also down y-o-y, reflecting the crisis in construction.

**The widening of the deficit in the balance of factor incomes in the first half of the year was attributable to higher net interest payments to the rest of the world.**

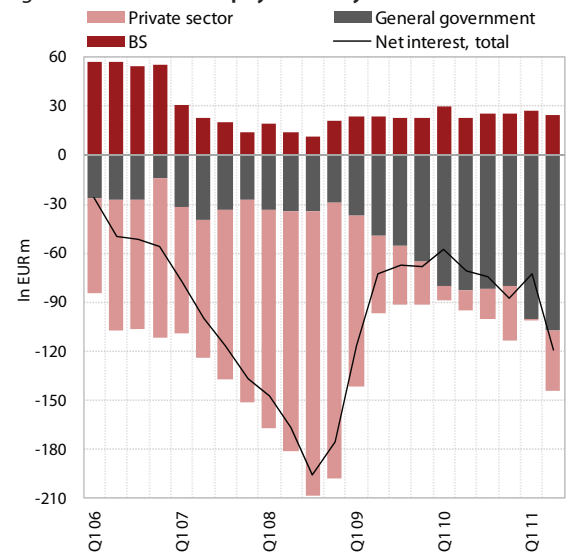
The government issued a total of EUR 9.5 bn in long-term bonds since the beginning of the financial crisis until March this year and interest payments have been growing since the second quarter of 2009 (see Figure 39). On the other hand, commercial banks, which hold the largest share of private sector debt and have been repaying more in foreign loans and deposits than they have been taking out for the third year in a row, paid more interest abroad in the first six months than they received, which reflects the aggravated financial conditions on international financial markets. Net outflows of interest on loans between affiliates also increased. The surplus in labour incomes was somewhat higher, largely due to a higher inflow of workers' income abroad.

Figure 38: Services trade balance



Source: BS; calculations by IMAD.

Figure 39: Net interest payments by sector

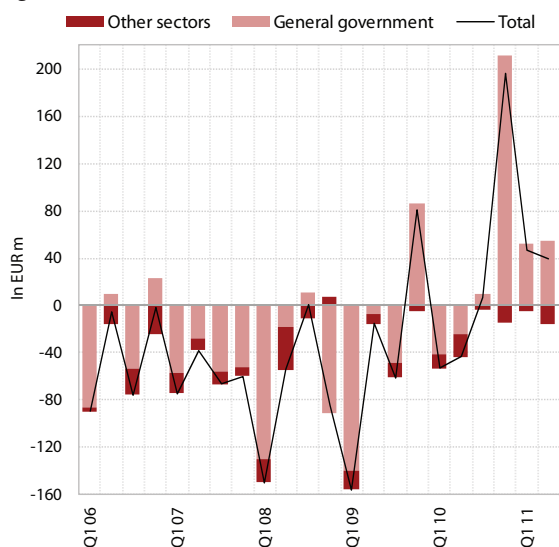


Source: BS; calculations by IMAD.

**The widening of the surplus in current transfers mainly reflected a better absorption of EU funds.**

The balance of current transfers recorded a surplus in the amount of EUR 86.4 m in the first half of the year (a deficit of EUR 96.5 m in the same period of last year). Receipts from the EU budget amounted to EUR 386.6 m this year (last year EUR 227.2 m). In particular, Slovenia substantially increased absorption from structural funds, and also received more funds for the implementation of the agricultural and fisheries policies. In contrast, its payments into the EU budget were even somewhat lower than in the same period last year (EUR 209.8 m; last year EUR 218.4 m). Slovenia's state budget recorded EUR 176.8 m in surplus against the EU budget in the first half of the year, while private sector transfers had a slight deficit.

Figure 40: Balance of current transfers



Source: BS; calculations by IMAD.

**In 2011, the current account deficit will remain at a similar level (-1.0% of GDP) as last year (-0.8% of GDP).**

The merchandise deficit is expected to increase relative to 2010. Net interest payments of the general government

will also be higher than last year. The net absorption of funds from the EU budget is estimated to remain at last year's favourable level, but the surplus in the balance of current transfers will be lower than last year due to a higher deficit in private sector current transfers. As in the first six months, the surplus in trade in services in the year as a whole will be up mainly due to a higher surplus in trade in travel and transport.

**In 2012, the current account deficit will decline to 0.5% of GDP, but for 2013 we expect a surplus of 1.0% of GDP.** The main factor underlying the improvement in the external balance in the two years will be the widening of the surplus in goods and services trade. Specifically, with economic growth also set to be underpinned by stronger exports rather than higher domestic consumption in the following two years, and assuming roughly unchanged terms of trade, we expect a decline in the deficit in merchandise trade and a further growth of the surplus in services trade. Assuming that the absorption of EU funds maintains roughly the same level as in the last two years, Slovenia's position will remain relatively favourable in 2012 and 2013. However, general government net payments of interest on external debt and, to a certain extent, net outflows of dividends and reinvested profits, are projected to grow further, which will widen the deficit in factor incomes.

Table 12: Forecast of the current account balance

In %	2010	2011	2012	2013
		Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)	Autumn forecast (Sept. 2011)
Current account, in EUR m	-297	-351	-181	378
Current account, in % GDP	-0.8	-1.0	-0.5	1.0

Source: SORS; 2011–2013 forecasts by IMAD.

## Public finance

**The general government deficit remains at a high level this year.** According to the consolidated balance<sup>36</sup> by the MF, general government revenue totalled EUR 7.4 bn and general government expenditure EUR 8.3 bn in the first six months of 2011. The consolidated balance thus recorded EUR 922 m in deficit in the first six months, which is less than last year (EUR 1,370 m).

**In the first half of the year, general government expenditure was 2.4% higher than in the same period last year (last year 2.7% growth in the same period).**

Looking at the economic structure of expenditure, all expenditure categories were up in the first six months, except expenditure on capital and capital transfers (-11.4%) and payments into the EU budget (-3.9%). The

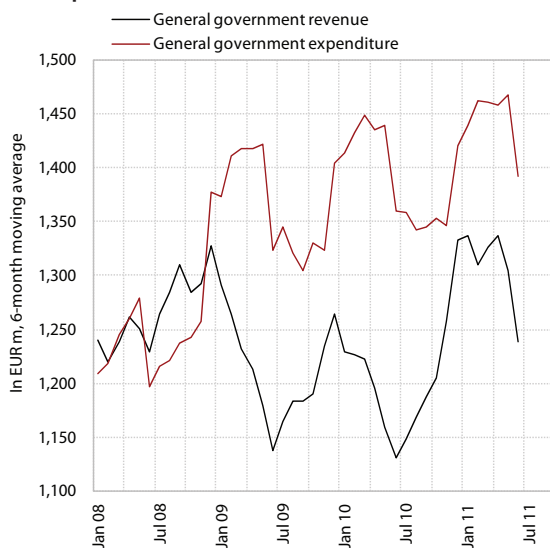
decline in expenditure on capital and capital transfers is partly a consequence of its high level at the beginning of last year and considerably lower investment activity of the government this year. Expenditure on interest and subsidies increased the most (9.6% and 5.4%, respectively). Transfers to individuals and households grew by 4.7% (6.8%, excluding pensions). Expenditure on pensions was, after the modest valorisation of pensions in February, up 3.6%. Expenditure on transfers to individuals and households (excluding pensions) has recorded more rapid growth for the fourth successive year, with expenditure on transfers to the unemployed still rising fastest (39.9%), mainly due to deteriorating labour market conditions, but also to systemic changes. Strong growth was also recorded for other transfers to individuals and households (9.9%) and expenditure on sickness benefits (6.6%). In contrast, growth in expenditure on goods and services slowed to 1.7%. Expenditure on wages and other personnel expenditures were also modest (0.4%; last year, -0.1%).

<sup>36</sup> The consolidated balance (according to the cash flow methodology) includes revenues and expenditures of the state and local government budgets, as well as revenues and expenditures of the pension and health funds (the Institute for Pension and Disability Insurance, and the Health Insurance Institute of Slovenia).

**In the first half of the year, general government revenue was 9.4% higher y-o-y (in the same period last year 0.6% lower).** In the same period, tax revenues increased by 7.0%. Non-tax and other revenues rose even somewhat more, particularly receipts from the EU budget, which were up as much as 70.2%. Among tax revenues, revenue from taxes on income and profit recorded above-average growth (19.0%), and among taxes on goods and services, revenue from value added tax, both largely due to last year's low base. The relatively strong y-o-y growth in revenues from taxes on income and profit reflects last year's low base when tax revenues declined y-o-y as a result of the tax assessments based on deteriorated business performance in 2009. The low base effect was most pronounced in corporate income tax; the exclusion of corporate income tax assessments alone in both years would mean a decline in y-o-y growth in general government tax revenue in the first half of the year to 3.1% (instead of the actual 7.0%). Last year's low base in 2011 growth in revenue from value added tax is related to reduced inflows from this tax, which was, in addition to regular tax assessments, also due to shortened deadlines for VAT refunds (from 60 to 21 days).

**In light of lower-than-foreseen revenues, the government revised the state budget for 2011 to match expenditure to much lower revenue estimates but the budget deficit will nevertheless not narrow relative to the previous budget.** The approved revised state budget anticipates that revenues and expenditures will be EUR 365 m lower than in the state budget for 2011 adopted in December 2010. With revenues and expenditures declining by the same amount, the deficit level remains unchanged. The state budget deficit in 2011 is thus estimated at EUR 1.7 bn or 4.7% of GDP, which is only EUR 43 m lower than a year earlier. The structure of spending cuts shows that savings are mainly made on investments

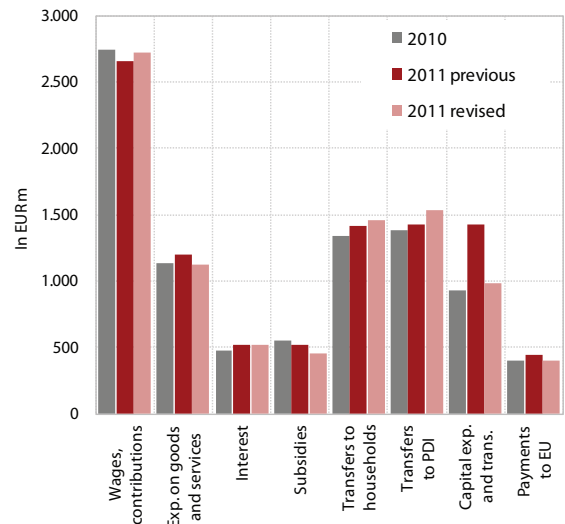
Figure 41: Consolidated general government revenue and expenditure



Source: MF; calculations by IMAD.

that are being pushed forward to the following years. No major cuts will be made with systemic savings, a measure which would be crucial for a more sustainable consolidation of public finances and is already being enforced by several other European countries; this remains a fiscal policy challenge for the following years.

Figure 42: State budget expenditure, 2010–2011



Source: MF; calculations by IMAD.

## Risks to the realisation of the autumn forecast

**The main risks of slower growth in economic activity are related to the situation on international financial markets.** The sovereign debt crisis in the euro area worsened in the summer months. To stabilise the financial markets, at the July summit the euro area countries agreed on a new package of financial assistance to Greece, as well as on measures to improve the effectiveness of the EFSF, and committed themselves to bringing fiscal deficits below 3.0% of GDP not later than by the end of 2012. Despite the adopted measures and commitments, the conditions in government bond markets have remained tight. Yields on government debt instruments rose in several countries, which also faced credit rating downgrades. In addition to Greece and Portugal, Italy and Spain came under pressure, in particular, and their 10-year government bond yields rose above 6% at the beginning of August. In August, the ECB decided to conduct a liquidity-providing supplementary longer-term refinancing operation and reactivated the securities market programme in an effort to stabilise financial markets. The countries with the greatest public finance difficulties announced (and some of them had already approved) new austerity measures. Financial markets continue to harbour distrust against some euro area countries, including Slovenia, which is also running the risk of a further deterioration in its perceived creditworthiness in financial markets.

Figure 43: Central forecast of GDP growth and distribution of expected risks



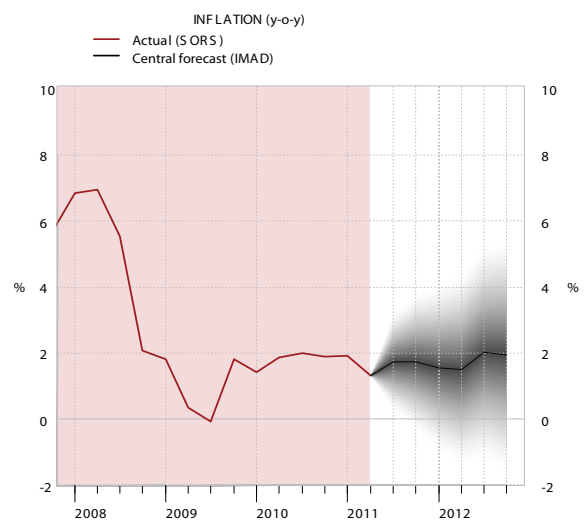
Source: SORS; 2011–2013 forecasts by IMAD.

**A further aggravation of the sovereign debt crisis in certain euro area countries represents a risk to their economic activity and, in turn, economic activity in Slovenia.** A further tightening of the situation in international financial markets triggered by a potential deepening of the sovereign debt crisis in euro area countries poses a significant risk to economic growth in the euro area, according to IMF estimates.<sup>37</sup> Scenarios that assume that GDP growth in the euro area in 2012 is 3 p.p. lower than according to the baseline scenario show a cessation of the expected further recovery of Slovenia's economy, as this has mainly been driven by stronger external trade over the last two years. In this case, Slovenia's GDP would drop by 1.7% in real terms in 2012. Exports would shrink by 2.4% and fixed capital formation by 4% due to lower export demand and tighter lending conditions, while private consumption would fall by 1%

as a result of increased uncertainty.

**There are also risks of inflation deviating from the central forecast, but unlike the risks to GDP, they are symmetrically distributed.** The greatest risks to the realisation of the central forecast for inflation are associated with uncertainty regarding future economic trends, which may deteriorate and additionally alleviate pressure on prices. This also involves risks regarding energy price movements, which were stable at the time of the preparation of the forecast but may decline more than we assumed, given uncertain economic prospects. On the other hand, upside risks to inflation are associated with certain factors from the domestic environment that are related to additional tax policy measures the government may put in place to reduce the general government deficit.

Figure 44: Central forecast of inflation and distribution of expected risks



Source: SORS; 2011–2013 forecasts by IMAD.

