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SLOVENIA: ECONOMIC DEVELOPMENTS IN 2001
AND PROJECTIONS FOR 2002

2001 AUTUMN REPORT

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SLOVENIA: Economic Developments
in 2001 and Projections for 2002
2001 AUTUMN REPORT

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ECONOMIC DEVELOPMENTS IN 2001 AND PROJECTIONS FOR 2002

(AUTUMN REPORT 2001)

Institute of
Macroeconomic Analysis
and Development

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The Report is based on data available up to and including October 26, 2001.

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1. FOREWORD

The paramount difference between the Autumn and Spring Reports is the lower economic growth forecasts for 2001 and 2002 found in the former. In 2001, the reasons for downward corrections have been primarily internal. Despite the worsened global economic conditions, export growth was sustained mainly due to high levels of exports to Croatia and Russia, but growth is nevertheless slowing down as projected in spring. Forecasts of a gradual pick-up in private consumption in 2001 are being met. However, the figures showing a substantial real fall in domestic investment activity in the first two quarters came as a surprise. According to the available data, infrastructural investment recorded its biggest falls due to the curbing of funding, whereas private sector investment still saw a rise in the first six months. Figures showing stronger borrowing and the dynamics typical of public investment funding in Slovenia nevertheless suggest that investment is likely to increase slightly in the second half of the year, so its annual fall should be lower than the fall experienced in the middle of the year.

In 2002, Slovenia's economic growth will be affected by deteriorated economic conditions in the main trading partners. This deterioration will be stronger and longer than anticipated in spring, and the gradual recovery of the world economy is likely to take place only in the second half of the year. This has resulted in a significantly lower forecast for Slovenia's export growth in 2002. As a result of the dampened expectations and this year's poorer business results, private sector investment activity will be weak in 2002 so the investment growth forecasts have been corrected downwards despite greater public funding being earmarked for investment. Poorer business results will also be reflected in moderate wage growth, which is why the anticipated strengthening of private consumption will be slightly weaker.

The reduced domestic demand, particularly investment, and the sustained high export growth resulted in an almost balanced **current account of the balance of payments in the first nine months** of 2001. In the last few months, the current account was positively affected by low oil prices and the slowing US dollar's exchange rate. The overall deficit in 2001 is likely to be lower than forecast in spring despite the worsening expected towards the end of the year. An important change in the balance of payments is the strengthening of capital flows, especially foreign direct investment, and subdued external borrowing, which helped the external indebtedness indicators worsen more moderately than in 2000. Similar trends are expected in 2002.

Inflation forecasts for 2001 and 2002 have not changed in this Autumn Report. Current developments suggest that external upward pressures on prices are subsiding and that the annual inflation rate has been on a gradual downturn since summer, as expected. In 2002, a number of significant factors will keep inflation in check: the expected low oil prices thanks to subdued demand, a stabler exchange rate between the dollar and the euro, moderate real appreciation of the tolar thanks primarily to the capital inflows generated by privatisation, and modest domestic demand growth. A better co-ordinated and predictable policy of administered prices will also help bring inflation down.

Economic policy has taken several steps to respond to the decelerating economic activity in 2001 and 2002. As far as **general government expenditure** is concerned, the amended draft budget for 2002 calls for the maintaining of the original level of budget expenditure, however, appropriations for investment have additionally increased mainly to the detriment of material expenses and expenditure on wages and salaries. The slowdown in the public sector's wage growth, which is to be achieved by taking several steps, is important for reducing inflationary pressures. The wage adjustment agreement adopted for the public sector is more restrictive than that used in 2001 in terms of adjusting wages to inflation. Any unjustified wage growth resulting from partial sectoral agreements or agreements for certain occupations may be prevented by centralising wage negotiations at the government level and by drawing up a law regulating the wage system in the private sector. In November, the Government formally decided to restrict promotions and bonuses in the state administration. The draft budget also prescribes a small rise in public sector recruitments.

As far as **general government revenue** is concerned, the basic value-added tax rate is to be raised by one percentage point, and the reduced rate by half of a percentage point. Additional general government revenue (0.4% to 0.5% of gross domestic product) should help realise the projected general government expenditure without putting any upward pressure on the deficit. In a period of deteriorating economic conditions, the negative demonstration effect of raising taxes should be offset by the announced reduction of direct state costs and increased incentives for stimulating economic growth through public expenditure. The one-off rise in the overall level of prices caused by the enforcement of higher value-added tax rates will primarily affect private consumption, as well as company costs if one considers their cost and revenue structure. As there will be less fiscal pressure to raise excise duties after value-added tax rates have been raised (this year's contribution of higher excise duties to inflation has been close to the estimated effect of higher value-added tax rates) and, thanks to the effects holding inflation back which are listed above, the risks potentially threatening the inflation forecasts are evenly distributed, leaving the spring forecast as still the most realistic one.

So far, fiscal policy has been pursued in line with the highest level of **fiscal deficit** prescribed by law. This provision has contributed significantly to its relative stability, however, as revenues collected during the year have been invariably lower than projected, the deficit has given rise to non-optimal ways of public fund management such as the curbing of spending (which undermines the planning process, disturbs the behaviour of budget fund recipients and reduces the expenditure on investment and subsidies which are important for economic activity), the misalignment of the calendar and budget years (which reduces public finance transparency), and the search for additional revenue sources (which reduces the predictability of the tax burden for economic entities). This problem should be resolved by a provision proposed for the Budget Implementation Act according to which any shortfall in general government revenue from the projected levels may be offset by a higher fiscal deficit up to a certain percentage level. Such a measure still does not introduce any automatic fiscal stabilisers (this term indicates that general government revenue and expenditure are determined so that their levels are automatically adjusted to the economic cycle: in a period of slow growth, the tax burden on income is reduced automatically and the level of transfers is increased). However, greater predictability of general government expenditure and the reduced need for occasional tax adjustments will contribute to the stability of economic conditions for business. The risk this measure may involve is that it might ease pressure to maintain the deficit at a certain level, which is why its success will primarily depend on the transparency of fiscal planning and the validity of reasons for the shortfalls in revenues.

In early 2002, the compulsory **indexation of short-term interest rates** is very likely to be abolished. This measure is founded on the estimate that the indexation of interest rates is one of the key factors of inflation's inertia and, at the same time, indexation hampers the financial sector's restructuring through generating accounting profits and it also reduces demand for non-indexed savings instruments and financial investments. Together with bank privatisation, this should help normalise and increase the efficiency of Slovenia's financial market. However, the abolition of the institutionalised indexation of interest rates will enhance the unpredictability of financial relations, which is why this will lead to the risk of a short-term raising of nominal interest rates on loans and lower savings in the domestic currency. This risk may be minimised through the co-ordinated pursuit of economic policy aimed at minimising inflation-related uncertainty and by setting an appropriate market reference interest rate.

The forecasts of economic developments presented and accounted for in this report were made in October to provide the basis for devising economic policy measures and amending the national budget before its final reading in the National Assembly. Formulation of these measures was founded on the fact that the downgrading of the economic growth forecast for 2002 by 0.6 of a percentage point does not justify fears of an oncoming recession, which is why stronger state intervention and a higher fiscal deficit cannot be accounted for. However, the projected slowdown in economic growth and investment activity, along with the estimated easing of inflationary pressures, prompted **economic policy** to shift its **focus** from inflation (at the centre of concerns in 2000 and 2001) to domestic economic activity in order to buffer the effects of the worsened international environment.

This set of measures is therefore based on the scenario of a moderate slowdown in economic activity, which is not expected to take place for more than a year. However, new forecasts of international institutions, which could not have been taken into account in October's calculations, predict an even stronger downturn in international economic activity. These corrections reflect the unpredictability of economic conditions, which further increased after September's events. As a result, the international environment has become the main cause of uncertainty in projecting domestic economic developments in 2002. Any further worsening of economic conditions in Slovenia's trading partners would negatively affect exports, as well as domestic financial investment and employment dynamics, leading to economic growth being lower than forecast and calling for additional adjustments of economic policy and more radical measures to curb public expenditure on wages and transfers to households. Nevertheless, according to the information available during preparation of the report, the autumn forecasts do provide the most likely scenario of economic developments.

2. SUMMARY

2.1. ECONOMIC DEVELOPMENTS IN 2001 – Export trends remain favourable, investment growth below expectations

In 2001, the economic growth slowdown in Slovenia's main trading partners has been even stronger as forecast in spring, according to data available for the first nine months, while the prospects for 2002 have deteriorated further. **Global economic growth forecasts for 2001 and 2002 have fallen considerably** since the Spring Report 2001, with the **EU** and **Germany** experiencing significant downward corrections. In its September report, the International Monetary Fund (IMF) corrected economic growth forecasts for the USA downwards by 0.2 of a percentage point for 2001 and by 0.3 of a percentage point for 2002, while corrections for the EU were down 0.6 of a percentage point for each year and lower by 1.1 percentage points for Germany for 2001 and 0.8 of a percentage point for 2002. Other international institutions corrected their forecasts downward to a similar or even stronger degree and are highly cautious when predicting the effects of the terrorist attacks in the USA and the war in Afghanistan. The IMF's projections of economic developments in the international environment, which serve as a basis for autumn forecasts of Slovenia's gross domestic product aggregates, were made before 11 September and do not take into account the effects of the terrorists attacks. We nevertheless estimate that they provide solid grounds for our forecasts because these events are still recent and uncertainty about future developments increased further.