Table 13: Simulation of the effect of the fall of economic activity in the EMU on economic activity in Slovenia

	2011	2012	2012
	Autumn forecast		Simulation
Real growth, in %			
Gross domestic product	1.5	2.0	-1.7
Exports of goods and services	7.9	6.3	-2.4
Imports of goods and services	5.2	4.6	-2.8
Private consumption	0.0	0.2	-1.0
Government consumption	0.3	-0.5	-0.5
Gross fixed capital formation	-7.5	6.0	-4.0
Contribution of change in inventories to GDP growth in p.p.	1.1	-0.5	-0.5

Source: calculations by IMAD.

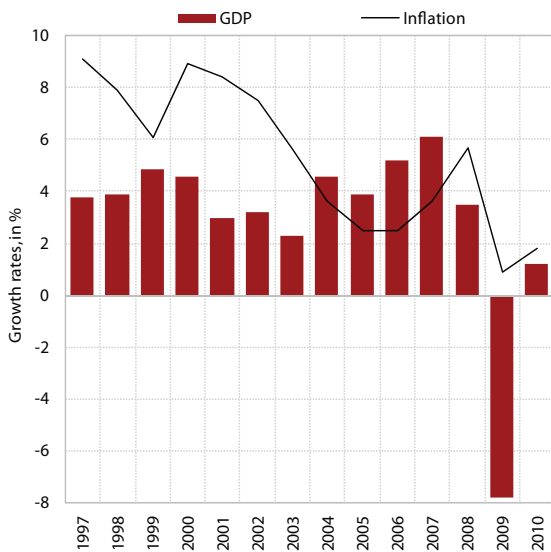
<sup>37</sup> IMF World Economic Outlook Update, April 2011. The scenario assumes that a large shock followed by insufficiently rapid and strong policy action results in significant losses on securities markets and a lowering of credit activity in the euro area periphery. This causes capital ratios to fall substantially in several countries of the euro area. Under such a scenario, European banks tighten lending conditions by a similar magnitude as during the collapse of Lehman Brothers in autumn 2008. As a result, euro-area growth is reduced by about 3 p.p. relative to the baseline.

## Assessing forecasting performance

The following section contains the forecast accuracy assessment that was already published in the Spring Forecast of Economic Trends 2011. As the accuracy of GDP forecasts is analysed on the basis of the first release of the quarterly statistical data and not on later annual data or their revisions, these calculations represent the most recent assessment of accuracy. A new assessment will be made in the spring of 2012 (for 2011 and for the 1997–2011 period).

**In our regular annual analysis, we assess the performance of forecasts by different institutions forecasting economic trends for Slovenia.** The analysis is made for the forecasts in the period from 1997 to 2010 by IMAD and SKEP and for the period from 2002 to 2010, when forecasts by other institutions were also available for Slovenia. We have thus covered a period of time when Slovenia recorded very favourable economic movements and the forecasting errors were relatively low, as well as the period of the world economic and financial crisis, which was unpredictable for most forecasters and is also reflected in the magnitude of forecasting errors.

Figure 45: Movement of variables included in the analysis of forecasting performance



Source: SORS.

**The analysis covers real economic growth and inflation.** All forecasts<sup>38</sup> are compared with the first statistical annual estimate, which is, for economic growth, based on the quarterly data. A systematic comparison of how our forecasts diverge from the actual trends over a

<sup>38</sup> Spring forecasts for the year ahead (Pnt+1), autumn forecasts for the year ahead (Jnt+1), spring forecasts for the current year (Pnt) and autumn forecasts for the current year (Jnt).

longer period of time reveals the accuracy of forecasting and mean errors made in forecasting a given aggregate. If errors are evenly distributed, the value of this measure is close to zero. A positive value indicates a systemic underestimation of trends and vice versa.

**The quality of the forecast is also dependent on the time when the forecast is released.** In forecasting the movement of economic variables, the forecasters deal with various limitations such as the availability of information at the cut-off date, which changes in time. It is thus important to take into account the time when the forecasts were made, as later forecasts may include new data which can shed a different light on the economic situation. This new information may involve further data on indicator movements in a given month or quarter, revisions of data that have already been released, as well as changed assumptions of movements in the international environment, which represent a strong uncertainty factor for open economies such as Slovenia. The present analysis compares forecasting performance by six institutions<sup>39</sup> publishing forecasts of key macroeconomic variables for Slovenia. All institutions usually publish their forecasts twice a year. The most comprehensive forecasts of macroeconomic categories are provided by IMAD.

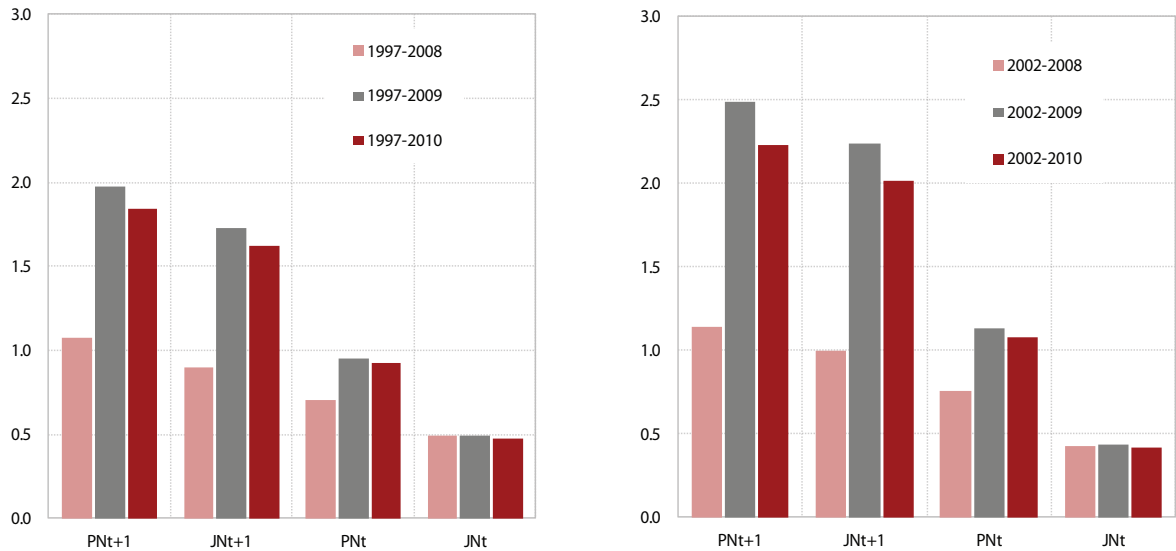
Figure 46: Timeline of forecasts published by individual institutions in 2010

Jan			
Feb	WIIW		
Mar	IMAD	Consensus Forecasts	
Apr	BS	IMF	
May	SKEP	EC	
Jun	OECD	WIIW	
Jul			
Aug			
Sep	IMAD	Consensus Forecasts	
Oct	BS	IMF	
Nov	SKEP	EC	OECD
Dec			

<sup>39</sup> In addition to the forecasts by the Institute of Macroeconomic Analysis and Development (IMAD), the analysis covers the forecasts released by: the Bank of Slovenia (BS) and SKEP – Economic Outlook, Analysis and Forecasts of the Chamber of Commerce and Industry of Slovenia, and among international institutions, the International Monetary Fund (IMF), the European Commission (EC), OECD, Consensus and Wiener Institut fuer Internationale Wirtschaftsvergleiche (WIIW).



Figure 47: Mean absolute error in IMAD's forecasts for real GDP growth for various periods



Source: forecasts by IMAD.

**The performance measures for a longer period were significantly affected by a larger error in the forecast for 2009.** Because of the uncertainty of future economic trends, individual forecasts tend to deviate from the actual situation and for forecasting to be successful the mean error should be as small as possible over a longer period. If the analysed period is relatively short, any error (whether in the positive or negative direction) can significantly affect the conclusions of previous performance analyses. The errors in the forecasts for 2009, which are much higher, thus notably deteriorated the calculation of the mean errors in the entire period (in a shorter period of 2002–2010, a greater error than for

the 1997–2010 period), which is evident from the figures below (see Table 13 in the statistical appendix).

**Half of the institutions, including IMAD, underestimated real economic growth in their forecasts for 2010 (0.1 p.p. to 0.7 p.p.) while the other half overestimated it (0.1 p.p. to 1.5 p.p.).** The forecasts of real economic growth for 2010 were overestimated the most in the spring forecasts for the year ahead by the WIIW and the BS (-0.8 p.p. or -0.7 p.p., respectively), while the smallest errors were made by Consensus (-0.1 p.p.), IMAD (0.2 p.p.) and IMF (-0.2 p.p.).

Table 14: Errors made by forecasting institutions in their forecasts of real GDP growth for 2010

Realised: 1.2 %	Spring forecast for the year ahead		Autumn forecast for the year ahead		Spring forecast for the current year		Autumn forecast for the current year	
	Forecast	Error in p.p.	Forecast	Error in p.p.	Forecast	Error in p.p.	Forecast	Error in p.p.
IMAD	1.0	0.2	0.9	0.3	0.6	0.6	0.9	0.3
BS	1.9	-0.7	1.6	-0.4	1.3	-0.1	1.1	0.1
SKEP	1.6	-0.4	0.7	0.5	0.7	0.5	0.8	0.4
EC	0.7	0.5	1.3	-0.1	1.1	0.1	1.1	0.1
IMF	1.4	-0.2	0.6	0.6	1.1	0.1	0.8	0.4
WIIW	2.0	-0.8	1.0	0.2	1.0	0.2	0.5	0.7
OECD	0.7	0.5	2.7	-1.5	1.4	-0.2	1.1	0.1
Consensus Forecasts	1.3	-0.1	0.6	0.6	1.0	0.2	1.0	0.2

Source: forecasts by individual institutions.

**The forecasting institutions either underestimated inflation in 2010 by 0.1 p.p. to 0.7 p.p. or overestimated it by 0.1 p.p. to 0.9 p.p.** The BS and SKEP made accurate

forecasts of inflation in their spring forecasts for the year ahead, while SKEP, the EC and Consensus were accurate in their spring forecasts for the current year.

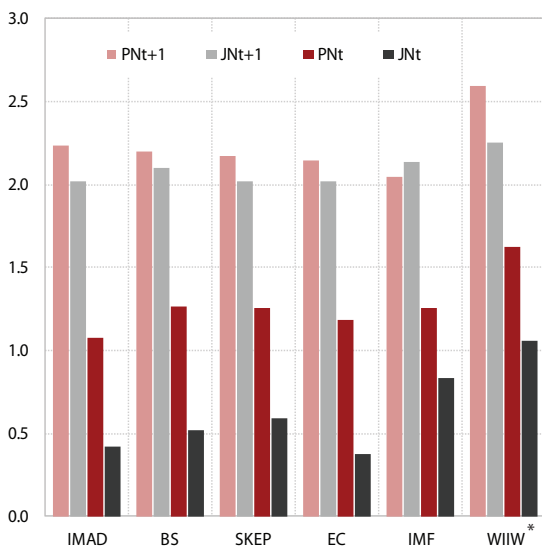
Table 15: Errors made by forecasting institutions in their forecasts of average inflation for 2010

Realised: 1.8 %	Spring forecast for the year ahead		Autumn forecast for the year ahead		Spring forecast for the current year		Autumn forecast for the current year	
	Forecast	Error in p.p.	Forecast	Error in p.p.	Forecast	Error in p.p.	Forecast	Error in p.p.
IMAD	1.6	0.2	1.5	0.3	1.3	0.5	2.1	-0.3
BS	1.8	0.0	1.5	0.3	1.6	0.2	2.3	-0.5
SKEP	1.8	0.0	1.3	0.5	1.8	0.0	1.9	-0.1
EC	2.0	-0.2	1.7	0.1	1.8	0.0	2.1	-0.3
IMF	1.5	0.3	1.5	0.3	1.5	0.3	1.5	0.3
WIIW	2.5	-0.7	2.0	-0.2	1.5	0.3	1.5	0.3
OECD	1.6	0.2	1.1	0.7	1.9	-0.1	2.1	-0.3
Consensus Forecasts	2.7	-0.9	2.1	-0.3	1.8	0.0	1.9	-0.1

Source: forecasts by individual institutions.

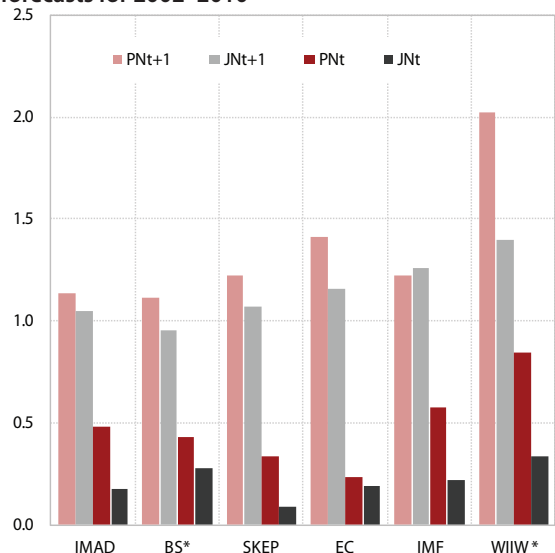
A comparison of the forecasts of economic growth over a longer period shows that the IMAD forecasts of GDP growth are, on average, the most accurate among the Slovenian institutions, particularly for the current year, while SKEP and the Bank of Slovenia were more accurate regarding inflation forecasts. Comparing the forecasting performance measures of different institutions, we find that the mean absolute errors in the forecasts of real economic growth in 2002–2010 ranged between 0.38 and 2.60. The root mean square errors, which assign greater weight to larger errors, were much higher due to an error in 2009 (between 0.46 and 4.38). The mean absolute errors in the forecasts of average inflation were lower than in the GDP forecasts (between 0.09 and 2.02) and the root mean square errors ranged between 0.11 and 2.96.

Figure 48: Mean absolute errors in real GDP growth forecasts for 2002–2010



Source: forecasts by individual institutions.  
Note: \* WIIW data for Pnt+1 for 2003–2010.

Figure 49: Mean absolute errors in average inflation forecasts for 2002–2010



Source: forecasts by individual institutions.  
Note: \* BS and WIIW data for Pnt+1 for 2003–2010.

**Based on an analysis of the forecasting performance over a longer period of time, we find that the IMAD forecasts show no systematic over- or underestimation.** In view of the uncertainty of future economic trends, individual forecasts can never be entirely accurate; it is important, however, that their mean error is as small as possible over a longer time period. The mean absolute error in the forecasts of real GDP growth for the period 1997–2010 totals 1.62 p.p. in the autumn forecasts for the year ahead, and 0.93 p.p. in the spring forecasts for the current year. The mean absolute error in the spring forecast of inflation is 0.51 p.p. for the current year but somewhat higher, 1.04 p.p., in the autumn forecasts for the year ahead. We estimate that these indicators show that the IMAD forecasts are unbiased over the long term.

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Table 1: Main macroeconomic indicators of Slovenia

Real growth rates in %, unless otherwise indicated

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
											forecast	
<b>GROSS DOMESTIC PRODUCT</b>	3.8	2.9	4.4	4.0	5.8	6.9	3.6	-8.0	1.4	1.5	2.0	2.5
GDP in EUR m (at current prices and at current exchange rate)	24,570	25,835	27,253	28,723	31,050							
GDP in EUR m (at current prices and at fixed exchange rate 2007)	23,195	25,195	27,165	28,722	31,045	34,562	37,280	35,311	35,416	35,924	37,334	38,871
GDP per capita in EUR (at current prices and at current exchange rate)	12,316	12,942	13,645	14,355	15,464	17,120	18,437	17,295	17,286	17,601	18,256	18,974
GDP per capita in USD (at current prices and at current exchange rate)	11,597	14,603	16,942	17,852	19,396	23,463	27,117	24,123	22,916	24,958	26,179	27,209
GDP per capita (PPS) <sup>1</sup>	16,900	17,300	18,800	19,600	20,700	22,100	22,800	20,700	21,200			
GDP per capita (PPS EU27=100) <sup>1</sup>	82	84	87	87	88	88	91	88	87			
<b>POPULATION, EMPLOYMENT, WAGES AND PRODUCTIVITY</b>												
Employment according to SNA	0.0	-0.3	0.4	-0.5	1.5	3.3	2.6	-1.8	-2.5	-1.5	0.0	0.0
Registered unemployed (annual average in thousand)	102.8	97.7	92.8	91.9	85.8	71.3	63.2	86.4	100.5	110.9	110.6	110.2
Rate of registered unemployment in %	11.3	10.9	10.3	10.2	9.4	7.7	6.7	9.1	10.7	11.8	11.8	11.8
Rate of unemployment by ILO in %	6.4	6.7	6.3	6.5	6.0	4.9	4.4	5.9	7.2	8.0	8.0	8.0
Gross wage per employee	2.0	1.8	2.0	2.2	2.2	2.2	2.5	2.5	2.1	0.9	0.6	0.6
- Private sector	2.3	2.1	3.1	2.8	2.8	3.2	2.0	1.0	3.2	1.6	1.3	1.4
- Public sector	1.1	1.0	-0.8	0.9	1.0	0.5	3.9	5.8	-1.8	-1.1	-1.2	-1.5
Labour productivity (GDP/employee)	3.8	3.2	4.0	4.5	4.2	3.4	1.0	-6.3	4.0	3.0	2.0	2.5
<b>INTERNATIONAL TRADE - BALANCE OF PAYMENTS STATISTICS</b>												
Exports of goods and services <sup>2</sup>	6.8	3.1	12.4	10.6	12.5	13.7	2.9	-17.2	9.5	7.9	6.3	6.7
Exports of goods	6.4	4.4	12.8	10.3	13.4	13.9	0.5	-18.1	11.0	8.7	6.9	7.1
Exports of services	8.2	-2.5	10.9	12.0	8.6	13.2	14.3	-13.7	4.1	4.6	3.8	4.9
Imports of goods and services <sup>2</sup>	4.9	6.7	13.3	6.7	12.2	16.7	3.7	-19.6	7.2	5.2	4.6	4.9
Imports of goods	4.4	7.3	14.6	6.8	12.7	16.2	3.0	-20.8	8.0	5.5	4.6	4.9
Imports of services	8.4	2.8	5.6	5.5	8.8	19.7	8.2	-12.0	2.6	3.1	4.9	5.4
Current account balance in EUR m	247	-196	-720	-498	-771	-1,646	-2,574	-456	-297	-351	-181	378
As a per cent share relative to GDP	1.1	-0.8	-2.6	-1.7	-2.5	-4.8	-6.9	-1.3	-0.8	-1.0	-0.5	1.0
External balance of goods and services in EUR m	355	-3	-322	-106	-158	-619	-1,224	463	103	153	692	1,209
As a per cent share relative to GDP	1.5	0.0	-1.2	-0.4	-0.5	-1.8	-3.3	1.3	0.3	0.4	1.9	3.1
<b>FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS</b>												
Final consumption	2.8	3.1	3.1	2.4	3.1	4.7	4.3	0.6	-0.1	0.1	0.1	0.4
As a % of GDP *	74.9	74.8	73.8	73.2	71.6	69.8	71.3	76.1	76.8	77.2	75.5	74.0
in which:												
Private consumption	2.6	3.4	3.0	2.1	2.8	6.1	3.7	-0.1	-0.7	0.0	0.2	0.5
As a % of GDP *	55.8	55.9	55.0	54.3	52.8	52.4	53.2	55.8	56.0	56.3	55.3	54.4
Government consumption	3.3	2.3	3.3	3.5	4.0	0.6	6.1	2.9	1.5	0.3	-0.5	0.1
As a % of GDP *	19.1	19.0	18.8	19.0	18.8	17.3	18.1	20.3	20.8	20.8	20.1	19.6
Gross fixed capital formation	0.3	7.6	5.0	3.0	10.4	13.3	7.8	-23.3	-8.3	-7.5	6.0	5.0
As a % of GDP *	23.3	24.1	25.0	25.4	26.5	27.8	28.8	23.4	21.6	20.0	20.8	21.5
<b>EXCHANGE RATE AND PRICES</b>												
Average exchange rate SIT/USD, BS	242.7	240.2	207.1	192.4	192.7	191.0	174.8					
Average exchange rate SIT/EUR, BS	217.2	226.2	233.7	238.9	239.6	239.6	239.6					
Ratio of USD to EUR	0.942	1.128	1.242	1.244	1.254	1.371	1.471	1.393	1.327	1.418	1.434	1.434
Real effective exchange rate - deflated by CPI <sup>3</sup>	1.7	3.3	0.1	-0.2	0.7	2.3	2.8	0.7	-1.4	-1.0	-0.2	
Inflation (end of the year) <sup>4</sup>	7.2	4.6	3.2	2.3	2.8	5.6	2.1	1.8	1.9	1.7	1.9	1.9
Inflation (year average) <sup>4</sup>	7.5	5.6	3.6	2.5	2.5	3.6	5.7	0.9	1.8	1.6	1.8	2.0
Brent Crude Oil Price USD / barrel	25.0	28.9	38.3	54.6	65.2	72.4	96.9	61.7	79.6	110.0	105.0	105.0

Source: SORS, BS, ECB, Ministry of Finance, Eurostat, calculations and forecasts by IMAD.

Notes: <sup>1</sup>Measured in purchasing power standard; <sup>2</sup>Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets; <sup>3</sup>Growth in value denotes real appreciation of national currency and vice versa; <sup>4</sup>Consumer price index; \* Shares in GDP are calculated for GDP in current prices and at fixed exchange rate 2007 (EUR=239,64).

Table 2a: Gross value added by activity at basic prices and gross domestic product

EUR million, current prices (fixed 2007 exchange rate)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
											forecast	
A Agriculture, forestry and fishing	659.5	540.1	629.8	666.4	627.0	743.4	798.0	749.8	766.6	826.2	858.7	894.0
BCDE Mining and quarrying, manufacturing, electricity and water supply, waste management	5,676.6	6,215.2	6,678.1	6,814.2	7,317.2	8,070.1	8,264.8	7,111.4	7,258.8	7,454.5	7,840.1	8,279.4
of which: C Manufacturing	4,899.4	5,377.4	5,699.7	5,787.6	6,208.6	6,880.6	6,980.7	5,840.0	5,966.8	6,107.0	6,458.7	6,802.4
F Construction	1,216.3	1,372.5	1,481.5	1,671.6	1,957.4	2,450.8	2,761.5	2,464.8	1,968.8	1,692.0	1,717.4	1,749.2
GHI Trade, transportation and storage, accommodation and food service activities	3,869.7	4,257.6	4,579.6	4,966.6	5,437.3	6,234.1	6,852.0	6,337.9	6,342.4	6,448.6	6,794.8	7,074.5
J Information and communication	746.2	832.8	915.4	1,011.8	1,099.9	1,216.1	1,293.7	1,209.1	1,258.1	1,361.6	1,370.2	1,400.6
K Financial and insurance activities	900.7	996.8	1,087.6	1,163.8	1,376.1	1,460.3	1,539.2	1,581.6	1,731.2	1,778.6	1,885.7	2,021.3
L Real estate activities	1,584.9	1,662.9	1,779.4	1,920.2	2,007.6	2,150.6	2,387.1	2,356.9	2,265.3	2,173.7	2,165.4	2,196.6
MN Professional, scientific, technical, administrative and support services	1,652.6	1,843.7	2,010.3	2,050.1	2,269.2	2,610.6	2,902.1	2,755.0	2,838.2	2,892.2	3,098.7	3,304.0
OPQ Public administration, education, human health and social work	3,312.1	3,649.6	3,929.6	4,170.6	4,370.7	4,596.9	5,064.3	5,360.9	5,515.2	5,622.4	5,786.7	5,947.2
RST Other service activities	593.4	629.9	684.3	742.2	762.6	802.8	853.5	860.6	877.8	928.8	914.2	913.8
<b>1. TOTAL VALUE ADDED, basic prices</b>	<b>20,212.2</b>	<b>22,001.1</b>	<b>23,775.7</b>	<b>25,177.4</b>	<b>27,225.0</b>	<b>30,335.6</b>	<b>32,716.1</b>	<b>30,788.1</b>	<b>30,822.4</b>	<b>31,178.7</b>	<b>32,431.9</b>	<b>33,780.6</b>
<b>2. CORRECTIONS (a-b)</b>	<b>2,982.5</b>	<b>3,194.2</b>	<b>3,389.0</b>	<b>3,544.9</b>	<b>3,820.0</b>	<b>4,226.8</b>	<b>4,563.5</b>	<b>4,522.6</b>	<b>4,593.3</b>	<b>4,744.9</b>	<b>4,901.9</b>	<b>5,090.1</b>
a) Taxes on products and services	3,078.7	3,318.8	3,520.2	3,697.3	3,953.5	4,420.4	4,769.2	4,728.6	4,810.4	4,969.8	5,119.0	5,300.3
b) Subsidies on products and services	96.2	124.6	131.2	152.4	133.5	193.7	205.7	206.1	217.1	224.9	217.1	210.2
<b>3. GROSS DOMESTIC PRODUCT (3=1+2)</b>	<b>23,194.7</b>	<b>25,195.3</b>	<b>27,164.7</b>	<b>28,722.3</b>	<b>31,045.0</b>	<b>34,562.3</b>	<b>37,279.5</b>	<b>35,310.6</b>	<b>35,415.8</b>	<b>35,923.6</b>	<b>37,333.8</b>	<b>38,870.6</b>

Source: SORS, forecasts by IMAD.

Table 2b: **Gross value added by activity at basic prices and gross domestic product**

Structure in %, current prices

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
A Agriculture, forestry and fishing	2.8	2.1	2.3	2.3	2.0	2.2	2.1	2.1	2.2	2.3	2.3	2.3
BCDE Mining and quarrying, manufacturing, electricity and water supply, waste management	24.5	24.7	24.6	23.7	23.6	23.3	22.2	20.1	20.5	20.8	21.0	21.3
of which: C Manufacturing	21.1	21.3	21.0	20.2	20.0	19.9	18.7	16.5	16.8	17.0	17.3	17.5
F Construction	5.2	5.4	5.5	5.8	6.3	7.1	7.4	7.0	5.6	4.7	4.6	4.5
GHI Trade, transportation and storage, accommodation and food service activities	16.7	16.9	16.9	17.3	17.5	18.0	18.4	17.9	17.9	18.0	18.2	18.2
J Information and communication	3.2	3.3	3.4	3.5	3.5	3.5	3.5	3.4	3.6	3.8	3.7	3.6
K Financial and insurance activities	3.9	4.0	4.0	4.1	4.4	4.2	4.1	4.5	4.9	5.0	5.1	5.2
L Real estate activities	6.8	6.6	6.6	6.7	6.5	6.2	6.4	6.7	6.4	6.1	5.8	5.7
MN Professional, scientific, technical, administrative and support services	7.1	7.3	7.4	7.1	7.3	7.6	7.8	7.8	8.0	8.1	8.3	8.5
OPQ Public administration, education, human health and social work	14.3	14.5	14.5	14.5	14.1	13.3	13.6	15.2	15.6	15.7	15.5	15.3
RST Other service activities	2.6	2.5	2.5	2.6	2.5	2.3	2.3	2.4	2.5	2.6	2.4	2.4
1. TOTAL VALUE ADDED	87.1	87.3	87.5	87.7	87.7	87.8	87.8	87.2	87.0	86.8	86.9	86.9
2. CORRECTIONS (a-b)	12.9	12.7	12.5	12.3	12.3	12.2	12.2	12.8	13.0	13.2	13.1	13.1
a) Taxes on products and services	13.3	13.2	13.0	12.9	12.7	12.8	12.8	13.4	13.6	13.8	13.7	13.6
b) Subsidies on products and services	0.4	0.5	0.5	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.5
3. GROSS DOMESTIC PRODUCT (3=1+2)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:												
1. Agriculture, forestry, fishing (A)	2.8	2.1	2.3	2.3	2.0	2.2	2.1	2.1	2.2	2.3	2.3	2.3
2. Industry and construction (B+C+D+E+F)	29.7	30.1	30.0	29.5	29.9	30.4	29.6	27.1	26.1	25.5	25.6	25.8
3. Services (G...T)	54.6	55.1	55.2	55.8	55.8	55.2	56.0	57.9	58.8	59.0	59.0	58.8
4. Corrections	12.9	12.7	12.5	12.3	12.3	12.2	12.2	12.8	13.0	13.2	13.1	13.1
As a share in total value added in %												
TOTAL VALUE ADDED, basic prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:												
1. Agriculture, forestry, fishing (A)	3.3	2.5	2.6	2.6	2.3	2.5	2.4	2.4	2.5	2.7	2.6	2.6
2. Industry and construction (B+C+D+E+F)	34.1	34.5	34.3	33.7	34.1	34.7	33.7	31.1	29.9	29.3	29.5	29.7
Industry (B+C+D+E)	28.1	28.2	28.1	27.1	26.9	26.6	25.3	23.1	23.6	23.9	24.2	24.5
Construction F	6.0	6.2	6.2	6.6	7.2	8.1	8.4	8.0	6.4	5.4	5.3	5.2
3. Services (G...T)	62.6	63.1	63.0	63.6	63.6	62.9	63.9	66.5	67.6	68.0	67.9	67.7

Source: SORS, calculations and forecasts by IMAD.