In 2001, macroeconomic aggregates have been under different influences from the international environment than in 2000, while the impact of some internal factors on consumption aggregates has strengthened. Foreign demand began to decline this year because of the slowdown in the international economic environment, which was reflected in the gradual deceleration of year-on-year export growth rates. In spite of this, **export dynamics retained a strong pace** in the first eight months. On one hand, this was due to the usual six-month delay from the moment export market growth starts to decelerate to the fall in export orders, which has been empirically established. On the other hand, the relatively strong export growth was sustained by higher exports to the markets of former Yugoslavia and Russia. The contribution of the favourable economic developments in these areas to export growth was important, but we estimate that the effects of an active approach and moving to more sophisticated and long-term forms of international co-operation, especially foreign direct investment, were even stronger. The stronger involvement of exporters in foreign markets instead of just responding to changes in those markets has resulted in Slovenia's growing market shares in some advanced economies, which is surprisingly taking place in a period of economic downturn. The timely response of Slovenian companies to changes in the international environment, which managed to offset shortfalls in the European markets by increasing exports to the countries of former Yugoslavia and Russia, contributed to **only a minor downward correction to real export growth from the Spring Report (down from 7.5% to 7.2%)**. Foreign demand will continue to be the main lever of economic growth in 2001, while the net contribution of international trade to gross domestic product growth will be even higher as forecast in spring thanks to the projected lower imports.

The **lowering of projected economic growth rate for 2001 from 4.4%** (the Spring Report) **to 3.7%** is due more to internal than external factors; **investment activity** has been **significantly below the spring projections** according to data available for the first six months. This has led to a downward correction of forecasts of gross fixed capital formation for 2001: it is expected to fall by 1.4% in real terms as against the modest rise of 2.6% predicted in spring. Reasons for the correction are manifold, as shown by the available information. Investment directly or indirectly related to the public sector dropped in the first half of the year, which was in part due to the curbing of public spending in the period of temporary budget financing. Compared to 2000, investment in economic infrastructure and residential building dropped in nominal terms, while investment in telecommunications was lower than planned (the UMTS concession, which requires additional investment, has only been granted in November 2001). The level of indebtedness of some public companies is estimated to have reached a ceiling, speaking in terms of the capacity to repay debt, so the volume of net foreign loans dropped, which was reflected in the dynamics of external borrowing in the balance of payments. In market-oriented activities, the fall in export demand and the increased uncertainty slowed the investment cycle down, however, the estimated investment in these activities remains positive (excluding infrastructure). Besides, the amount of funds earmarked for financial investments in domestic and foreign securities and foreign direct investment has been on the increase this year to the detriment of domestic fixed investment. The dynamics of external borrowing, which increased again in the second quarter, the rising level of long-term loans taken out by companies from domestic banks, and the dynamics of government spending for investment, which usually strengthen in the second half of the year, suggest that the fall in investment very likely reached a trough in the second quarter. Investment is expected to rise in the last quarter in real terms on a year-on-year basis.

The forecasts of real private and government consumption growth for 2001 have also been corrected downwards from spring's projections – from 2.1% to 1.9% for private consumption and from 4.2% to 3.7% for government consumption – on the basis of the available short-term indicators and some methodological changes to the calculation of real growth rates.[1] **Private consumption**, which roughly retained last year's level in the first quarter (measured year-on-year), **revived gradually in the second quarter**, which was partly due to seasonal factors and partly due to the repayment of long-term loans raised in 1999, resulting in a lower burden on household income. This trend was sustained in the third quarter, as shown by data on wholesale and retail sales and short-term household borrowing in banks, which increased slightly in summer. Despite the gradual revival of consumption, the **structure of disposable income spending** suggests that household savings in banks are rising strongly, as was the case in 2000, and the propensity of households to save is strengthening.[2] Forecasts of real government consumption growth for 2001 were made on the basis of the National Budget 2001 and they were corrected downwards from the spring figures as a result of methodological changes and changes in the consumption structure, particularly in health services and municipalities.

The projection of price movements for 2001 remains unchanged despite different assumptions about the international environment and increased uncertainty. External factors, primarily the rising world prices of petroleum products and commodities, the relative strengthening of the US dollar, and the rising inflation in the EU, which strongly affected price movements in 2000, continued to have a delayed impact on prices in early 2001, while in the following months **prices were increasingly under the influence of internal factors**. As the external inflationary pressures subsided, the policy of administered prices was better co-ordinated in the second and third quarters, price rises of local utility services were held in check, and the rules regulating medicine prices were amended at the same time. In the last quarter of 2001, the long-term inflation indicators are expected to fall gradually, whereas the strong monthly volatility in price movements is likely to continue. According to most foreign analysts, oil prices will not start rising before the end of 2001 which will have positive effects on domestic prices, along with the continuing falls in foreign prices. A moderately restrictive monetary policy and the expected flows in the balance of payments will help exchange rates rise more slowly than in 2000. With the moderate rise in administered prices expected to continue from the third quarter and wages moving in line with

[1] The estimated government consumption deflator devised by the SORS was used instead of the consumer price index for calculating government consumption.

[2] After strengthening from 12.2% in 1999 to 14.3% in 2000, it is expected to rise to 15.3% this year.

expectations, a combination of monetary and exchange rate policies should help reduce further inflationary pressures. In these conditions, the **average rise in consumer prices should not exceed 8.5% in 2001**.

The **economy's real sector** – affected by changes in the international and domestic environments and influencing the segments of aggregate demand – experienced a gradual decline in value-added growth in manufacturing in the first half of 2001 due to decelerating export growth and a slump in construction activity related to the real fall in gross fixed capital formation. Value-added growth strengthened gradually in electricity, gas and water supply and, as far as service sectors are concerned, growth was strongest in hotels and restaurants and transport, storage and communications. Above-average growth was seen in financial intermediation underpinned by the good business results of banks in the first half of the year, further consolidation of the banking sector, and the expansion of other forms of financial intermediation. On the other hand, the rise in value added was below average and below last year's levels in agriculture, mining, and retail and wholesale trade. In the second half of 2001, the slowing foreign demand will lead to a gradual slowdown in value-added growth in manufacturing, which is estimated to be strong only in the last quarter: value added is expected to rise by an average of 4.5% in real terms, 1 percentage point lower than forecast in spring. In the second half of the year, construction activity is estimated to remain weaker than in the same period last year and should fall by an average of 2.5% in real terms in 2001 (against the 2.2% rise projected in spring), however, the trend rate should rise gradually towards the end of the year. Given these trends, value-added growth in industry and construction will be almost 4 percentage points lower than in 2000 (7%), whereas service sectors should maintain last year's dynamics on average (just above 4%). Total **value added** should **rise by 3.6% in real terms in 2001**, 1.5 percentage points lower than in 2000.

Forecasts of import growth in 2001, which have been corrected downwards by 1.2 percentage points, are based on the modest rise in imports seen in the first eight months and the lower forecasts of growth in domestic consumption aggregates. Real imports were only slightly above the level seen in the first eight months of last year as a result of lower investment activity: broken down by end-use product groups, imports of investment goods dropped the most, while imports of intermediate goods increased in step with manufacturing's production activity. The gradual pick-up in domestic consumption before the end of the year should help strengthen **real import growth** (measured year-on-year), but it will **not exceed 3.3% on average in 2001**.

The favourable export trends and low imports seen in the first eight months contributed to a significant fall in the trade deficit against 2000 (narrower by

USD 424 million) despite a slight worsening of the terms of trade; this was due to the higher trade surplus with the countries of former Yugoslavia and Russia and the lower trade deficit with the EU. At the same time, the surplus from services trade increased – primarily due to higher receipts from tourism – which helped maintain a roughly balanced current account of the balance of payments in the first eight months despite a higher deficit in factor incomes. Even though exports are estimated to decelerate strongly in the rest of 2001 and imports should strengthen, the favourable developments in the first eight months will contribute to a significantly lower current account deficit than in 2000. Taking into account foreign investors' reinvested earnings, which are included in capital expenditures at the end of the year (they should be higher than in 2000 and total about USD 120 million), **this year's current account deficit should total around 1.1% of gross domestic product** as against 3.4% in 2000.