Table 3a: **Gross value added by activity at basic prices and gross domestic product**

EUR million (fixed 2007 exchange rate)

	constant previous year prices								constant 2009 prices			
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
A Agriculture, forestry and fishing	635.8	481.5	692.1	604.3	661.2	645.9	740.9	742.4	715.2	715.2	722.0	728.8
BCDE Mining and quarrying, manufacturing, electricity and water supply, waste management	5,405.4	5,959.5	6,498.4	6,905.0	7,314.4	7,866.9	8,153.9	6,992.5	7,579.2	8,011.3	8,287.7	8,590.3
of which: C Manufacturing	4,715.4	5,164.3	5,613.2	5,897.6	6,216.2	6,731.3	6,895.7	5,793.3	6,273.4	6,668.6	6,932.1	7,230.1
F Construction	1,170.1	1,284.2	1,381.4	1,533.0	1,914.9	2,301.3	2,569.1	2,332.7	1,973.3	1,618.1	1,706.3	1,773.7
GHI Trade, transportation and storage, accommodation and food service activities	3,638.8	3,989.1	4,389.1	4,810.5	5,324.2	5,816.9	6,436.5	6,197.3	6,494.8	6,637.6	6,760.5	6,912.6
J Information and communication	720.2	830.0	901.6	1,019.7	1,103.9	1,199.4	1,334.8	1,234.2	1,251.6	1,282.8	1,320.7	1,366.3
K Financial and insurance activities	878.3	939.2	1,096.5	1,207.4	1,228.6	1,582.2	1,581.5	1,580.9	1,661.0	1,727.5	1,727.5	1,778.4
L Real estate activities	1,460.8	1,611.1	1,680.3	1,837.7	1,971.8	2,093.4	2,271.8	2,317.3	2,384.2	2,398.5	2,423.7	2,458.9
MN Professional, scientific, technical, administrative and support services	1,359.0	1,688.5	1,902.4	1,978.7	2,205.3	2,422.4	2,726.8	2,697.5	2,889.5	2,947.3	3,040.1	3,160.3
OPQ Public administration, education, human health and social work	3,110.4	3,447.1	3,784.2	4,069.1	4,247.2	4,454.2	4,691.0	5,184.2	5,493.5	5,597.9	5,623.2	5,693.5
RST Other service activities	574.8	603.6	646.4	729.9	740.5	760.5	804.9	829.4	867.2	862.8	862.8	866.7
<b>1. TOTAL VALUE ADDED, basic prices</b>	<b>18,953.7</b>	<b>20,833.8</b>	<b>22,972.5</b>	<b>24,695.2</b>	<b>26,712.2</b>	<b>29,142.9</b>	<b>31,311.1</b>	<b>30,108.5</b>	<b>31,309.5</b>	<b>31,799.0</b>	<b>32,474.5</b>	<b>33,329.6</b>
<b>2. CORRECTIONS (a-b)</b>	<b>2,605.8</b>	<b>3,040.5</b>	<b>3,331.8</b>	<b>3,558.0</b>	<b>3,690.2</b>	<b>4,035.0</b>	<b>4,491.8</b>	<b>4,185.8</b>	<b>4,488.2</b>	<b>4,521.6</b>	<b>4,589.4</b>	<b>4,669.3</b>
a) Taxes on products and services	2,710.3	3,138.4	3,454.7	3,688.4	3,842.7	4,171.3	4,678.4	4,376.4	4,700.0	4,737.6	4,794.4	4,864.0
b) Subsidies on products and services	104.5	97.9	122.9	130.4	152.4	136.4	186.6	190.6	211.7	216.0	205.1	194.7
<b>3. GROSS DOMESTIC PRODUCT (3=1+2)</b>	<b>21,559.5</b>	<b>23,874.4</b>	<b>26,304.3</b>	<b>28,253.2</b>	<b>30,402.4</b>	<b>33,177.8</b>	<b>35,802.9</b>	<b>34,294.2</b>	<b>35,797.7</b>	<b>36,320.6</b>	<b>37,063.9</b>	<b>37,998.9</b>

Source: SORS, forecasts by IMAD.



Table 3b: Gross value added by activity at basic prices and gross domestic product

Real growth rates in %

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
A Agriculture, forestry and fishing	15.7	-27.0	28.1	-4.1	-0.8	3.0	-0.3	-7.0	-4.6	0.0	1.0	1.0
BCDE Mining and quarrying, manufacturing, electricity and water supply, waste management	5.2	5.0	4.6	3.4	7.3	7.5	1.0	-15.4	6.6	5.7	3.5	3.7
of which: C Manufacturing	5.7	5.4	4.4	3.5	7.4	8.4	0.2	-17.0	7.4	6.3	4.0	4.3
F Construction	2.5	5.6	0.7	3.5	14.6	17.6	4.8	-15.5	-19.9	-18.0	5.5	4.0
GHI Trade, transportation and storage, accommodation and food service activities	5.2	3.1	3.1	5.0	7.2	7.0	3.2	-9.6	2.5	2.2	1.9	2.3
J Information and communication	-1.1	11.2	8.3	11.4	9.1	9.0	9.8	-4.6	3.5	2.5	3.0	3.5
K Financial and insurance activities	9.1	4.3	10.0	11.0	5.6	15.0	8.3	2.7	5.0	4.0	0.0	3.0
L Real estate activities	1.8	1.7	1.0	3.3	2.7	4.3	5.6	-2.9	1.2	0.6	1.1	1.5
MN Professional, scientific, technical, administrative and support services	3.2	2.2	3.2	-1.6	7.6	6.7	4.5	-7.0	4.9	2.0	3.2	4.0
OPQ Public administration, education, human health and social work	2.9	4.1	3.7	3.5	1.8	1.9	2.0	2.4	2.5	1.9	0.5	1.3
RST Other service activities	-0.8	1.7	2.6	6.7	-0.2	-0.3	0.3	-2.8	0.8	-0.5	0.0	0.5
<b>1. TOTAL VALUE ADDED</b>	<b>4.3</b>	<b>3.1</b>	<b>4.4</b>	<b>3.9</b>	<b>6.1</b>	<b>7.0</b>	<b>3.2</b>	<b>-8.0</b>	<b>1.7</b>	<b>1.6</b>	<b>2.1</b>	<b>2.6</b>
<b>2. CORRECTIONS (a-b)</b>	<b>0.5</b>	<b>1.9</b>	<b>4.3</b>	<b>5.0</b>	<b>4.1</b>	<b>5.6</b>	<b>6.3</b>	<b>-8.3</b>	<b>-0.8</b>	<b>0.7</b>	<b>1.5</b>	<b>1.7</b>
a) Taxes on products and services	0.5	1.9	4.1	4.8	3.9	5.5	5.8	-8.2	-0.6	0.8	1.2	1.5
b) Subsidies on products and services	0.6	1.8	-1.4	-0.6	0.0	2.2	-3.6	-7.3	2.7	2.0	-5.0	-5.0
<b>3. GROSS DOMESTIC PRODUCT (3=1+2)</b>	<b>3.8</b>	<b>2.9</b>	<b>4.4</b>	<b>4.0</b>	<b>5.8</b>	<b>6.9</b>	<b>3.6</b>	<b>-8.0</b>	<b>1.4</b>	<b>1.5</b>	<b>2.0</b>	<b>2.5</b>

Source: SORS, forecasts by IMAD.

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

EUR million, current prices (fixed 2007 exchange rate)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
<b>1. Compensation of employees</b>	11,816.9	12,759.5	13,815.0	14,615.8	15,649.7	17,211.6	18,956.0	18,791.9	18,989.4	19,037.9	19,447.6	19,925.8
Wages and salaries	10,223.2	11,000.7	11,857.8	12,538.6	13,420.4	14,781.9	16,302.8	16,130.0	16,308.2	16,349.7	16,700.1	17,112.2
Employers' social contributions	1,593.7	1,758.8	1,957.2	2,077.1	2,229.3	2,429.8	2,653.2	2,661.8	2,681.2	2,688.1	2,747.4	2,813.6
<b>2. Taxes on production and imports</b>	3,667.8	4,019.0	4,288.7	4,527.2	4,725.2	5,154.3	5,361.6	5,093.4	5,172.4	5,346.5	5,511.3	5,710.5
Taxes on products and services	3,078.7	3,318.8	3,520.2	3,697.3	3,953.5	4,420.4	4,769.2	4,728.6	4,810.4	4,969.8	5,119.0	5,300.3
Other taxes on production	589.0	700.2	768.5	829.9	771.7	733.9	592.4	364.7	362.0	376.7	392.3	410.2
<b>3. Subsidies</b>	421.4	503.5	521.6	590.2	669.5	753.6	764.6	915.0	916.2	878.4	739.8	715.6
Subsidies on products and services	96.2	124.6	131.2	152.4	133.5	193.7	205.7	206.1	217.1	224.9	217.1	210.2
Other subsidies on production	325.2	378.9	390.5	437.8	536.0	560.0	558.8	708.9	699.1	653.5	522.7	505.3
<b>4. Gross operating surplus/mixed income</b>	8,131.5	8,920.2	9,582.6	10,169.5	11,339.6	12,950.0	13,726.4	12,340.4	12,170.2	12,417.7	13,114.7	13,949.9
Consumption of fixed capital	3,768.2	3,884.1	4,159.5	4,405.5	4,627.9	5,039.2	5,514.0	5,706.1	5,768.5	5,865.8	6,195.1	6,589.6
Net operating surplus	4,363.3	5,036.1	5,423.1	5,764.0	6,711.7	7,910.8	8,212.4	6,634.3	6,401.7	6,551.8	6,919.6	7,360.2
Gross operating surplus	5,630.0	6,376.6	6,838.7	7,190.9	8,121.1	9,306.2	9,916.7	8,927.0	8,837.3	9,027.0	9,523.7	10,130.2
Consumption of fixed capital	3,361.6	3,468.3	3,725.1	3,949.2	4,148.2	4,513.8	4,967.6	5,168.0	5,272.2	5,359.4	5,650.3	6,010.1
Net operating surplus	2,268.4	2,908.4	3,113.6	3,241.6	3,972.9	4,792.4	4,949.1	3,759.0	3,565.1	3,667.6	3,873.4	4,120.1
Gross mixed income	2,501.5	2,543.6	2,743.9	2,978.6	3,218.6	3,643.9	3,809.7	3,413.4	3,332.9	3,390.7	3,591.0	3,819.7
Consumption of fixed capital	406.6	415.9	434.4	456.2	479.7	525.4	546.4	538.1	496.4	506.5	544.8	579.5
Net mixed income	2,094.9	2,127.7	2,309.5	2,522.4	2,738.8	3,118.4	3,263.3	2,875.3	2,836.6	2,884.3	3,046.2	3,240.1
<b>5. GDP (5=1+2-3+4)</b>	23,194.7	25,195.3	27,164.7	28,722.3	31,045.0	34,562.3	37,279.5	35,310.6	35,415.8	35,923.6	37,333.8	38,870.6

Source: SORS, forecasts by IMAD.

Table 4b: Gross domestic product and primary incomes

Structure in %

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
<b>1. Compensation of employees</b>	50.9	50.6	50.9	50.9	50.4	49.8	50.8	53.2	53.6	53.0	52.1	51.3
Wages and salaries	44.1	43.7	43.7	43.7	43.2	42.8	43.7	45.7	46.0	45.5	44.7	44.0
Employers' social contributions	6.9	7.0	7.2	7.2	7.2	7.0	7.1	7.5	7.6	7.5	7.4	7.2
<b>2. Taxes on production and imports</b>	15.8	16.0	15.8	15.8	15.2	14.9	14.4	14.4	14.6	14.9	14.8	14.7
Taxes on products and services	13.3	13.2	13.0	12.9	12.7	12.8	12.8	13.4	13.6	13.8	13.7	13.6
Other taxes on production	2.5	2.8	2.8	2.9	2.5	2.1	1.6	1.0	1.0	1.0	1.1	1.1
<b>3. Subsidies</b>	1.8	2.0	1.9	2.1	2.2	2.2	2.1	2.6	2.6	2.4	2.0	1.8
Subsidies on products and services	0.4	0.5	0.5	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Other subsidies on production	1.4	1.5	1.4	1.5	1.7	1.6	1.5	2.0	2.0	1.8	1.4	1.3
<b>4. Gross operating surplus/mixed income</b>	35.1	35.4	35.3	35.4	36.5	37.5	36.8	34.9	34.4	34.6	35.1	35.9
Consumption of fixed capital	16.2	15.4	15.3	15.3	14.9	14.6	14.8	16.2	16.3	16.3	16.6	17.0
Net operating surplus	18.8	20.0	20.0	20.1	21.6	22.9	22.0	18.8	18.1	18.2	18.5	18.9
Gross operating surplus	24.3	25.3	25.2	25.0	26.2	26.9	26.6	25.3	25.0	25.1	25.5	26.1
Consumption of fixed capital	14.5	13.8	13.7	13.7	13.4	13.1	13.3	14.6	14.9	14.9	15.1	15.5
Net operating surplus	9.8	11.5	11.5	11.3	12.8	13.9	13.3	10.6	10.1	10.2	10.4	10.6
Gross mixed income	10.8	10.1	10.1	10.4	10.4	10.5	10.2	9.7	9.4	9.4	9.6	9.8
Consumption of fixed capital	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.4	1.4	1.5	1.5
Net mixed income	9.0	8.4	8.5	8.8	8.8	9.0	8.8	8.1	8.0	8.0	8.2	8.3
<b>5. GDP (5=1+2-3+4)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: SORS, forecasts by IMAD.

Table 5a: Gross domestic product by expenditures

EUR million, current prices (fixed 2007 exchange rate)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
1 <b>GROSS DOMESTIC PRODUCT (1=4+5)</b>	23,194.7	25,195.3	27,164.7	28,722.3	31,045.0	34,562.3	37,279.5	35,310.6	35,415.8	35,923.6	37,333.8	38,870.6
2 EXPORTS OF GOODS AND SERVICES	12,775.2	13,554.4	15,703.6	17,858.9	20,657.5	24,040.6	25,030.4	20,617.7	23,170.7	25,952.3	28,131.2	30,623.8
3 IMPORTS OF GOODS AND SERVICES	12,504.2	13,612.2	16,054.3	17,976.2	20,818.1	24,635.9	26,231.0	20,110.6	22,970.7	25,696.6	27,330.8	29,299.0
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	271.0	-57.8	-350.7	-117.2	-160.6	-595.2	-1,200.6	507.1	200.0	255.8	800.4	1,324.7
5 TOTAL DOMESTIC CONSUMPTION (5=6+9)	22,923.7	25,253.0	27,515.3	28,839.5	31,205.6	35,157.6	38,480.1	34,803.5	35,215.8	35,667.8	36,533.4	37,545.9
6 FINAL CONSUMPTION (6=7+8)	17,364.3	18,858.4	20,049.8	21,038.9	22,228.3	24,113.2	26,574.9	26,856.8	27,202.9	27,716.9	28,174.9	28,749.7
7 PRIVATE CONSUMPTION	12,942.7	14,079.5	14,932.7	15,586.5	16,403.6	18,123.6	19,816.6	19,704.7	19,840.4	20,241.3	20,657.3	21,143.6
Households	12,746.7	13,862.5	14,703.1	15,367.9	16,167.4	17,841.5	19,543.5	19,434.3	19,577.4	19,969.0	20,379.3	20,859.1
NPISH's	195.9	217.0	229.6	218.6	236.2	282.1	273.1	270.5	263.0	272.3	278.0	284.5
8 GOVERNMENT CONSUMPTION (individual and collective)	4,421.7	4,778.9	5,117.2	5,452.3	5,824.7	5,989.6	6,758.3	7,152.0	7,362.5	7,475.6	7,517.6	7,606.1
9 GROSS CAPITAL FORMATION (9=10+11)	5,559.4	6,394.6	7,465.5	7,800.6	8,977.3	11,044.4	11,905.2	7,946.8	8,012.9	7,951.0	8,358.5	8,796.2
10 GROSS FIXED CAPITAL FORMATION	5,408.3	6,079.3	6,789.5	7,294.4	8,234.6	9,603.6	10,729.7	8,267.5	7,650.6	7,183.0	7,769.9	8,337.9
11 CHANGES IN INVENTORIES AND VALUABLES	151.1	315.3	676.0	506.3	742.7	1,440.8	1,175.5	-320.8	362.3	768.0	588.6	458.3

Source: SORS, forecasts by IMAD.

Table 5b: Gross domestic product by expenditures

Structure in %, current prices

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
1 <b>GROSS DOMESTIC PRODUCT (1=4+5)</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 EXPORTS OF GOODS AND SERVICES	55.1	53.8	57.8	62.2	66.5	69.6	67.1	58.4	65.4	72.2	75.4	78.8
3 IMPORTS OF GOODS AND SERVICES	53.9	54.0	59.1	62.6	67.1	71.3	70.4	57.0	64.9	71.5	73.2	75.4
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	1.2	-0.2	-1.3	-0.4	-0.5	-1.7	-3.2	1.4	0.6	0.7	2.1	3.4
5 TOTAL DOMESTIC CONSUMPTION (5=6+9)	98.8	100.2	101.3	100.4	100.5	101.7	103.2	98.6	99.4	99.3	97.9	96.6
6 FINAL CONSUMPTION (6=7+8)	74.9	74.8	73.8	73.2	71.6	69.8	71.3	76.1	76.8	77.2	75.5	74.0
7 PRIVATE CONSUMPTION	55.8	55.9	55.0	54.3	52.8	52.4	53.2	55.8	56.0	56.3	55.3	54.4
Households	55.0	55.0	54.1	53.5	52.1	51.6	52.4	55.0	55.3	55.6	54.6	53.7
NPISH's	0.8	0.9	0.8	0.8	0.8	0.8	0.7	0.8	0.7	0.8	0.7	0.7
8 GOVERNMENT CONSUMPTION (individual and collective)	19.1	19.0	18.8	19.0	18.8	17.3	18.1	20.3	20.8	20.8	20.1	19.6
9 GROSS CAPITAL FORMATION (9=10+11)	24.0	25.4	27.5	27.2	28.9	32.0	31.9	22.5	22.6	22.1	22.4	22.6
10 GROSS FIXED CAPITAL FORMATION	23.3	24.1	25.0	25.4	26.5	27.8	28.8	23.4	21.6	20.0	20.8	21.5
11 CHANGES IN INVENTORIES AND VALUABLES	0.7	1.3	2.5	1.8	2.4	4.2	3.2	-0.9	1.0	2.1	1.6	1.2

Source: SORS, forecasts by IMAD.

Table 6a: **Gross domestic product by expenditures**

EUR million (fixed 2007 exchange rate)

	constant previous year prices								constant 2009 prices			
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
1 <b>GROSS DOMESTIC PRODUCT (1=4+5)</b>	21,559.5	23,874.4	26,304.3	28,253.2	30,402.4	33,177.8	35,802.9	34,294.2	35,797.7	36,320.6	37,063.9	37,998.9
2 EXPORTS OF GOODS AND SERVICES	12,232.3	13,174.8	15,241.4	17,363.0	20,097.6	23,494.5	24,739.7	20,727.8	22,584.3	24,360.2	25,889.9	27,630.7
3 IMPORTS OF GOODS AND SERVICES	12,199.9	13,336.6	15,424.7	17,123.8	20,162.1	24,290.8	25,544.1	21,081.3	21,549.6	22,660.0	23,711.2	24,879.4
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	32.4	-161.8	-183.2	242.5	-64.6	-796.2	-804.4	-353.4	1,034.7	1,700.2	2,178.6	2,751.3
5 TOTAL DOMESTIC CONSUMPTION (5=6+9)	21,527.1	24,036.1	26,487.6	28,014.0	30,466.8	33,974.1	36,607.3	34,647.7	34,763.0	34,620.3	34,885.2	35,247.6
6 FINAL CONSUMPTION (6=7+8)	16,172.6	17,907.4	19,440.4	20,540.7	21,692.8	23,270.0	25,151.3	26,739.3	26,828.0	26,857.3	26,873.3	26,991.2
7 PRIVATE CONSUMPTION	12,034.4	13,384.1	14,502.8	15,242.7	16,023.1	17,407.5	18,795.4	19,787.5	19,571.0	19,574.9	19,623.7	19,730.8
- Households	11,842.9	13,179.3	14,283.1	15,030.4	15,793.9	17,140.7	18,535.5	19,521.6	19,310.8	19,310.8	19,358.3	19,464.0
- NPISH's	191.5	204.8	219.7	212.3	229.2	266.8	260.0	265.9	260.2	264.1	265.4	266.8
8 GOVERNMENT CONSUMPTION (individual and collective)	4,138.2	4,523.3	4,937.6	5,298.0	5,669.7	5,862.5	6,355.9	6,951.9	7,257.0	7,282.4	7,249.6	7,260.4
9 GROSS CAPITAL FORMATION (9=10+11)	5,354.4	6,128.8	7,047.1	7,473.3	8,774.1	10,704.1	11,456.0	7,908.3	7,935.0	7,763.0	8,011.9	8,256.4
10 GROSS FIXED CAPITAL FORMATION	5,212.2	5,817.4	6,381.7	6,992.2	8,053.1	9,328.3	10,349.8	8,227.7	7,580.8	7,012.3	7,436.5	7,808.3
11 CHANGES IN INVENTORIES AND VALUABLES	142.2	311.4	665.4	481.1	721.0	1,375.8	1,106.2	-319.4	354.2	750.8	575.4	448.1

Source: SORS, forecasts by IMAD.

Table 6b: **Gross domestic product by expenditures**

Real growth rates in %

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
1 <b>GROSS DOMESTIC PRODUCT (1=4+5)</b>	3.8	2.9	4.4	4.0	5.8	6.9	3.6	-8.0	1.4	1.5	2.0	2.5
2 EXPORTS OF GOODS AND SERVICES	6.8	3.1	12.4	10.6	12.5	13.7	2.9	-17.2	9.5	7.9	6.3	6.7
3 IMPORTS OF GOODS AND SERVICES	4.9	6.7	13.3	6.7	12.2	16.7	3.7	-19.6	7.2	5.2	4.6	4.9
4 EXTERNAL BALANCE OF GOODS AND SERVICES <sup>1</sup>	1.0	-1.9	-0.5	2.2	0.2	-2.0	-0.6	2.3	1.5	1.9	1.3	1.5
5 TOTAL DOMESTIC CONSUMPTION (5=6+9)	2.8	4.9	4.9	1.8	5.6	8.9	4.1	-10.0	-0.1	-0.4	0.8	1.0
6 FINAL CONSUMPTION (6=7+8)	2.8	3.1	3.1	2.4	3.1	4.7	4.3	0.6	-0.1	0.1	0.1	0.4
7 PRIVATE CONSUMPTION	2.6	3.4	3.0	2.1	2.8	6.1	3.7	-0.1	-0.7	0.0	0.2	0.5
- Households	2.5	3.4	3.0	2.2	2.8	6.0	3.9	-0.1	-0.6	0.0	0.2	0.5
- NPISH's	4.8	4.5	1.2	-7.5	4.8	12.9	-7.8	-2.6	-3.8	1.5	0.5	0.5
8 GOVERNMENT CONSUMPTION (individual and collective)	3.3	2.3	3.3	3.5	4.0	0.6	6.1	2.9	1.5	0.3	-0.5	0.1
9 GROSS CAPITAL FORMATION	3.0	10.2	10.2	0.1	12.5	19.2	3.7	-33.6	-0.1	-2.2	3.2	3.1
10 GROSS FIXED CAPITAL FORMATION	0.3	7.6	5.0	3.0	10.4	13.3	7.8	-23.3	-8.3	-7.5	6.0	5.0
11 CHANGES IN INVENTORIES AND VALUABLES <sup>1</sup>	0.7	0.7	1.4	-0.7	0.7	2.0	-1.0	-4.0	1.9	1.1	-0.5	-0.3

Source: SORS, forecasts by IMAD.

Note: <sup>1</sup> Contribution to real GDP growth (percentage points).

Table 7a: Main aggregates of national accounts

EUR million, current prices (fixed 2007 exchange rate)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
1 GROSS DOMESTIC PRODUCT	23,194.7	25,195.3	27,164.7	28,722.3	31,045.0	34,562.3	37,279.5	35,310.6	35,415.8	35,923.6	37,333.8	38,870.6
2 Net primary incomes with the rest of the world (a-b)	-128.6	-193.7	-313.1	-243.6	-367.7	-734.5	-1,047.7	-717.3	-522.1	-566.5	-811.5	-838.6
a) Primary incomes receivable from the ROW	450.1	482.0	563.3	765.4	1,032.5	1,333.5	1,373.9	733.8	704.8	932.0	1,107.6	1,119.3
b) Primary incomes payable to the ROW	578.7	675.7	876.3	1,009.0	1,400.3	2,068.0	2,421.6	1,451.2	1,226.9	1,498.5	1,919.0	1,957.9
3 GROSS NATIONAL INCOME (3=1+2)	23,066.2	25,001.5	26,851.6	28,478.7	30,677.3	33,827.9	36,231.9	34,593.3	34,893.7	35,357.1	36,522.4	38,032.0
4 Net current transfers with the rest of the world (c-d)	63.0	31.6	-43.4	-143.1	-215.3	-227.3	-360.8	-249.3	46.4	62.7	-62.0	7.2
c) Current transfers receivable from the ROW	471.4	465.5	546.7	630.9	672.2	818.4	561.7	711.3	960.9	1,270.0	1,225.1	1,295.4
d) Current transfers payable to the ROW	408.5	433.9	590.1	774.0	887.4	1,045.6	922.5	960.6	914.5	1,207.3	1,287.1	1,288.2
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	23,129.2	25,033.1	26,808.2	28,335.5	30,462.0	33,600.6	35,871.0	34,344.0	34,940.1	35,419.8	36,460.4	38,039.2
6 FINAL CONSUMPTION EXPENDITURE (e+f)	17,364.3	18,858.4	20,049.8	21,038.9	22,228.3	24,113.2	26,574.9	26,856.8	27,202.9	27,716.9	28,174.9	28,749.7
e) Private consumption	12,942.7	14,079.5	14,932.7	15,586.5	16,403.6	18,123.6	19,816.6	19,704.7	19,840.4	20,241.3	20,657.3	21,143.6
f) Government consumption	4,421.7	4,778.9	5,117.2	5,452.3	5,824.7	5,989.6	6,758.3	7,152.0	7,362.5	7,475.6	7,517.6	7,606.1
7 GROSS SAVING (7=5-6)	5,764.8	6,174.7	6,758.3	7,296.7	8,233.7	9,487.4	9,296.1	7,487.2	7,737.2	7,703.0	8,285.4	9,289.5
8 GROSS CAPITAL FORMATION	5,559.4	6,394.6	7,465.5	7,800.6	8,977.3	11,044.4	11,905.2	7,946.8	8,012.9	7,951.0	8,358.5	8,796.2
- Gross fixed capital formation	5,408.3	6,079.3	6,789.5	7,294.4	8,234.6	9,603.6	10,729.7	8,267.5	7,650.6	7,183.0	7,769.9	8,337.9
- Changes in inventories and valuables	151.1	315.3	676.0	506.3	742.7	1,440.8	1,175.5	-320.8	362.3	768.0	588.6	458.3
9 SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	205.5	-219.9	-707.1	-504.0	-743.6	-1,557.0	-2,609.1	-459.6	-275.7	-248.0	-73.1	493.3

Source: SORS, forecast by IMAD.