The composition of total international trade shows a **higher proportion of trade in goods** than before. The dynamics of **trade in services** seen in the first eight months was significantly **weaker** than the dynamics of **trade in goods** (to a higher degree than last year), which was particularly evident on the export side. In addition to weak total growth in the exports of services, the main weakness is the small proportion of other services with a high value-added content such as communications, financial, computer and various business services. By virtue of their characteristics – the intensive use of knowledge and information – these services may take advantage of the increasing electronic exchange of services to the greatest extent. Other services account for around 22% of total exports of services, which is modest compared not only to advanced countries[3] but also to some countries in transition, where other services make up almost one-third of total exports of services. On the import side, other services record the biggest increases and account for close to one-third of the total imports of services.

The external disequilibrium, which increased sharply in 1999 due to strong domestic spending and remained high in 2000 due to the worsened terms of trade, eased significantly in 2001, whereas the **composition of inflows in the capital and financial account improved markedly**, so the sustainability of the current account of the balance of payments should not be undermined even in the case of a higher deficit. In the first eight months, net capital inflows in Slovenia were lower than in the same period last year, but foreign direct investment inflows increased substantially, while the private sector's external borrowing fell, resulting in a **better external indebtedness**

[3] According to the World Trade Organisation (WTO, 2000), exports of other services, which are the most dynamic category in the exports of services in the EU, represented 48% of total exports of services from the EU.

position. Capital outflows increased significantly as well: eurobonds issued in 1996 were redeemed, net trade credits were higher than in 2000, and foreign direct and portfolio investment outflows were up, the latter as a result of the gradual liberalisation of capital flows. The abolition of custody accounts on 1 July 2001 has not led to any major purchases of securities by foreigners as portfolio inflows were negative in the first eight months (sales of Slovenian securities held by foreigners were higher). Given the almost balanced current account of the balance of payments, this year's net capital inflows added to total foreign exchange reserves, which totalled close to USD 5 billion at the end of September and covered 5.1 months' worth of imports.

The stronger foreign exchange inflows have also affected exchange rate movements. The Bank of Slovenia continued to pursue a policy of regulating exchange rate fluctuations through interventions; it intervened in the foreign exchange market in September after the euro's exchange rate rises decelerated in the second quarter and in the summer months: it set the minimum exchange rates for those commercial banks which had signed an agreement to co-operate in the central bank's interventions in the foreign exchange market. The favourable developments in the current account of the balance of payments and financial inflows generated by selling equity shares stimulated growth in broad money supply aggregates. Growth in the money supply aggregate M3, which has been taken as monetary policy's intermediate target, reached the ceiling of the monetary target band for 2001 as early as in January (the band set growth between 11% and 17%) and overshot the ceiling in subsequent months; in September by up to 3.9 percentage points. The issuing of M3 through foreign exchange transactions saw the strongest growth. Among the M3 components, the most dynamic rise was recorded in household and corporate foreign currency savings and tolar time deposits. As the Bank of Slovenia's priority is to maintain exchange rates at a certain level, its manoeuvring space to influence M3 growth is narrowing. The prospect of further strong capital inflows again raises the issue of the suitability of M3 targeting because the failure to meet the monetary target in a long period of time would undermine the central bank's credibility and obstruct realisation of its goal to bring inflation down to EU levels.

The Slovenian economy's price competitiveness measured by the tolar's real effective exchange rate improved slightly in the first nine months despite the exchange rate movements witnessed so far. This was to a large extent due to the dollar's exchange rate against the main EMU currencies (taking into account rises in relative prices), which remained close to December's level in September. Assuming that the tolar will gain strength in real terms in late 2001, **price competitiveness** should remain **unchanged** this year as the tolar will maintain about the same real value as in 2000 against the basket of currencies. The slowdown in labour productivity growth resulting from a weaker rise in production underpinned by the expected lower foreign orders and price and exchange rate trends will lead to the **worsening of Slovenian manufacturing's cost competitiveness** (relative unit labour costs against the basket of currencies should rise by around 1.7%).

Employment growth, which began in 1999, continued this year. In the first eight months, the average number of persons in employment was 1.2% higher than in the same period last year, of whom the number of employees in companies and organisations was up 1.7%. The biggest rise in the number of employees against last year's average was seen in business services and public administration, while favourable trends were also recorded by manufacturing. In the first six months, the labour force survey also revealed a higher number of persons in employment, however, the growth dynamics was slightly weaker. Employment growth is estimated to slow down towards the end of the year as a result of the impact of decelerating economic growth in the international environment, even though September's data on registered unemployment point to no such trend as yet. In 2001, the average rise in the number of persons in employment is expected to be roughly 1.2%. **Employment growth** in the full-time equivalent is estimated to be lower than that, coming in at **0.7% in 2001.**[4] Given the estimated gross domestic product growth of 3.7%, this should result in **about 3% labour productivity growth**, a rate lower than in previous years. The **number of registered unemployed**, which has been on a decline for three years running, is forecast to drop to an average of **11.5% of the labour force** in 2001. The number of unemployed established by the survey continues to fall, while the average **survey unemployment rate** should be **6.3%** in 2001.

In the first quarter of this year, the real gross wage per employee rose by a strong 5% year-on-year, with wages in the public sector going up by 8.2% and by 3.4% in the private sector. In the two subsequent quarters (taking into account an estimate for September), the year-on-year wage growth slowed down gradually, however, the public sector still saw higher rates of increase than the private sector. In 2001, two adjustment mechanisms were in force for the first time, one for the public and one for the private sector. In the public sector, an agreement on the wage adjustment mechanism for 2001 was signed as early as in December 2000. A new adjustment mechanism was introduced whereby wages are aligned with the anticipated rise in consumer prices. Movements in the public sector's gross wage per employee were influenced more by wage supplements agreed in collective agreements and

[4] As a result of the worsened economic conditions, the fall in informal employment which started in the first half of the year is expected to continue, while the proportion of employment that is shorter than full time is expected to increase.

decrees or by extraordinary promotions and recruitment than by adjustment mechanisms. Taking into account all the adjustments and wage supplements agreed for 2001, the **real gross wage per employee in the public sector** is estimated to rise by **4.4%** this year. In the private sector, January's adjustment was made on the basis of the Agreement on Wages Policy for 1999-2001, which was amended in May; the new agreement introduced a two-step adjustment mechanism, thereby aligning it with the mechanism to be used in the public sector wage adjustment in January 2002. The problem of wage indexation in the private sector is less pressing than in the public sector because actual wage raises, which are kept within the limits set in the wage adjustment agreement, depend on business results. Taking into account wage movements in the first three quarters, the strong wage growth seen in the last quarter of 2000, and lower performance-related payments at the end of 2001 due to the slowing economic activity, the gross wage per employee in the **private sector** should rise by **1.5% in real terms** in 2001. The **gross wage per employee in Slovenia's economy** as a whole is forecast to climb by **2.5% in real terms** and should lag behind the estimated labour productivity growth by half of a percentage point.

Actual **general government revenues** are not in line with the projections made in the draft budget for 2001 as a result of lower economic growth (the nominal gross domestic product is forecast to be SIT 30.7 billion lower than projected in spring). Lower amounts have mainly been recorded in revenues from value-added tax, which were particularly low early in the year owing to modest domestic spending and imports. Similarly, export dynamics seen in the first few months were significantly stronger than expected which, translated into tax terms, required higher VAT-input tax refunds. This year's revenues from value-added tax will therefore be lower than projected. On the other hand, trends in wage-based revenues will be favourable, assuming from this year's wage growth. Revenues from excise duties will be higher than planned in the national budget because more excise duty was raised than originally planned. As a result, general government revenues relative to gross domestic product are estimated at 43.1%, slightly higher than projected. As far as **general government expenditure** is concerned, national budget expenditure is estimated to be lower than planned in the budget, the same as its share in gross domestic product (by 0.3 of a percentage point in comparison to the adopted budget). General government expenditure for the pension and health system as well as municipalities will be higher than planned. As a result, the consolidated general government expenditure will account for a larger share of gross domestic product than projected in the Budget Memorandum. This share is estimated to be around 44.5% (consolidation made on the basis of the methodology of the Ministry of Finance), while the fiscal deficit should be around 1.4% of gross domestic product.

2.2. ECONOMIC DEVELOPMENT FORECASTS FOR 2002 – Uncertainty in the international environment to intensify, export growth to slow down

The unfavourable developments in the international environment will influence economic activity for a longer period of time than as anticipated in spring, according to the latest forecasts; the pick-up of economic growth in the USA and the EU may be expected **about six months later** than previously projected, i.e. in the second half of 2002. The spring economic growth forecast for Slovenia has been **corrected downwards from 4.2% to 3.6%** as a result of the impact of the international environment on export performance. The 2002 real growth rate reflects lower export demand caused by the strong economic deceleration in most trading partners. On the other hand, investment activity, which was the main reason for correcting spring forecasts for 2001 downwards, should gain considerable strength in 2002. In 2002, economic growth should roughly maintain the dynamics of 2001, however, its structure is likely to change considerably, with the relative contribution of domestic demand being stronger than in 2001.

Taking into account the **delayed economic growth revival in Slovenia's main trading partners from Western Europe**, real growth in the exports of goods and services will slow down even more strongly than projected in spring (4.8% as against 5.9%). Export growth to the markets of former Yugoslavia and Russia will decelerate as well, partly due to the high benchmark and partly due to the impact of global economic slowdown on demand in these countries. Decelerating exports will cause domestic production activity to slow down, particularly in manufacturing. This is also why imports are not likely to gain so much strength in 2002 as expected in spring (lower imports of intermediate goods), with imports forecast to rise by 4.7% in real terms. The higher real import growth compared to 2001 will primarily be the result of the **gradual strengthening of domestic consumption**, going up by an average of 3.5%, while the strongest growth should be experienced by **investment**, going up by 4.6% in real terms. This will be underpinned by stronger investment in telecommunications, government services (the Oncology Institute, the Paediatric Clinic, other hospitals, students' halls of residents), residential building construction and the energy sector, as well as investment in transport infrastructure. The estimate of real investment growth for 2002 is significantly lower than in spring (6.6%) because of greater uncertainty in the domestic and international business environments causing lower investment in market-oriented activities (investments of the private corporate sector) compared to what was anticipated in spring. The cyclical strengthening of real private consumption growth will continue in **2002**, but the rate of increase is not expected to exceed 3%. The forecast is based on the assumption that wages and social policies are implemented properly and it reflects the rise in gross disposable household income and changes in the spending structure, while any further easing of the burden of loans taken out in 1999 on household income should have positive effects on consumption. Government consumption is estimated to retain the dynamics of 2001 and its growth should be about the same as gross domestic product growth.

Total value added is forecast to **rise at about the same rate as in 2001 (3.5%),** however, its structure is likely to change due to different effects coming from the domestic and international environments. Given the expectations of a further worsening of economic conditions in the international environment in early 2002, value-added growth in manufacturing is expected to decelerate further (up 3.3%), at the same time, the pick-up in infrastructure and residential building construction should help value added in construction to rise more strongly (up 3%). Growth in industry and construction as a whole should roughly maintain this year's level (about 3%). As far as service sectors are concerned, value-added growth is estimated to slow down slightly in transport, storage and communications, as well as in some public services resulting from the announced curbing of employment growth in the state administration. On the other hand, the gradual pick-up in private consumption should lead to stronger growth in distributive trades, moreover, stronger growth should also be recorded in hotels and restaurants mainly due to better off-season results for tourism. Value added in service sectors is expected to rise at about the same rate as in 2001 (about 4%).

The slowdown in the exports of goods and services caused by the expected fall in foreign demand will be particularly strong in the first half of 2002, while in the third and last quarters of the year goods exports are forecast to rise more strongly thanks to the pick-up in export markets in the second half of the year. In spite of this, the average annual export growth of 4.8% will be significantly below the level of 2001. The sustained stronger rise in exports to the countries of former Yugoslavia, Russia and CEFTA compared to the EU will not suffice to offset the shortfalls in demand in the EU, particularly as export growth to those markets will slow down gradually as well. Given the higher forecast of private and investment consumption growth in 2002, real imports of goods and services will rise by 4.7%, with the relative shares of investment and consumer goods increasing again. Taking into account the expected dynamics of export and import flows in 2002 and the unchanged terms of trade, the **deficit in the current account of the balance of payments** should increase slightly to about USD 253 million, or **1.2% of gross domestic product**.

External pressures on prices will ease further in 2002 thanks to the slowdown in world economic activity. An obstacle to keeping price rises in check may come from a discrepancy in wage growth between or within industries, especially if such dynamics stimulate household consumption to a greater extent than in 2001. The key element in Slovenia's efforts to cut inflation further will be its structural reforms, particularly in the areas of indexation mechanisms, labour market, privatisation and administered prices, because the current circumstances in these areas are not conducive to a further reduction of the inflation rate. In 2002, prices will also be affected by the adjustment of excise duties on certain products (mainly alcoholic beverages and tobacco) to the EU levels. The above assumptions would allow **average inflation to drop to 6.4% in 2002**. Risks that may cause a typical discrepancy from the projected inflation target are evenly distributed. If the subdued global economic growth leads to further falls in prices (the price per barrel of brent oil to below USD 20) and financial inflows from abroad increase (due to the announced sales of state assets and equity shares in the private sector) – both of which may slow down exchange rate rises – the inflation rate would be 0.5 of a percentage point lower than projected. On the other hand, macroeconomic measures aimed at stimulating economic growth, primarily in the field of fiscal policy, would put additional upward pressures on prices and the inflation rate would be 0.5 of a percentage point higher than projected.

In 2002, the tolar will be relatively stable against the main EU currencies and it may strengthen only gradually despite the expected over-supply of foreign exchange in the foreign exchange market underpinned by stronger capital flows related to privatisation (any stronger appreciation will be prevented by the Bank of Slovenia's expected intervention). The tolar's real effective exchange rate will depend on movements of the US dollar.[5] In conditions of strong pressure exerted by the over-supply of foreign exchange, the **tolar's real effective exchange rate** is estimated to appreciate by about 1% (measured by relative consumer prices). The **trend of Slovenian manufacturing's worsening international competitiveness** is very likely to **continue**. Labour productivity growth will be slightly higher than in 2001 (2.6%) despite further deceleration in production and it should rise faster than real compensation per employee. However, given the assumed 3.6% nominal rise in the effective exchange rate, manufacturing's unit labour costs expressed in the basket of currencies may rise by 2.2%.

As far as the labour market is concerned, **employment should continue to rise** and unemployment continue to fall in 2002, albeit **at lower rates** than before. This is based on the assumption that companies will adapt to less favourable economic conditions by reducing costs (lower investment

[5] Considering the high uncertainty and the fact that the USD's volatility turned out to be short-lasting after September and October's events, our estimates of the USD exchange rate have retained the assumption of the USD's gradual fall as against the EUR.

and wage growth) rather than through lay-offs. With gross domestic product growth being lower and labour productivity growth about the same as in 2001, the **rise in employment** in the full-time equivalent should be slightly lower than in 2001 **(up around 0.6%)**. The anticipated rise in employment should help **unemployment fall** further in 2002: the average annual unemployment rate should be around 11.2% of the labour force, while employment of the working-age population should continue to rise gradually. The survey unemployment rate is estimated to drop to close to 6%.

The **real gross wage** per employee is **estimated to rise** by around 2.5% in 2002; this estimate takes into account the wage raises agreed for 2002, the more restrictive wages policy in the public sector, and the anticipated faster wage growth in the private sector relative to 2001 (a gradual reduction of the gap between wage and labour productivity growth in the private sector). In addition to adjustment mechanisms, wage movements in the private sector will be affected by the anticipated strengthening of economic activity in the second half of 2002. Moreover, the year 2002 has more working days than 2001 which will also affect monthly wage trends. The private sector's gross wage per employee should rise by about 2% in real terms in 2002. In the public sector, the gross wage per employee should rise by 3.6% in real terms; this estimate has taken into account the adjustment mechanism laid down in the budget and the wage supplement in public administration. Based on wage movements in the two sectors, the real gross wage per employee is estimated to rise about 0.5 of a percentage point below labour productivity growth in 2002.

Total **budget expenditure** is estimated at SIT 1,223.3 billion in **2002** (24.4% of gross domestic product), according to the amended draft budgets for 2002 and 2003, SIT 3.4 billion higher than in the original draft budgets. It has been proposed to raise employers' contributions for health insurance in 2002 (up 0.2 of a percentage point). The threshold below which wages are tax exempt will be raised in 2002 and the payroll tax rates within individual tax bands will be reduced slightly. The rates of value-added tax will be raised in 2002. According to projected macroeconomic developments, the trend of reducing compulsory taxes relative to gross domestic product is forecast to continue in 2002 and 2003. It will be necessary to increase non-tax revenues from domestic and foreign donations and other capital and concession revenues. The **consolidated general government revenues** (consolidation based on the Ministry of Finance's methodology) are estimated to total around 42.5% of gross domestic product in 2002 and around 43.5% in 2003, excluding the extension of the budget year to include the revenues of January 2003.

According to the draft budget for **2002, national budget expenditure** relative to gross domestic product is forecast to increase to 26.9%. The continuing strong pressure of public sector salaries on national budget expenditure will cause the proportion of salaries to increase in 2002. The share of capital funds and capital transfers in the structure of national budget expenditure is expected to increase in line with the projected acceleration of investment activity. Expenditure on goods and services and subsidies will rise at a rate lower than total national budget expenditure. The transfer of funds to the Pension and Disability Insurance Institute will retain the same proportion as in 2001, as will domestic and foreign interest payments and transfers to individuals and households. The upward pressure of wages and salaries on national budget expenditure is expected to ease in 2003 as a result of the new law regulating wages in the public sector. Interest payments are forecast to fall in real terms in 2003, while expenditure on goods and services is expected to rise by only 1% in real terms. In 2003, transfers to individuals and households should rise more slowly in real terms than in 2002. Total national budget expenditure is expected to rise by 2.6% in real terms in 2003, while its share should again drop to the level of 2001. In 2002, total **general government expenditure** relative to gross domestic product should increase compared to 2001 (consolidated on the basis of the Ministry of Finance's methodology), while in 2003 it should again fall to a solid 44% of gross domestic product.