Table 7b: Main aggregates of national accounts

Structure in %, current prices

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
1 GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Net primary incomes with the rest of the world (a-b)	-0.6	-0.8	-1.2	-0.8	-1.2	-2.1	-2.8	-2.0	-1.5	-1.6	-2.2	-2.2
a) Primary incomes receivable from the ROW	1.9	1.9	2.1	2.7	3.3	3.9	3.7	2.1	2.0	2.6	3.0	2.9
b) Primary incomes payable to the ROW	2.5	2.7	3.2	3.5	4.5	6.0	6.5	4.1	3.5	4.2	5.1	5.0
3 GROSS NATIONAL INCOME (3=1+2)	99.4	99.2	98.8	99.2	98.8	97.9	97.2	98.0	98.5	98.4	97.8	97.8
4 Net current transfers with the rest of the world (c-d)	0.3	0.1	-0.2	-0.5	-0.7	-0.7	-1.0	-0.7	0.1	0.2	-0.2	0.0
c) Current transfers receivable from the ROW	2.0	1.8	2.0	2.2	2.2	2.4	1.5	2.0	2.7	3.5	3.3	3.3
d) Current transfers payable to the ROW	1.8	1.7	2.2	2.7	2.9	3.0	2.5	2.7	2.6	3.4	3.4	3.3
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	99.7	99.4	98.7	98.7	98.1	97.2	96.2	97.3	98.7	98.6	97.7	97.9
6 FINAL CONSUMPTION EXPENDITURE (e+f)	74.9	74.8	73.8	73.2	71.6	69.8	71.3	76.1	76.8	77.2	75.5	74.0
e) Private consumption	55.8	55.9	55.0	54.3	52.8	52.4	53.2	55.8	56.0	56.3	55.3	54.4
f) Government consumption	19.1	19.0	18.8	19.0	18.8	17.3	18.1	20.3	20.8	20.8	20.1	19.6
7 GROSS SAVING (7=5-6)	24.9	24.5	24.9	25.4	26.5	27.5	24.9	21.2	21.8	21.4	22.2	23.9
8 GROSS CAPITAL FORMATION	24.0	25.4	27.5	27.2	28.9	32.0	31.9	22.5	22.6	22.1	22.4	22.6
- Gross fixed capital formation	23.3	24.1	25.0	25.4	26.5	27.8	28.8	23.4	21.6	20.0	20.8	21.5
- Changes in inventories and valuables	0.7	1.3	2.5	1.8	2.4	4.2	3.2	-0.9	1.0	2.1	1.6	1.2
9 SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	0.9	-0.9	-2.6	-1.8	-2.4	-4.5	-7.0	-1.3	-0.8	-0.7	-0.2	1.3

Source: SORS, forecast by IMAD.

Table 8: Population and labour market

Numbers in thousands, indicators in %

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
											forecast	
<b>POPULATION 1.7. (thousands)</b>	1995.7	1996.8	1997.0	2001.1	2008.5	2019.4	2022.6	2042.3	2049.3	2041.0	2045.0	2048.6
Age structure (in perc.): 0-14 y. of age	15.2	14.8	14.5	14.2	14.0	13.9	13.9	14.0	14.1	13.9	13.9	13.9
15-64 years of age	70.2	70.4	70.4	70.3	70.2	70.1	69.7	69.5	69.3	69.4	69.1	68.7
65 years and more	14.6	14.9	15.2	15.5	15.7	16.0	16.3	16.5	16.6	16.7	17.0	17.3
<b>Yearly growth rate of population (in perc.)</b>												
Total	0.2	0.1	0.0	0.2	0.4	0.5	0.2	1.0	0.3	-0.4	0.2	0.2
15-64 years of age	0.3	0.3	0.0	0.1	0.3	0.3	-0.3	0.7	0.1	-0.3	-0.2	-0.4
65 years and more	2.5	1.7	2.0	2.2	2.2	2.3	2.1	2.0	0.7	0.6	1.7	2.2
<b>Components of demographic development</b>												
Life expectancy: - men	72.3	73.2	73.5	74.1	74.8	74.6	75.4	75.8	76.3	75.3	75.5	75.7
- women	79.9	80.7	81.1	81.3	81.9	81.8	82.3	82.3	82.7	82.4	82.5	82.7
Fertility rate	1.2	1.2	1.3	1.3	1.3	1.4	1.5	1.5	1.6	1.3	1.3	1.3
Net migration (per thousand)	0.9	1.7	1.0	3.2	3.1	7.1	9.2	5.6	-0.3	2.5	2.5	2.5
<b>LABOUR SUPPLY</b>												
Participation rate (15-64)	67.8	67.1	69.8	70.7	70.9	71.3	72.1	71.9	71.5	70.6	70.8	70.9
- 15-24 years of age	36.7	35.3	40.6	40.6	40.6	42.0	42.9	41.0	39.9	37.6	37.0	36.7
- 25-54 years of age	87.3	87.0	88.2	88.9	89.0	89.0	89.9	89.6	89.7	90.3	91.0	90.6
- 55-64 years of age	25.5	23.9	29.4	32.2	33.4	34.6	34.9	36.9	36.5	33.1	33.0	34.5
Participation rate (65 years and more)	7.4	6.5	8.6	6.8	6.8	8.2	7.7	6.2	7.5	7.6	7.4	7.5
Labour force (LFS concept)	971	962	1007	1016	1022	1036	1042	1042	1042	1026	1027	1024
Yearly changes (in perc.)	-0.8	-1.0	4.7	0.9	0.6	1.4	0.6	0.0	0.0	-1.5	0.1	-0.2
<b>LABOUR DEMAND</b>												
<b>Yearly changes (in perc.)</b>												
GDP	3.8	2.9	4.4	4.0	5.8	6.9	3.6	-8.0	1.4	1.5	2.0	2.5
Productivity	3.8	3.2	4.0	4.5	4.2	3.4	1.0	-6.3	4.0	3.0	2.0	2.5
Persons in employment (National accounts concept)	0.0	-0.3	0.4	-0.5	1.5	3.3	2.6	-1.8	-2.5	-1.5	0.0	0.0
Persons in employment (LFS concept)	-0.7	-1.4	5.1	0.6	1.3	2.5	1.1	-1.5	-1.5	-2.3	0.1	-0.2
Persons in formal employment (statistical register)	0.3	-0.9	0.8	0.7	1.4	3.5	3.0	-2.4	-2.7	-1.0	0.0	0.0
- Persons in paid employment	-0.1	0.1	0.3	1.0	1.4	3.3	3.1	-2.8	-2.6	-2.2	-0.2	-0.2
<b>Numbers (in thousand)</b>												
Persons in employment (National accounts concept)	934.2	931.4	935.1	930.8	945.2	976.7	1001.9	983.7	958.8	944.2	944.2	944.2
Persons in formal employment (statistical register)	808.7	801.4	807.5	813.1	824.8	854.0	879.3	858.2	835.0	827.0	826.9	826.6
- Persons in paid employment	721.4	722.1	724.4	731.6	741.6	766.0	789.9	767.4	747.2	731.0	729.9	728.6
- Selfemployed	87.3	79.2	83.1	81.5	83.3	87.9	89.4	90.8	87.8	96.0	97.0	98.0
Persons in employment (LFS concept)	910	897	943	949	961	985	996	981	966	944	944	942
- Employment rate (15-64 y.of age, in %)	63.4	62.6	65.3	66.0	66.6	67.8	68.8	67.5	66.2	64.8	65.0	65.0
<b>Economic structure of employment (LFS concept) in %</b>												
Agriculture	9.2	8.4	9.8	9.1	9.6	9.9	8.6	9.1	8.8	8.9	8.8	8.5
Industry and construction	38.6	37.5	36.5	37.1	35.5	35.2	35.3	33.2	32.6	31.2	30.9	30.7
Services	52.2	54.1	53.7	53.8	54.9	54.9	56.2	57.7	58.6	60.0	60.3	60.8
<b>UNEMPLOYMENT</b>												
- ILO concept	61.7	64.4	63.8	66.5	61.0	50.4	46.3	61.0	75.5	82.2	82.2	82.2
- Registered	102.8	97.7	92.8	91.9	85.8	71.3	63.2	86.4	100.5	110.9	110.6	110.2
Rate of unemployment (ILO concept)	6.4	6.7	6.3	6.5	6.0	4.9	4.4	5.9	7.2	8.0	8.0	8.0
Rate of registered unemployment	11.3	10.9	10.3	10.2	9.4	7.7	6.7	9.1	10.7	11.8	11.8	11.8

Source: SORS, ESS, forecasts by IMAD and Eurostat (Population projection Europop 2008).

Note: \* As in statistical register of persons in employment.



Table 9: Indicators of international competitiveness

Annual growth rates in %

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
										forecast	
<b>Effective exchange rate <sup>1</sup></b>											
Nominal	-3.6	-0.5	-1.3	-0.7	0.2	0.8	0.5	0.4	-1.7	0.0	-0.1
Real - based on consumer prices	1.7	3.3	0.1	-0.2	0.7	2.3	2.8	0.7	-1.4	-1.0	-0.2
Real - based on ULC in economy as a whole	0.3	2.4	1.5	-0.4	0.5	2.1	3.2	5.0	-1.1	-1.3	-0.9
<b>Unit labour costs components</b>											
Nominal unit labour costs	5.8	4.4	3.6	1.5	1.1	2.6	6.2	8.7	0.3	-0.5	0.3
Compensation of employees per employee	9.9	7.8	7.7	6.0	5.4	6.2	7.2	1.8	4.3	2.5	2.4
Labour productivity, real <sup>2</sup>	3.9	3.2	4.0	4.5	4.2	3.4	1.0	-6.3	4.0	3.0	2.0
Real unit labour costs	-1.7	-1.0	0.3	-0.2	-1.0	-1.5	2.0	5.6	1.4	-0.5	-1.5
Labour productivity, nominal <sup>3</sup>	11.8	9.0	7.4	6.2	6.4	7.7	5.1	-3.5	2.9	3.0	3.9

Sources: SORS national accounts statistics, BS, ECB, OECD, Consensus Forecasts Aug 2011, calculations and forecasts by IMAD.

Notes: <sup>1</sup>Weighted geometric currency average of 17 trading partners. Weights are shares of trading partners in Slovenia's exports (double-weighted) and imports of goods in manufacturing in 2001-2003 (on average). A rise in the value indicates appreciation of national currency and vice versa; <sup>2</sup>GDP per employee (in constant prices); <sup>3</sup>GDP per employee (in current prices).

Table 10: Balance of payments - balance of payments statistics

EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										forecast		
I. CURRENT ACCOUNT	247	-196	-720	-498	-771	-1,646	-2,574	-456	-297	-351	-181	378
1. GOODS	-265	-543	-1,009	-1,026	-1,151	-1,666	-2,648	-703	-1,205	-1,331	-839	-415
1.1. Exports of goods	11,082	11,417	12,933	14,599	17,028	19,798	20,032	16,167	18,386	20,805	22,685	24,793
1.2. Imports of goods	11,347	11,960	13,942	15,625	18,179	21,464	22,680	16,870	19,591	22,136	23,525	25,208
2. SERVICES	620	540	688	920	993	1,047	1,424	1,165	1,308	1,484	1,531	1,624
2.1. Exports	2,440	2,465	2,783	3,214	3,572	4,145	4,957	4,347	4,633	4,984	5,273	5,646
Transport	635	680	809	923	1,058	1,259	1,436	1,085	1,206	1,351	1,438	1,526
Travel	1,143	1,186	1,312	1,451	1,555	1,665	1,827	1,804	1,935	2,069	2,188	2,366
Other	662	599	662	840	959	1,221	1,694	1,458	1,492	1,564	1,648	1,754
2.2. Imports	1,820	1,925	2,095	2,293	2,580	3,098	3,533	3,182	3,325	3,500	3,742	4,022
Transport	385	420	485	525	601	734	875	648	710	742	774	813
Travel	635	664	703	707	772	831	922	913	923	848	890	940
Other	800	841	906	1,061	1,206	1,533	1,736	1,621	1,692	1,910	2,077	2,269
1, 2. EXTERNAL BALANCE OF GOODS AND SERVICES	355	-3	-322	-106	-158	-619	-1,224	463	103	153	692	1,209
Exports of goods and services	13,521	13,882	15,715	17,813	20,601	23,944	24,989	20,514	23,019	25,789	27,959	30,439
Imports of goods and services	13,166	13,885	16,037	17,918	20,759	24,562	26,213	20,052	22,916	25,636	27,266	29,230
3. INCOME	-168	-219	-322	-295	-440	-789	-1,062	-766	-507	-566	-811	-839
3.1. Receipts	490	510	530	647	872	1,169	1,262	666	682	932	1,108	1,119
Compensation of employees	207	192	201	205	218	229	238	198	233	235	240	240
Investment	282	318	329	442	654	940	1,024	468	449	697	868	879
3.2. Expenditures	657	728	852	942	1,312	1,957	2,324	1,432	1,188	1,499	1,919	1,958
Compensation of employees	47	57	63	77	110	179	263	128	94	100	120	140
Investment	610	671	789	866	1,202	1,778	2,062	1,303	1,094	1,399	1,799	1,818
4. CURRENT TRANSFERS	60	26	-76	-97	-173	-239	-287	-152	106	63	-62	7
4.1. In Slovenia	500	474	561	738	785	941	887	966	1,218	1,270	1,225	1,295
4.2. Abroad	439	449	638	835	958	1,180	1,174	1,118	1,112	1,207	1,287	1,288
II. CAPITAL AND FINANCIAL ACCOUNT	3	46	698	970	1,092	1,920	2,605	154	319			
A CAPITAL ACCOUNT	-164	-165	-96	-114	-131	-52	-25	-9	8			
1. Capital transfers	-163	-164	-96	-109	-126	-51	-26	-4	16			
2. Non-produced non-financial assets	-1	-2	0	-5	-5	-1	1	-5	-8			
B FINANCIAL ACCOUNT	167	211	794	1,084	1,223	1,972	2,631	164	311			
1. Direct investment	1,556	-151	224	-43	-174	-210	346	-644	334			
Abroad	-166	-421	-441	-516	-687	-1,317	-983	-174	60			
In Slovenia	1,722	270	665	473	513	1,106	1,329	-470	274			
2. Portfolio investment	-69	-223	-637	-1,313	-1,442	-2,255	572	4,628	1,947			
3. Financial derivatives	0	0	6	-10	-13	-15	46	-2	-117			
4. Other investment	565	849	945	2,639	1,571	4,313	1,645	-3,985	-1,872			
4.1. Assets	-538	-730	-1,308	-1,459	-1,939	-4,741	-333	-277	683			
4.2. Liabilities	1,104	1,579	2,252	4,098	3,510	9,054	1,978	-3,708	-2,555			
5. Reserve assets	-1,885	-264	256	-189	1,281	140	21	167	19			
III. NET ERRORS AND OMISSIONS	-250	150	22	-473	-321	-273	-31	302	-21			

Source: BS, forecasts by IMAD.