In order to achieve the goal of balanced public finances, it will be necessary to take further steps in the area of general government revenue in 2002 and 2003 (ensure stable financial resources), primarily steps to curb and reduce general government expenditure. In 2002, the fiscal year should be aligned with the calendar year as envisaged in the draft national budget, implying that national budget expenditure for the whole year should be realised by means of revenues for eleven months (excluding the revenues of January 2003). As a result, the budget deficit will increase by the amount of the 'compensatory deficit' in 2002 and the total **fiscal deficit** should reach about 2.5% of gross domestic product. In 2003, the deficit should be lower than in 2002 and is estimated to reach about 0.7% of gross domestic product.

Table 2: Selected macroeconomic indicators for the period 2000-2002

	2000	2001		2002	
		forecast			
	SORS	Spring Report 2001	Autumn Report 2001	Spring Report 2001	Autumn Report 2001
GDP - real growth rates, %	4.6	4.4	3.7	4.2	3.6
INFLATION (Dec/Dec previous)	8.9	7.7	7.7	5.7	5.7
INFLATION (Jan-Dec/Jan-Dec average)	8.9	8.5	8.5	6.4	6.4
USD EXCHANGE RATE (BS)	222.7	243.1	241.0	247.8	245.2
EURO EXCHANGE RATE (BS)	205.0	217.0	217.2	225.3	225.4
EMPLOYMENT (according to SNA)	1.1	0.7	0.7	0.7	0.6
REGISTERED UNEMPLOYMENT RATE	12.2	11.7	11.5	11.3	11.2
UNEMPLOYMENT RATE by ILO	7.0	6.7	6.3	6.5	6.1
LABOUR PRODUCTIVITY	3.5	3.7	3.0	3.5	3.0
GROSS WAGE PER EMPLOYEE	1.6	2.3	2.5	2.7	2.5
INTERNATIONAL TRADE - BALANCE OF PAYMENTS STATISTICS					
EXPORTS OF GOODS AND SERVICES	12.7	7.5	7.2	5.9	4.8
- exports of goods	12.8	8.2	8.0	6.1	5.1
- exports of services	11.8	4.1	3.5	5.1	3.3
IMPORTS OF GOODS AND SERVICES	6.1	4.5	3.3	6.2	4.7
- imports of goods	6.1	4.4	3.2	6.3	4.8
- imports of services	6.0	4.8	4.1	5.4	4.3
Current account balance, USD million	-611	-330	-215	-407	-253
- as a % of GDP	-3.4	-1.8	-1.1	-2.0	-1.2
Balance of goods and services, USD million	-703	-340	-225	-407	-253
- as a % of GDP	-3.9	-1.8	-1.2	-2.0	-1.2
DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS					
GROSS FIXED CAPITAL FORMATION	0.2	2.6	-1.4	6.6	4.6
- as a % of GDP	26.7	26.2	25.1	26.8	25.1
PRIVATE CONSUMPTION	0.8	2.1	1.9	3.2	3.0
- as a % of GDP	54.9	53.7	53.9	53.2	53.7
GOVERNMENT CONSUMPTION	3.1	4.2	3.7	4.2	3.7
- as a % of GDP	20.8	20.8	21.0	20.8	21.3

Source of data: SORS, forecast by IMAD.

3. INTERNATIONAL ENVIRONMENT – Economic upturn in the international environment expected no earlier than towards the end of 2002

Forecasts of world economic trends for 2001 and 2002 have worsened since spring due to the faster economic slowdown seen in the USA and EU member-states, with the uncertainty about the pace of growth of the world economy being additionally fuelled by the September 11 terror attacks on the USA. In its September report that was compiled before the terror attack, the International Monetary Fund (IMF) lowered its economic growth forecasts for almost all regions of the globe. The forecasts were changed chiefly because of the significant impact of the US economic slowdown on other parts of the world. Moreover, the purchasing power of households in individual countries has not improved as expected as the price of fuels went up in 2000 while the prices of food in EU member-states increased as well.

Table 3.1: Economic growth, the volume of the world economy and price trends in oil and other raw materials (% growth in real terms)

	1999	2000	2001		2002	
			Sept. 2001	Difference[1]	Sept. 2001	Difference[1]
Global economic growth	3.5	4.8	2.6	-0.6	3.5	-0.4
Volume of world trade	5.3	12.4	4.0	-2.7	5.7	-0.8
World oil prices [2]	37.5	56.9	-5.0	4.6	-8.6	3.2
World prices of raw materials	-7.0	2.6	-2.6	-3.1	4.5	0.0

Source of data: IMF World Economic Outlook, September 2001.
Notes:[1] The difference between the September and May 2001 forecasts (in percentage points), [2] Average based on world commodity export weights.

According to the IMF's outlook, oil prices should drop by 5% on average in 2001 from 2000, with an additional 8% drop to follow in 2002. Falling oil prices are expected to reduce pressure on inflation in oil importing countries in the second half of 2001 and, to an even larger extent in 2002 as well. Furthermore, 2001 is expected to see a 2.6% drop in world prices of raw materials which, however, could rise again in 2002.

Having slowed down substantially in 2001, economic growth in the **USA**, which posted 4.1% in 2000, is expected to range from 1.1% to 1.3% (OECD 2001, IMF 2001) in 2001, which is even below the spring forecasts. However, the IMF's September forecast of about 1.3% economic growth did not take into account the consequences of the September 11 terror attacks. While it would be too early to make a final assessment of these consequences, one can say that financial markets, airline industry and tourism would be the

Table 3.2: Economic growth, inflation and real growth of imports of goods and services in Slovenia's major trading partners (in %)

	Share of Slovenian exports, %	Real growth in gross domestic product					Inflation (annual average)					Real growth in imports of goods and services				
			2001		2002			2001		2002			2001		2002	
	2000	2000	Sept. 2001	Difference[1]	Sept. 2001	Difference[1]	2000	Sept. 2001	Difference[1]	Sept. 2001	Difference[1]	2000	Sept. 2001	Difference[1]	Sept. 2001	Difference[1]
EU	63.9	3.4	1.8	-0.6	2.2	-0.6	2.3	2.6	+0.3	1.8	0.0	10.8	3.8	-3.5	4.7	-1.3
Germany	27.2	3.0	0.8	-1.1	1.8	-0.8	2.1	2.5	+0.5	1.3	0.0	10.0	2.7	-5.7	4.5	-0.9
Italy	13.6	2.9	1.8	-0.2	2.0	-0.5	2.6	2.6	+0.4	1.6	0.0	8.3	4.5	-0.9	4.9	-1.0
Croatia	7.9	3.7	4.0	+1.5	3.0	+0.5	6.2	6.0	+0.5	5.5	+0.5	N/A	N/A	N/A	N/A	N/A
Austria [2]	7.5	3.3	1.6	-0.6	2.6	0.0	2.0	2.3	+0.6	2.0	+0.4	7.4	4.5	0.0	4.5	-0.5
France	7.1	3.4	2.0	-0.6	2.1	-0.5	1.8	1.8	+0.3	1.1	-0.3	15.2	1.8	-7.0	2.6	-3.4
Bosnia [3]	4.3	8.0	6.0	N/A	6.0	N/A	1.2	1.0	N/A	1.0	N/A	N/A	N/A	N/A	N/A	N/A
USA	3.1	4.1	1.3	-0.2	2.2	-0.3	3.4	3.2	+0.6	2.2	0.0	13.7	7.2	0.0	7.1	0.0
Poland	2.6	4.0	1.0	-1.0	0.0	-4.0	10.1	6.0	-2	7.0	+1.0	N/A	N/A	N/A	N/A	N/A

Source of data: IMF- World Economic Outlook September 2001 (EU, Germany, Italy, Austria, France, USA); WIIW- Monthly Report, October 2001(Croatia, Bosnia, Poland).
Notes: [1] Differences refer to the previous forecast of the same institution, and are expressed in percentage points,
[2] Real growth in imports of goods and services according to WIFO forecasts,
[3] Inflation - Croat-Muslim Federation (average rates for the Republic of Srpska are 13.% in 2000, 5% in 2001, 3% in 2002).

most directly affected sectors of economy. The US authorities are fighting recession by resorting to monetary policy measures, and, increasingly, measures related to fiscal policy, which have been made possible by budget surpluses after 1998. The US economy has been stimulated by interest rate cuts and tax cuts, with increased government spending (more defence spending, approved subsidies to the airline industry) being an additional incentive to boost economic growth. These measures are expected to gradually strengthen the U.S. economic growth in the second half of 2002.

The US slowdown has also affected economies in the **European Union**, most notable Germany. The German economy slowed down due to a fall in demand for exports, and also due to a falling purchasing power of Germans, which was propelled by higher prices of energy and foodstuffs. Instead of reaching a 2.4% growth rate in 2001, as forecast in spring, the EU-15 was anticipated in the IMF's September report to have a mere 1.8% growth rate in 2001. The IMF has made its forecast of a 2.2% growth for the EU in 2002 on the estimates that in 2002 oil and food prices would fall, the euro would gradually become stronger and the US economy would began to grow.

A comparison of three largest economies in the EU shows that **Germany** got into the worst trouble. According to the IMF, investment in 2001 is to fall by 3.2% in real terms (a 2.7% drop was envisaged in the joint forecast of the six German institutes), while an additional drop of 1.2% was anticipated for 2002 (the six German institutes anticipated a rise of 0.6% in investment in real terms for 2002). As a result of weak investment and a decrease in export demand, industrial output is falling as well – after posting a 6.2% rise in 2000, it is expected to drop to 0.2% in 2001 and total 2.8% in 2002. The indicator of business outlook too has been on the decrease since the middle of 2000, as German businessmen expected orders and, consequently, production to further drop in the short-run even before September 11. Totalling 0.8%, the IMF's September forecast of Germany's economic growth rate for 2001 is by as much as 1.1 percentage points below the spring forecast. The year 2002 however is expected to see exports and later on domestic demand rise. The latter was anticipated by the six German institutes to be negative (-0.1) in 2001, following a 2% growth in 2000 and a 2.6% growth in 1999. Economic growth rate is to stand from 1.3% and 1.8% (six German institutes 2001, IMF 2001).

Italy and **France** too have experienced an economic slowdown in 2001, though not to the same extent as Germany. These two economies are to grow at approximately the same pace as the German one (slower growth in 2001 and a slow recovery in the second half of 2002 are anticipated). However, both Italy and France have been forecast to reach higher growth rates of the gross domestic product in 2002 compared with Germany (2% in Italy and 2.2% in France), the growth being mainly fuelled by domestic consumption.

The world economic slowdown has also affected the **Austrian** economy, which has been losing momentum since the middle of 2000. Austria's Institute for Economic Research (WIFO) has lowered the forecasts of exports and industrial output growth, two sectors subject to heavy influence from outside. The sharpest change in anticipated figures, however, was made to investment – instead of increasing by 1.3% as anticipated in spring, investment is to shrink by 0.9% in 2001. Just like in Germany, activity in the construction sector in private hands as well as in the construction of roads and railways financed by the state has dropped considerably. The drop in the construction industry (-3% in 2001) is expected to continue also in 2002 (-2%). Thus, the latest WIFO forecast of Austria's economic growth rate for 2001 and 2002 at 1.3% and 1.9% respectively is even lower than that of the IMF (table 3.2).

Candidate-countries for EU membership are to be less affected by the world economic slowdown than the EU. According to IMF forecasts, the average economic growth rate, which totalled 3.8% in 2000 (Turkey excluded), is anticipated to stand at 3.4% 2001 and 4.2% in 2002. Exports to EU member states – the most important export market for all EU candidate countries – is to fall in 2001, yet domestic demand is expected to increase, a development which is expected to result in a relatively strong economic growth rates until the end of 2001 as well 2002. Those companies from EU candidate countries that produce hi-tech goods and are part of transitional companies are to be the least affected, the Vienna Institute for International Comparisons (WIIW) forecast; given the stage of their technological development and their integration into the world economy, Slovenia and Hungary are expected to be the least affected by the change in Europe's business climate. The Czech Republic and Slovakia are to be more affected, while Poland, a country currently facing internal economic difficulties, as well as the other candidates could face some serious troubles.

With interest rates expected to be cut at a slower rate in Central and East European countries than in the EU in 2002, there is a strong likelihood of a major inflow of foreign capital to these countries, the WIIW has also pointed out. This forecast is based on a supposition that general uncertainty in the global economic environment would gradually decrease, which could stimulate the transfer of part of the capital which is safely invested (for instance at Swiss banks) but not highly profitable, to be invested to more lucrative, though more risky investments in candidate countries.

According to a WIIW estimate, **Croatia** is to have a 3.5 to 4% growth rate in 2001, while the Croatian National Bank has come up even with a 4.2% economic growth rate. Economic growth in 2001 has been mainly fuelled by domestic consumption (private consumption and investment), which has resulted in relatively high imports. Industrial output has also pursued a considerable rise in 2001, with the value added standing at 3.9% in real terms in the first quarter year-on-year and at 4.9% in the second quarter. With some major privatisation projects not having been carried out, FDI – amounting to USD 380 million in the first half of 2001 - is to be lower in 2001 than expected. While similar trends are to continue in 2002, private consumption and investment spending are to grow more slowly, resulting in a smaller economic growth rate, namely that of 3%.

The economy of **Bosnia-Herzegovina** remains strongly dependent on foreign support, with imports still heavily exceeding exports. In 2000, the export-import coverage stood at a mere 28.2%, a similar figure being recorded also after the first quarter of 2001. Moreover, the country has an around 40% unemployment rate. According to WIIW, the 5% economic growth rate from 2000 is to continue also in 2001 and 2002.

With industrial output down by 3% in the first eight months of 2001, the **Federal Republic of Yugoslavia's** economic growth has chiefly been propelled by a rise in public spending – which was enabled by higher taxes and international aid (a donor conference held in June) - as well as by an around 20% increase in the agricultural production. The gross domestic product is expected to rise by 5% in 2001, according to the WIIW forecast, which however is a rather low figure, given a low basis. The purchasing power in the FRY has been severely affected by sharp price rises, which will affect the already scarce growth in private consumption also in the future (retail prices are to rise, according to WIIW, by 80% in 2001, and by 50% in 2002). Moreover, the largest share of the promised international aid has not yet been disbursed. Economic growth could well be boosted in 2002 by FDI, where Slovene companies play an important role.

Conflicts in **Macedonia** have put the break on the country's economic growth after the country had launched some structural reforms with success. The gross domestic product and industrial output have been estimated by WIIW to drop by 4% and 10% respectively in 2001. Economic growth in 2002 will principally depend on political and military developments, while a significant incentive is expected to come from funds supplied by international organisations and financial institutions. By the middle of 2002, Macedonia is to receive USD 35 million of aid by the Word Bank and an additional USD 15 million from the International Bank for Reconstruction and Development.

Table 3.3: Economic growth, inflation and balance of payments in EU candidate-countries (in %)

	Real growth of gross domestic product					Inflation					Current account of the balance of payment, relative to GDP				
	2000	2001		2002		2000	2001		2002		2000	2001		2002	
		Sept. 2001	Previous	Sept. 2001	Previous		Sept. 2001	Previous	Sept. 2001	Previous		Sept. 2001	Previous	Sept. 2001	Previous
Bulgaria	5.8	4.0	4.0	4.0	4.0	10.3	5.0	6.0	4.0	4.0	-5.9	-4.7	-3.6	-4.5	-3.3
Czech Republic	2.9	3.7	3.0	3.0	3.5	3.9	4.9	3.7	3.5	3.0	-4.5	-5.5	-3.9	-5.5	-4.2
Hungary	5.2	4.3	5.0	4.5	5.0	9.8	9.0	8.5	6.5	6.5	-3.3	-4.1	-4.4	-3.9	-4.2
Poland	4.0	1.0	2.0	0.0	4.0	10.1	6.0	8.0	7.0	6.0	-6.3	-4.6	-6.5	-5.3	-6.5
Romania	1.6	4.0	3.0	2.0	1.0	45.7	40	40.0	35	35.0	-3.8	-6.6	-4.1	-4.3	-3.2
Slovakia	2.2	3.0	3.0	3.0	4.0	12.0	8.0	10.0	6.0	6.0	-3.7	-8.2	-2.3	-8.8	-2.0
Estonia	6.9	4.5	5.5	5.0	5.5	4.0	5.7	5.0	3.8	2.8	-6.4	-7.2	-7.2	-6.8	-6.7
Latvia	6.6	6.0	6.0	6.0	6.0	2.6	2.3	2.1	3.0	3.0	-6.8	-6.3	-6.6	-5.8	-5.5
Lithuania	3.3	3.6	3.2	4.7	3.8	1.0	0.6	1.3	2.8	2.6	-6.0	-6.7	-6.7	-6.6	-6.3
Cyprus	5.1	4.2	4.5	4.0	4.0	4.1	2.2	2.7	2.5	2.7	-5.0	-3.6	-5.3	-3.0	-4.6
Malta	4.7	4.1	4.3	4.3	3.3	2.4	1.8	2.5	2.0	2.5	-14.5	-5.9	-3.7	-5.1	-3.7
Turkey	7.5	-4.3	-2.6	5.9	4.9	54.9	51.9	48.4	32.7	28.4	-4.9	3.0	0.4	-0.4	0.1

Source of data: IMF- World Economic Outlook, October 2001 (Estonia, Latvia, Lithuania, Cyprus, Malta, Turkey); WIIW- Monthly Report, October 2001 (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia).
Note:Previous forecast: at IMF World Economic Outlook, May 2001; at WIIW Research Reports, February 2001.