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

EUR million, current prices (fixed 2007 exchange rate)

CONSOLIDATED GENERAL GOVERNMENT REVENUES	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>I. TOTAL GENERAL GOVERNMENT REVENUES</b>	<b>9,082</b>	<b>10,338</b>	<b>11,196</b>	<b>11,976</b>	<b>12,959</b>	<b>14,006</b>	<b>15,339</b>	<b>14,408</b>	<b>14,794</b>
<b>TAX REVENUES</b>	<b>8,355</b>	<b>9,560</b>	<b>10,211</b>	<b>10,884</b>	<b>11,762</b>	<b>12,758</b>	<b>13,937</b>	<b>12,955</b>	<b>12,848</b>
TAXES ON INCOME AND PROFIT	1,648	1,922	2,115	2,242	2,735	2,918	3,442	2,805	2,491
Personal income tax	1,335	1,474	1,596	1,648	1,793	1,805	2,185	2,092	2,039
Corporate income tax	314	448	519	594	942	1,113	1,257	712	449
SOCIAL SECURITY CONTRIBUTIONS	3,231	3,502	3,753	3,988	4,231	4,598	5,095	5,161	5,234
TAXSES ON PAYROLL AND WORKFORCE	392	448	491	526	473	418	258	28	28
Payroll tax	371	430	472	506	450	392	230	0	0
Tax on work contracts	20	19	19	20	23	27	28	28	28
TAXES ON PROPERTY	144	144	165	170	189	206	215	207	220
DOMESTIC TAXES ON GOODS AND SERVICES	2,807	3,399	3,575	3,915	4,077	4,498	4,805	4,660	4,781
TAXES ON INTERN. TRADE AND TRANSACTIONS	131	145	81	39	51	117	120	91	91
OTHER TAXES	2	1	31	4	5	2	2	3	4
<b>NON-TAX REVENUES</b>	<b>559</b>	<b>623</b>	<b>677</b>	<b>633</b>	<b>633</b>	<b>709</b>	<b>855</b>	<b>684</b>	<b>923</b>
CAPITAL REVENUES	63	66	87	113	167	136	118	107	176
GRANTS	59	56	8	9	5	12	10	11	13
TRANSFERS REVENUES	46	33	31	34	43	43	54	54	110
RECEIPTS FROM THE EU BUDGET	0	0	183	302	348	348	365	597	723

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

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

Per cent share relative to GDP

CONSOLIDATED GENERAL GOVERNMENT REVENUES	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>I. TOTAL GENERAL GOVERNMENT REVENUES</b>	<b>39.2</b>	<b>41.0</b>	<b>41.2</b>	<b>41.7</b>	<b>41.7</b>	<b>40.5</b>	<b>41.1</b>	<b>40.8</b>	<b>41.8</b>
<b>TAX REVENUES</b>	<b>36.0</b>	<b>37.9</b>	<b>37.6</b>	<b>37.9</b>	<b>37.9</b>	<b>36.9</b>	<b>37.4</b>	<b>36.7</b>	<b>36.3</b>
TAXES ON INCOME AND PROFIT	7.1	7.6	7.8	7.8	8.8	8.4	9.2	7.9	7.0
Personal income tax	5.8	5.8	5.9	5.7	5.8	5.2	5.9	5.9	5.8
Corporate income tax	1.4	1.8	1.9	2.1	3.0	3.2	3.4	2.0	1.3
SOCIAL SECURITY CONTRIBUTIONS	13.9	13.9	13.8	13.9	13.6	13.3	13.7	14.6	14.8
TAXSES ON PAYROLL AND WORKFORCE	1.7	1.8	1.8	1.8	1.5	1.2	0.7	0.1	0.1
Payroll tax	1.6	1.7	1.7	1.8	1.4	1.1	0.6	0.0	0.0
Tax on work contracts	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TAXES ON PROPERTY	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DOMESTIC TAXES ON GOODS AND SERVICES	12.1	13.5	13.2	13.6	13.1	13.0	12.9	13.2	13.5
TAXES ON INTERN. TRADE AND TRANSACTIONS	0.6	0.6	0.3	0.1	0.2	0.3	0.3	0.3	0.3
OTHER TAXES	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>NON-TAX REVENUES</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.2</b>	<b>2.0</b>	<b>2.1</b>	<b>2.3</b>	<b>1.9</b>	<b>2.6</b>
CAPITAL REVENUES	0.3	0.3	0.3	0.4	0.5	0.4	0.3	0.3	0.5
GRANTS	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TRANSFERS REVENUES	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3
RECEIPTS FROM THE EU BUDGET	0.0	0.0	0.7	1.1	1.1	1.0	1.0	1.7	2.0

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

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

EUR million, current prices (fixed exchange rate)

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>II. TOTAL EXPENDITURE</b>	<b>9,733</b>	<b>10,666</b>	<b>11,552</b>	<b>12,276</b>	<b>13,209</b>	<b>13,915</b>	<b>15,442</b>	<b>16,368</b>	<b>16,693</b>
<b>CURRENT EXPENDITURE</b>	<b>4,668</b>	<b>5,114</b>	<b>5,150</b>	<b>5,354</b>	<b>5,689</b>	<b>5,951</b>	<b>6,557</b>	<b>6,800</b>	<b>6,960</b>
WAGES AND OTHER PERSONNEL EXPENDITURE	2,149	2,342	2,456	2,521	2,671	2,761	3,037	3,363	3,359
SOCIAL SECURITY CONTRIBUTIONS	386	424	466	495	509	515	542	549	553
PURCHASES OF GOODS AND SERVICES	1,743	1,884	1,794	1,911	2,073	2,212	2,527	2,510	2,512
INTEREST PAYMENTS	349	387	384	372	376	357	335	336	488
BUDGETARY RESERVES	41	78	50	55	59	105	116	42	47
<b>CURRENT TRANSFERS</b>	<b>4,202</b>	<b>4,579</b>	<b>5,216</b>	<b>5,599</b>	<b>5,926</b>	<b>6,144</b>	<b>6,743</b>	<b>7,340</b>	<b>7,629</b>
SUBSIDIES	252	290	324	381	403	423	477	598	582
TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	3,799	4,115	4,396	4,629	4,871	5,093	5,619	6,024	6,278
OTHER CURRENT DOMESTIC TRANSFERS	151	174	496	589	651	628	647	718	769
<b>CAPITAL EXPENDITURE TOTAL</b>	<b>863</b>	<b>972</b>	<b>1,017</b>	<b>1,038</b>	<b>1,306</b>	<b>1,464</b>	<b>1,714</b>	<b>1,789</b>	<b>1,707</b>
CAPITAL EXPENDITURE	537	593	631	654	901	1,130	1,256	1,294	1,311
CAPITAL TRANSFERS	326	379	386	383	405	334	459	495	396
<b>PAYMENTS TO THE EU BUDGET</b>	<b>0</b>	<b>0</b>	<b>170</b>	<b>286</b>	<b>288</b>	<b>356</b>	<b>428</b>	<b>439</b>	<b>397</b>
<b>III. GENERAL GOVERNMENT BUDGETARY SURPLUS / DEFICIT (I. - II.)</b>	<b>-651</b>	<b>-327</b>	<b>-356</b>	<b>-300</b>	<b>-250</b>	<b>91</b>	<b>-103</b>	<b>-1,961</b>	<b>-1,899</b>

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

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

Per cent share relative to GDP

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>II. TOTAL EXPENDITURE</b>	<b>42.0</b>	<b>42.3</b>	<b>42.5</b>	<b>42.7</b>	<b>42.5</b>	<b>40.3</b>	<b>41.4</b>	<b>46.4</b>	<b>47.1</b>
<b>CURRENT EXPENDITURE</b>	<b>20.1</b>	<b>20.3</b>	<b>19.0</b>	<b>18.6</b>	<b>18.3</b>	<b>17.2</b>	<b>17.6</b>	<b>19.3</b>	<b>19.7</b>
WAGES AND OTHER PERSONNEL EXPENDITURE	9.3	9.3	9.0	8.8	8.6	8.0	8.1	9.5	9.5
SOCIAL SECURITY CONTRIBUTIONS	1.7	1.7	1.7	1.7	1.6	1.5	1.5	1.6	1.6
PURCHASES OF GOODS AND SERVICES	7.5	7.5	6.6	6.7	6.7	6.4	6.8	7.1	7.1
INTEREST PAYMENTS	1.5	1.5	1.4	1.3	1.2	1.0	0.9	1.0	1.4
BUDGETARY RESERVES	0.2	0.3	0.2	0.2	0.2	0.3	0.3	0.1	0.1
<b>CURRENT TRANSFERS</b>	<b>18.1</b>	<b>18.2</b>	<b>19.2</b>	<b>19.5</b>	<b>19.1</b>	<b>17.8</b>	<b>18.1</b>	<b>20.8</b>	<b>21.5</b>
SUBSIDIES	1.1	1.2	1.2	1.3	1.3	1.2	1.3	1.7	1.6
TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	16.4	16.3	16.2	16.1	15.7	14.7	15.1	17.1	17.7
OTHER CURRENT DOMESTIC TRANSFERS	0.7	0.7	1.8	2.0	2.1	1.8	1.7	2.0	2.2
<b>CAPITAL EXPENDITURE TOTAL</b>	<b>3.7</b>	<b>3.9</b>	<b>3.7</b>	<b>3.6</b>	<b>4.2</b>	<b>4.2</b>	<b>4.6</b>	<b>5.1</b>	<b>4.8</b>
CAPITAL EXPENDITURE	2.3	2.4	2.3	2.3	2.9	3.3	3.4	3.7	3.7
CAPITAL TRANSFERS	1.4	1.5	1.4	1.3	1.3	1.0	1.2	1.4	1.1
<b>PAYMENTS TO THE EU BUDGET</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.2</b>	<b>1.1</b>
<b>III. GENERAL GOVERNMENT BUDGETARY SURPLUS / DEFICIT (I. - II.)</b>	<b>-2.8</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.0</b>	<b>-0.8</b>	<b>0.3</b>	<b>-0.3</b>	<b>-5.6</b>	<b>-5.4</b>

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

Table 13: Comparison of the performance assessment of forecasts for economic growth and inflation of individual institutions\*

		Gross domestic product, real				Inflation, year average			
		PNt+1	JNt+1	PNt	JNt	PNt+1	JNt+1	PNt	JNt
<b>ME ... Mean Error</b>									
<b>IMAD</b>	2002 - 2008	-0.03	-0.17	-0.24	0.03	-0.76	-0.36	-0.47	0.11
	2002 - 2009	1.46	1.21	0.26	0.09	-0.38	0.06	-0.48	0.11
	2002 - 2010	1.28	1.04	0.17	0.04	-0.36	0.02	-0.48	0.13
	1997 - 2008	0.01	-0.19	-0.10	0.09	-0.97	-0.45	-0.28	0.14
	1997 - 2009	1.00	0.73	0.20	-0.04	-0.70	-0.17	-0.29	0.14
	1997 - 2010	0.91	0.65	0.14	-0.06	-0.66	-0.18	-0.31	0.15
<b>BS</b>	2002 - 2008	-0.11	-0.43	-0.39	-0.10	-0.88	-0.81	-0.46	-0.03
	2002 - 2009	1.36	1.04	0.39	0.05	-0.39	-0.39	-0.46	0.00
	2002 - 2010	1.29	0.97	0.36	0.03	-0.34	-0.38	-0.43	-0.06
<b>SKEP</b>	2002 - 2008	-0.14	-0.24	-0.33	0.04	-0.63	-0.43	-0.24	0.06
	2002 - 2009	1.38	1.19	0.38	0.14	-0.23	-0.04	-0.20	0.04
	2002 - 2010	1.27	1.00	0.28	0.08	-0.20	-0.09	-0.18	0.04
	1997 - 2008	-0.18	-0.14	-0.26	0.10	-0.99	-0.71	-0.32	0.09
	1997 - 2009	0.83	0.80	0.17	0.15	-0.69	-0.43	-0.28	0.08
1997 - 2010	0.80	0.70	0.12	0.11	-0.64	-0.43	-0.26	0.08	
<b>EC</b>	2002 - 2008	-0.23	-0.34	-0.37	-0.16	-0.36	-0.10	-0.13	0.17
	2002 - 2009	1.25	1.04	0.23	-0.09	-0.01	0.26	-0.14	0.15
	2002 - 2010	1.06	0.93	0.19	-0.09	0.01	0.22	-0.12	0.17
<b>IMF</b>	2002 - 2008	-0.19	-0.39	-0.42	-0.34	-0.66	-0.63	-0.58	0.07
	2002 - 2009	1.25	1.10	0.27	0.09	-0.39	-0.25	-0.56	0.01
	2002 - 2010	1.13	0.91	0.23	0.03	-0.38	-0.26	-0.53	-0.02
<b>WIIW</b>	2002 - 2008	-0.73	-0.29	-0.23	-0.43	-1.53	-0.90	-0.44	-0.01
	2002 - 2009	0.90	1.26	0.78	0.10	-1.01	-0.28	-0.19	0.06
	2002 - 2010	0.89	1.10	0.67	0.01	-0.82	-0.22	-0.20	0.02
<b>MAE ... Mean Absolute Error</b>									
<b>IMAD</b>	2002 - 2008	1.14	1.00	0.76	0.43	1.10	0.87	0.47	0.17
	2002 - 2009	2.49	2.24	1.14	0.44	1.25	1.14	0.48	0.16
	2002 - 2010	2.23	2.02	1.08	0.42	1.13	1.04	0.48	0.18
	1997 - 2008	1.08	0.90	0.71	0.49	1.34	0.93	0.51	0.19
	1997 - 2009	1.98	1.73	0.95	0.49	1.42	1.10	0.51	0.18
	1997 - 2010	1.84	1.62	0.93	0.48	1.32	1.04	0.51	0.19
<b>BS</b>	2002 - 2008	1.06	1.03	0.79	0.50	1.05	0.81	0.46	0.26
	2002 - 2009	2.39	2.31	1.41	0.58	1.27	1.04	0.46	0.25
	2002 - 2010	2.20	2.10	1.27	0.52	1.11	0.96	0.43	0.28
<b>SKEP</b>	2000 - 2008	1.03	0.93	0.79	0.59	1.20	0.91	0.41	0.09
	2002 - 2009	2.40	2.21	1.35	0.61	1.38	1.14	0.38	0.09
	2002 - 2010	2.18	2.02	1.26	0.59	1.22	1.07	0.33	0.09
	1997 - 2008	0.95	1.00	0.76	0.68	1.61	1.11	0.62	0.19
	1997 - 2009	1.87	1.85	1.11	0.69	1.69	1.24	0.58	0.18
1997 - 2010	1.75	1.74	1.06	0.67	1.56	1.18	0.54	0.18	
<b>EC</b>	2002 - 2008	1.03	1.06	0.89	0.41	1.44	1.07	0.27	0.20
	2002 - 2009	2.35	2.26	1.33	0.41	1.56	1.29	0.26	0.18
	2002 - 2010	2.14	2.02	1.19	0.38	1.41	1.16	0.23	0.19
<b>IMF</b>	2002 - 2008	0.99	1.01	0.88	0.57	1.31	1.23	0.64	0.19
	2002 - 2009	2.28	2.33	1.41	0.89	1.34	1.38	0.61	0.21
	2002 - 2010	2.04	2.13	1.26	0.83	1.22	1.26	0.57	0.22
<b>WIIW</b>	2002 - 2008	1.47	1.14	0.94	0.71	2.13	1.19	0.81	0.30
	2002 - 2009	2.83	2.51	1.80	1.10	2.19	1.55	0.91	0.34
	2002 - 2010	2.60	2.26	1.62	1.06	2.02	1.40	0.84	0.33