4. CURRENT ECONOMIC DEVELOPMENTS AND SHORT-TERM PROJECTIONS

4.1. GROSS DOMESTIC PRODUCT

4.1.1. EXPENDITURE STRUCTURE OF GROSS DOMESTIC PRODUCT – The contribution of domestic demand to economic growth set to strengthen in 2002

In the first half of 2001 the year-on-year real growth of gross domestic product was 2.9%. The data on gross domestic product growth in the second quarter of 2001 published by the SORS at the end of September show a further gradual slowing down of economic activity. In the third quarter of 2000, year-on-year economic growth was 5.5%, in the final quarter it was 3.5%, in the first quarter of 2001 it was 3.2%, and in the second quarter it was only 2.7%. The slower gross domestic product growth seen in the first two quarters of 2001 mainly resulted from the drop in investment consumption, which was on a downward trend for three consecutive quarters and recorded a 4% real fall in the second quarter of 2001 against the respective period of 2000. In the second quarter of 2001, growth in exports of goods and services (up 6% compared to the same period of 2000) almost halved compared to the first quarter of 2001 (11.1%). Growth of imports of goods and services also slowed down; in the second quarter it was 2.6% higher than in the same period of 2000, following a rise of 3.4% in the first quarter.

Table 4.1.1.1: Growth in demand components

	Real growth in %			
	1999	2000	2001	2002
			forecast	
Total aggregate demand	5.6	5.2	3.6	3.9
of which:				
Foreign demand (export)	1.7	12.7	7.2	4.8
Domestic demand	6.6	3.2	2.6	3.6
- intermediate consumption	4.6	5.1	3.7	3.7
- private consumption	6.0	0.8	1.9	3.0
- government consumption	4.6	3.1	3.7	3.7
- gross fixed capital formation	19.1	0.2	-1.4	4.6

Source of data: SORS, the IMAD's forecast.

After rising modestly in the preceding two quarters, household consumption growth strengthened in the second quarter of 2001 (up 2.8% year-on-year). In that same quarter, private consumption rose even slightly faster than gross domestic product.

In accordance with expectations of a more pronounced slowing down of economic growth in Slovenia's main trading partners (Germany, Italy, and Austria), the forecast of annual growth in foreign demand for 2001 is lower than anticipated in the spring forecast (a fall from 7.5% to 7.2%). However, the correction is small since exports to Croatia and Russia exceeded our spring expectations. Foreign demand will grow in real terms considerably faster than domestic demand (by 2.6%) and thus retain its role as the main lever of economic growth. Within domestic demand, intermediate and government consumption are estimated to grow at an above-average rate. The lagging of growth in intermediate consumption behind the growth seen in 2000 (3.7% in 2001, 5.1% in 2000) is largely due to the lower growth of exports (7.2% in 2001, 12.7% in 2001). Real growth of government consumption[6] will remain at 3.7% in 2001 as well. The forecast of real government consumption growth in 2001 is based on the national budget adopted for 2001 and, compared to the spring projection (4.2%), it decreased due to the change in the expenditure structure (health care, municipalities) and changes in the methodology (instead of the consumer price index the estimated government consumption deflator based on the SORS' methodology was used).

An increase in private consumption will, given the predicted wage movements, employment trends, and the gradual easing of the burden of loans taken out in 1999, become somewhat stronger in 2001 (1.9% real growth, 0.8% in 2000; see Chapter 4.4). The available data on investment activity show that investment has been on a decline in 2001; gross fixed capital formation is estimated to drop by 1.4% in real terms in 2001 (see Chapter 4.5). Faster dynamics of investment financed by public funds are predicted in the second half of the year, but the relative importance of public financial sources for investments is too low to compensate for the negative effects of the lower export demand. These in turn affect the investment activities of the corporate sector, which will probably slow down as a result of the need to cut costs. Taking into account the movements of domestic expenditure aggregates, 2001 will also witness more modest real growth of imports (up by 3.3%).

[6] Government consumption consists of government expenditure on non-market services in the field of education and training, health care, social security, culture, sport, and market-oriented products and services such as medicines, orthopaedic accessories, concession rights to the private sector, health resort services and alike, and collective government expenditure on administrative, defence, economic, research and development and other common non-market services of the state.

With the predicted import-export trends, the goods and services trade deficit will be lower compared to the spring forecast by around USD 115 million. As a result, the current account of the balance of payments deficit will also be lower and equal 1.1% of gross domestic product in 2001 (3.4% of gross domestic product in 2000; see also Chapter 4.6.2.2). On the basis of the above movements in individual aggregates of consumption, the predicted **real growth of gross domestic product in 2001 is 3.7%.**

Table 4.1.1.2: Expenditure structure of gross domestic product [1]

	Contribution to GDP growth in percentage points [1]			
	1999	2000	2001	2002
			forecast	
GROSS DOMESTIC PRODUCT	5.2	4.6	3.7	3.6
Exports of goods and services	1.0	7.4	4.7	3.1
Imports of goods and services	-5.3	-4.0	-2.2	-3.1
Foreign goods and services balance (export-import)	-4.2	3.4	2.4	0.0
Total domestic consumption	9.4	1.2	1.3	3.6
- Private consumption	3.4	0.4	1.0	1.6
- Government consumption	0.9	0.6	0.7	0.7
- Gross fixed capital formation	5.1	0.1	-0.4	1.2
- Changes in inventories and valuables	0.0	0.1	0.0	0.1

Source of data: SORS; the IMAD's forecasts.
Note: [1] figures for GDP show growth in %.

Taking into account the expected later pick-up of economic growth in the most important European partners compared to the spring forecast (see Chapter 3), the real growth of goods and services exports will become slower in 2002 (4.8%) than expected in spring (5.9%). Subdued exports will also be reflected in the slower production activity, especially in manufacturing. As a result, imports of intermediate goods will be relatively lower and, consequently, total imports of goods and services in 2002 will not strengthen as much as we expected in spring (a rise of 4.7% as against 6.2%). The goods and services trade deficit and the deficit in the current account of the balance of payments, measured as a percentage of gross domestic product, will remain at approximately 2001 levels (current account deficit of 1.2% of gross domestic product). In 2002, investment activity will gain strength (real growth of 4.6%). The pick-up will also be contributed to by the faster growth of investments in telecommunications, government services, residential building construction, and the energy sector. With the anticipated increase in wages and employment, as well as the disburdening of household income due to paying off of the major part of loans taken out in 1999, 2002 will also see a strengthening of private consumption (3% real growth). Despite the expected strengthening, the predictions of private and especially investment expenditure are lower than the spring ones, which is an additional reason for lower forecasts of import growth. Government consumption is expected to retain the growth dynamics from 2001. Economic growth **in 2002** will thus be **3.6%.**

Table 4.1.1.3: Main national accounts aggregates

	Structure in %, current prices			
	1999	2000	2001	2002
			forecast	
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0
Net primary income from the rest of the world	-0.2	-0.4	-0.7	-0.7
GROSS NATIONAL INCOME	99.8	99.6	99.3	99.3
Net current transfers from the rest of the world	0.6	0.7	0.7	0.7
GROSS NATIONAL DISPOSABLE INCOME	100.5	100.3	100.1	100.0
Final consumption	76.0	75.8	75.0	75.0
GROSS NATIONAL SAVINGS	24.5	24.6	25.1	25.0
Surplus of the nation on current transactions	-4.0	-3.2	-1.1	-1.2
GROSS CAPITAL FORMATION	28.4	27.8	26.2	26.2
of which: gross fixed capital formation	27.4	26.7	25.1	25.0
NET CAPITAL FORMATION	11.1	10.3	8.8	8.9