Table 13: Comparison of the performance assessment of forecasts for economic growth and inflation of individual institutions - continue

		Gross domestic product, real				Inflation, year average			
		PNt+1	JNt+1	PNt	JNt	PNt+1	JNt+1	PNt	JNt
<b>RMSE ... Root Mean Square Error</b>									
<b>IMAD</b>	2002 - 2008	1.31	1.14	0.88	0.60	1.45	1.12	0.64	0.23
	2002 - 2009	4.38	4.00	1.58	0.58	1.58	1.49	0.62	0.22
	2002 - 2010	4.13	3.77	1.50	0.56	1.49	1.41	0.61	0.23
	1997 - 2008	1.21	1.03	0.89	0.63	1.78	1.24	0.67	0.28
	1997 - 2009	3.36	3.30	1.35	0.62	1.83	1.47	0.66	0.27
	1997 - 2010	3.48	3.17	1.32	0.60	1.76	1.42	0.65	0.27
<b>BS</b>	2002 - 2008	1.19	1.19	0.96	0.59	1.47	1.18	0.53	0.32
	2002 - 2009	4.28	4.15	2.24	0.67	1.68	1.44	0.53	0.31
	2002 - 2010	4.05	3.91	2.11	0.64	1.57	1.36	0.50	0.33
<b>SKEP</b>	2002 - 2008	1.17	1.08	0.94	0.70	1.53	1.14	0.53	0.11
	2002 - 2009	4.38	4.09	2.07	0.71	1.70	1.43	0.49	0.11
	2002 - 2010	4.13	3.86	1.96	0.68	1.60	1.36	0.46	0.11
	1997 - 2008	1.08	1.19	0.92	0.86	1.98	1.46	0.74	0.31
	1997 - 2009	3.61	3.43	1.71	0.86	2.04	1.60	0.71	0.30
1997 - 2010	3.47	3.30	1.66	0.83	1.96	1.54	0.68	0.29	
<b>EC</b>	2002 - 2008	1.19	1.21	1.05	0.50	1.71	1.22	0.43	0.26
	2002 - 2009	4.25	3.95	1.84	0.49	1.81	1.51	0.40	0.24
	2002 - 2010	4.01	3.72	1.74	0.46	1.71	1.42	0.38	0.25
<b>IMF</b>	2002 - 2008	1.14	1.19	0.99	0.67	1.58	1.57	0.89	0.22
	2002 - 2009	4.14	4.22	2.03	1.26	1.57	1.69	0.85	0.25
	2002 - 2010	3.90	3.98	1.91	1.20	1.48	1.60	0.81	0.26
<b>WIIW</b>	2002 - 2008	1.73	1.31	1.08	0.79	3.20	1.58	1.00	0.43
	2002 - 2009	4.64	4.45	2.94	1.53	3.13	2.07	1.10	0.46
	2002 - 2010	4.38	4.20	2.77	1.46	2.96	1.95	1.04	0.44
<b>stdMAE ... Standardised Mean Absolute Error</b>									
<b>IMAD</b>	2002 - 2008	0.89	0.78	0.59	0.33	0.58	0.46	0.25	0.09
	2002 - 2009	0.57	0.51	0.26	0.10	0.58	0.53	0.22	0.08
	2002 - 2010	0.54	0.49	0.26	0.10	0.53	0.49	0.22	0.08
	1997 - 2008	1.03	0.86	0.68	0.46	0.55	0.38	0.21	0.08
	1997 - 2009	0.57	0.50	0.28	0.14	0.52	0.40	0.19	0.07
	1997 - 2010	0.55	0.48	0.28	0.14	0.47	0.37	0.18	0.07
<b>BS</b>	2002 - 2008	0.82	0.80	0.61	0.39	0.56	0.43	0.24	0.14
	2002 - 2009	0.55	0.53	0.32	0.13	0.59	0.48	0.22	0.12
	2002 - 2010	0.53	0.51	0.31	0.13	0.52	0.45	0.20	0.13
<b>SKEP</b>	2002 - 2008	0.80	0.72	0.61	0.46	0.64	0.49	0.22	0.05
	2002 - 2009	0.55	0.51	0.31	0.14	0.64	0.53	0.18	0.04
	2002 - 2010	0.53	0.49	0.30	0.14	0.57	0.50	0.16	0.04
	1997 - 2008	0.90	0.95	0.72	0.65	0.66	0.45	0.25	0.08
	1997 - 2009	0.54	0.54	0.32	0.20	0.62	0.45	0.21	0.07
1997 - 2010	0.52	0.52	0.32	0.20	0.56	0.42	0.19	0.06	
<b>EC</b>	2002 - 2008	0.80	0.82	0.69	0.32	0.77	0.57	0.14	0.11
	2002 - 2009	0.54	0.52	0.30	0.09	0.73	0.60	0.12	0.08
	2002 - 2010	0.52	0.49	0.29	0.09	0.66	0.54	0.11	0.09
<b>IMF</b>	2002 - 2008	0.77	0.79	0.68	0.44	0.70	0.65	0.34	0.10
	2002 - 2009	0.52	0.53	0.32	0.20	0.62	0.64	0.28	0.10
	2002 - 2010	0.50	0.52	0.31	0.20	0.57	0.59	0.27	0.10
<b>WIIW</b>	2002 - 2008	1.15	0.89	0.73	0.56	1.13	0.63	0.43	0.16
	2002 - 2009	0.65	0.57	0.41	0.25	1.02	0.72	0.43	0.16
	2002 - 2010	0.63	0.55	0.39	0.26	0.95	0.66	0.40	0.16

Table 13: Comparison of the performance assessment of forecasts for economic growth and inflation of individual institutions - continue

	Gross domestic product, real				Inflation, year average				
	PNT+1	JNT+1	PNT	JNT	PNT+1	JNT+1	PNT	JNT	
<b>stdRMSE ... Standardised Root Mean Square Error</b>									
<b>IMAD</b>	2002 - 2008	1.02	0.88	0.69	0.46	0.77	0.60	0.34	0.12
	2002 - 2009	1.00	0.91	0.36	0.13	0.74	0.70	0.29	0.10
	2002 - 2010	1.00	0.91	0.36	0.14	0.70	0.66	0.29	0.11
	1997 - 2008	1.15	0.98	0.84	0.60	0.73	0.51	0.27	0.11
	1997 - 2009	1.05	0.96	0.39	0.18	0.67	0.54	0.24	0.10
	1997 - 2010	1.04	0.95	0.39	0.18	0.47	0.37	0.18	0.07
<b>BS</b>	2002 - 2008	0.93	0.92	0.75	0.46	0.78	0.63	0.28	0.17
	2002 - 2009	0.98	0.95	0.51	0.15	0.79	0.67	0.25	0.14
	2002 - 2010	0.98	0.95	0.51	0.15	0.74	0.64	0.23	0.16
<b>SKEP</b>	2002 - 2008	0.91	0.84	0.74	0.54	0.81	0.61	0.28	0.06
	2002 - 2009	1.00	0.93	0.47	0.16	0.79	0.67	0.23	0.05
	2002 - 2010	1.00	0.94	0.48	0.17	0.75	0.64	0.22	0.05
	1997 - 2008	1.03	1.14	0.87	0.82	0.81	0.60	0.30	0.13
	1997 - 2009	1.05	1.00	0.50	0.25	0.75	0.59	0.26	0.11
	1997 - 2010	1.04	0.98	0.49	0.25	0.70	0.55	0.24	0.10
<b>EC</b>	2002 - 2008	0.92	0.94	0.82	0.39	0.91	0.65	0.23	0.14
	2002 - 2009	0.97	0.90	0.42	0.11	0.84	0.70	0.19	0.11
	2002 - 2010	0.97	0.90	0.42	0.11	0.80	0.67	0.18	0.12
<b>IMF</b>	2002 - 2008	0.89	0.93	0.77	0.52	0.84	0.83	0.48	0.12
	2002 - 2009	0.94	0.96	0.46	0.29	0.73	0.79	0.40	0.12
	2002 - 2009	0.95	0.97	0.46	0.29	0.70	0.75	0.38	0.12
<b>WIIW</b>	2002 - 2008	1.35	1.02	0.84	0.62	1.70	0.84	0.53	0.23
	2002 - 2009	1.06	1.02	0.67	0.35	1.46	0.97	0.51	0.21
	2002 - 2010	1.06	1.02	0.67	0.36	1.39	0.92	0.49	0.21

Signs: \*This is the assessment of forecast accuracy that was based on data available at the time of the preparation of the Spring Forecast of Economic Trends 2011. Negative values indicate an overestimation, while positive values indicate an underestimation.

The BS and WIIW data for inflation forecast PNT+1 cover the period since 2003; the WIIW data for GDP PNT+1 cover the period since 2003.

PNT+1 - Spring Forecast for the year ahead  
 JNT+1 - Autumn Forecast for the year ahead  
 PNT - Spring Forecast for the current year  
 JNT - Autumn Forecast for the current year

Source of data:

Spring Forecast of economic trends, Autumn Forecast of economic trends (March, September) 1997-2010, Ljubljana, Institute of Macroeconomic Analysis and Development (IMAD).  
 Price Stability Report (April, October) 2002-2010, Ljubljana, Bank of Slovenia (BS).

Current Economic Trends and Indicators, (May, November) 1997-2010, Ljubljana, (SKEP) - Economic Outlook, Analysis and Forecasts of the Chamber of Commerce and Industry of Slovenia.

Spring Economic Forecast, Autumn Economic Forecast (May, November) 2002-2010, European Commission (EC).

World Economic Outlook (April, October) 2002-2010, Washington, International Monetary Fund (IMF).

Current Analyses and Forecasts (February, June) 2002-2010, WIIW.

## Acronyms

### Acronyms in the text

**AJPES** – Agency of the Republic of Slovenia for Public Legal Records and Related Services, **GDP** – Gross Domestic Product, **BS** – Bank of Slovenia, **CPI** – Consumer Price Index, **ECB** – European Central Bank, **EFSF** – European Financial Stability Facility, **IEA** – International Energy Agency, **EC** – European Commission, **EMU** – European Monetary Union, **ESA** – European System of Accounts, **EU** – European Union, **IMF** – International Monetary Fund, **MF** – Ministry of Finance, **MPA** – Ministry of Public Administration, **MI** – Ministry of the Interior, **MZ** – Ministry of Health, **NFI** – Non-monetary Financial Institutions, **NPISH** – Non-profit institutions serving households, **PMI** – Purchasing Managers Index, **RS** – Republic of Slovenia, **RULC** – Real Unit Labour Costs, **SCA** – Standard Classification of Activities, **SITC** – Standard International Trade Classification, **SRE** – Statistical Register of Employment, **SORS** – Statistical office of the Republic of Slovenia, **PPA** – Public Payments Administration of the Republic of Slovenia, **ULC** – Unit Labour Costs, **IMAD** – Institute of Macroeconomic Analysis and Development, **WIIW** – The Vienna Institute for International Economic Studies, **ESS** – Employment Service of Slovenia, **ZZZS** – Health Insurance Institute of Slovenia.

### Acronyms of Standard Classification of Activities (SCA)

**A**-Agriculture, forestry and fishing, **B**-Mining and quarrying, **C**-Manufacturing, **10**-Manufacture of food products, **11**-Manufacture of beverages, **12**-Manufacture of tobacco products, **13**-Manufacture of textiles, **14**-Manufacture of wearing apparel, **15**-Manufacture of leather and related products, **16**- Manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials, **17**-Manufacture of paper and paper products, **18**-Printing and reproduction of recorded media, **19**- Manufacture of coke and refined petroleum products, **20**-Manufacture of chemicals and chemical products, **21**-Manufacture of basic pharmaceutical products and pharmaceutical preparations, **22**-Manufacture of rubber and plastic products, **23**- Manufacture of other non-metallic mineral products, **24**-Manufacture of basic metals, **25**-Manufacture of fabricated metal products, except machinery and equipment, **26**-Manufacture of computer, electronic and optical products, **27**-Manufacture of electrical equipment, **28**-Manufacture of machinery and equipment n.e.c., **29**-Manufacture of motorvehicles, trailers and semi-trailers, **30**-Manufacture of other transport equipment, **31**-Manufacture of furniture, **32**-Other manufacturing, **33**-Repair and installation of machinery and equipment, **D**-Electricity, gas, steam and air conditioning supply, **E**-Water supply sewerage, waste management and remediation activities, **F**-Construction, **G**-Wholesale and retail trade, repair of motor vehicles and motorcycles, **H**-Transportation and storage, **I**-Accommodation and food service activities, **J**- Information and communication, **K**- Financial and insurance activities, **L**-Real estate activities, **M**-Professional, scientific and technical activities, **N**-Administrative and support service activities, **O**-Public administration and defence, compulsory social security, **P**-Education, **Q**-Human health and social work activities, **R**-Arts, entertainment and recreation, **S**-Other service activities, **T**-Activities of households as employers, undifferentiated goods - and services - producing activities of households for own use, **U**-Activities of extraterritorial organizations and bodies.

### Acronyms of Countries

**AT**-Austria, **BA**-Bosnia and Herzegovina, **BE**-Belgium, **BG**-Bulgaria, **BY**-Belarus, **CH**-Switzerland, **HR**-Croatia, **CZ**-Czech Republic, **CY**-Cyprus, **DE**-Germany, **DK**-Denmark, **ES**-Spain, **EE**-Estonia, **GR**-Greece, **FR**-France, **FI**-Finland, **HU**-Hungary, **IT**-Italy, **IL**-Israel, **IE**-Ireland, **JP**-Japan, **LU**-Luxembourg, **LT**-Lithuania, **LV**-Latvia, **MT**-Malta, **NL**-Netherlands, **NO**-Norway, **PL**-Poland, **PT**-Portugal, **RO**-Romania, **RS**-Republic of Serbia, **RU**-Russia, **SE**-Sweden, **SI**-Slovenia, **SK**-Slovakia, **TR**-Turkey, **UA**-Ukraine, **UK**-United Kingdom, **US**-United States of America.



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