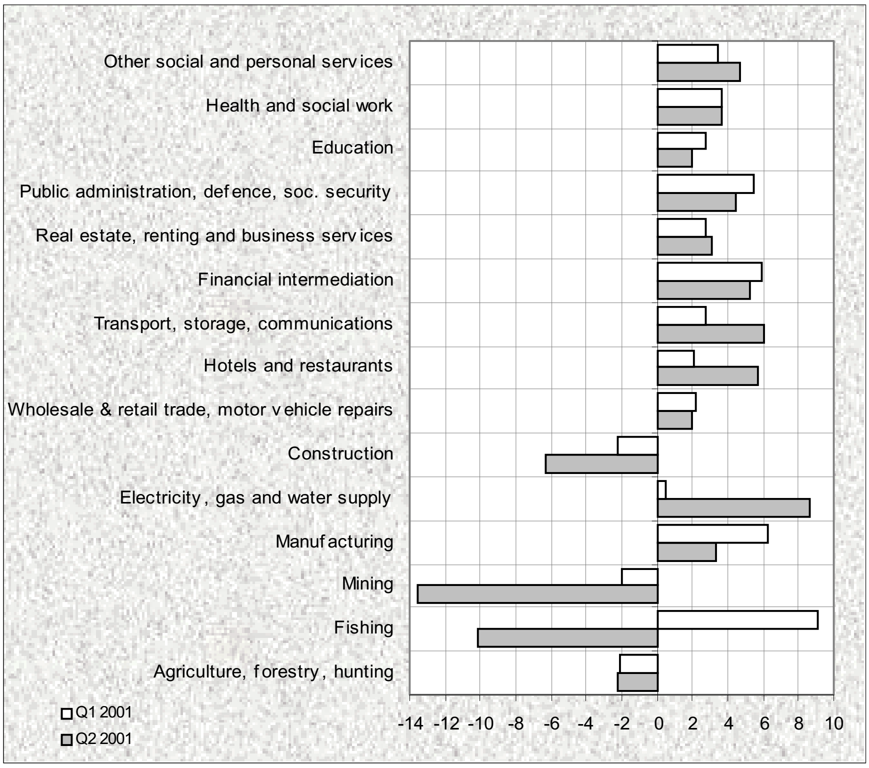
Source of data: SORS; the IMAD's forecasts.

As early as in 2000, the relatively modest household consumption and subdued growth of investments narrowed the **investment-savings gap** down to 3.2% of gross domestic product. In 2001, the share of private consumption in gross domestic product will fall by 1 percentage point (see Chapter 4.4). As a result of the reduced household consumption, a real increase in gross savings of 7.2% is expected in 2001; the share of gross savings in gross domestic product will thus increase to 25.1%. On the other hand, due to the fall in investments, the share of gross fixed capital formation in gross domestic product will decrease by 1.6 percentage points (to 26.2%). As a result of increased savings and lower investment expenditure, in 2001 the investment-savings gap will be much narrower compared to 2000 and it should equal around 1.1% of gross domestic product.

4.1.2. PRODUCTION STRUCTURE OF GROSS DOMESTIC PRODUCT – A pronounced slowdown in manufacturing's growth, a pick-up in construction

According to the SORS' data, year-on-year growth in value added settled at 2.7% **in the second quarter** after recording a 3.5% real rise in **the first quarter of 2001**. The slowing down of growth was contributed to by the basic industrial sectors (activities from A to F) which recorded only 1.3% real growth in the second quarter of 2001, while value added growth in the service sector was 3.7% year-on-year. In industry, export activities slowed down and, apart from that, the year-on-year growth in value added in manufacturing also decelerated considerably (from 6.3% in the first quarter to 3.3% in the second). Construction activities, which represent almost half of total investment activities, also continued to fall. The real drop in construction's value added accelerated from 2.2% year-on-year in the first quarter to 6.3%

Figure 1: Year-on-year growth rates of value added, by quarters (constant prices 1995), in %



Source of data: SORS.

in the second quarter. According to the SORS' data, the value of construction put in place fell the most in civil engineering, which is to a great extent related to public finance restrictions and the related slowing down of the construction of the Slovenian motorways. As a result of unfavourable weather conditions in 2001, the reduction of agricultural activities continued for the third consecutive year. In the second quarter, value added growth was considerable in the sector of electricity, gas and water supply (from 0.5% year-on-year in the first quarter to 8.6% in the second), which is related to the increased production of electric energy in thermal power plants and the nuclear power plant. Among service activities, the growth in value added strengthened most in hotels and restaurants (from 2.1% year-on-year in the first quarter to 5.7% in the second), which is related to the increase in the number of overnight stays (particularly by foreign guests). Stronger growth dynamics were also recorded in the sector of transport, storage and communications (up by 6% year-on-year; in the first quarter of the year by 2.8%). Other service activities have more or less maintained the growth dynamics recorded in the first quarter of the year.

Taking into account the fall in foreign demand, the slowing down of manufacturing's value-added growth will gradually continue in **the second half of 2001** and more significantly in the last quarter of the year. The information on the growing number of employees (see Chapter 4.3), export activities (see Chapter 4.6.2) and the production volume in manufacturing show that there was no significant slowdown in production activities' growth in the third quarter of 2001. In 2001, the real value added growth in manufacturing will thus be around 4.5%. In the second half of the year the construction activities are expected to be still weaker than in the same period last year; the year-on-year drop, however, should be brought to a halt towards the end of the year (see Chapter 4.7), so that value added in construction will fall by 2.5% in real terms in 2001. Growth of value added in industry and construction (activities from C to F) will consequently lag behind the growth in 2000 by almost 4 percentage points. Service activities (G to O), on the other hand, will maintain the growth dynamics of 2000 (see Table 4.1.2). The total **value added in 2001** will thus be **3.6% higher in real terms than in 2000,** 1.5 percentage point less than in 2000.

Given the anticipated further deterioration in the international economic environment **in the first half of 2002** (see Chapter 3), the deceleration of the value-added growth in manufacturing (from 4.5% in 2001 to 3.3% in 2002) will become even stronger. Given the anticipated strengthening of activities in the construction of infrastructure and residential buildings (see Chapter 4.7), around 3% real growth in value added in construction is expected in 2002. The total increase in industry and construction (activities from C to F) should thus remain approximately at the 2001 level. Within the service

Table 4.1.2: Growth and structure of value added

	Real growth levels in %, constant prices 1995			Structure in %, current prices		
	2000	2001	2002	2000	2001	2002
		forecast			forecast	
TOTAL VALUE ADDED	5.1	3.6	3.4	100.0	100.0	100.0
1. Agriculture, forestry, fishing (A+B)	-1.0	-1.0	3.0	3.3	3.2	3.2
2. Industry and construction (C+D+E+F)	7.0	3.1	2.8	38.3	37.4	36.7
- industry (C+D+E)	7.8	4.2	2.8	32.1	31.7	31.1
3. Services (G…O)	4.2	4.1	3.9	60.6	61.7	62.4
4. FISIM	1.9	1.0	2.0	-2.2	-2.2	-2.2

Source of data: SORS; the IMAD's forecast.

sectors, slightly slower growth in transport, storage and communications is expected, which is related to the slowdown of all economic activity. Apart from that, these activities – especially air and maritime transport – will be additionally negatively influenced by September's events in the USA. In 2002, a gradual deceleration of the value-added growth of some public service activities is expected, especially in public administration activities, defence and compulsory social security insurance, which is related to the foreseen reduction of recruitment in the public administration (see Chapter 4.7). On the other hand, gradual strengthening of private consumption will be reflected in higher growth dynamics in the trade sector (G); slightly higher growth is also expected in the hotels and restaurants, especially as a result of the improving tourism results recorded in off-season. The real growth of value added in service activities will thus, according to the estimates, amount to almost 4%. **Real growth of total value added** in 2002 will remain approximately at 2001 level (3.4%).

4.1.3. COST STRUCTURE OF GROSS DOMESTIC PRODUCT – Taxes on production and imports relative to gross domestic product on a gradual increase

In 2001, **compensation of employees** is estimated to increase by 4% in real terms (private sector by 1.5%, public sector by 4.4%), with its share in gross domestic product increasing by 0.2 of a percentage point. In 2002, compensation of employees is forecast to rise by 3.6% in real terms (gross wages and salaries by 3.4%, employers' social security contributions by 4.7% due to the anticipated increase in the rate of compulsory health insurance contributions).

The projection of **excise duties and value added tax (VAT)** for 2002 has been made on the basis of the expected dynamics of final consumption and the estimates of the expected sales of products burdened by excise duties (mineral oil and gas, alcohol and alcoholic beverages, tobacco products). It takes into account the existing system of excise duties and the suggested additional increases of excise duties on health-risky part of duty-products (alcohol and tobacco). The **share of import duties and taxes** will decrease in 2001 by a further 0.2 of a percentage point to only 0.7% of gross domestic product (from 3.5% of gross domestic product in 1995), the same share of import duties and taxes will probably remain in 2002. Namely, in 2001 it will end the five-year transitional period of cutting import duties and taxes based on the implementation of free-trade agreements with the countries of the EU, EFTA and CEFTA, Baltic countries, and Croatia and Macedonia. The share of **other taxes on products and services**[7] should remain at the level of 2000 (0.8% of gross domestic product). Due to the changes in the field of taxes on gambling and concession taxes, in 2001 and 2002 the share of other taxes on production will increase annually by 0.1 of a percentage point of gross domestic product (in 2000 the tax rate on gambling was 15.5%, in 2001 16%, in 2002 16.5%). In 2002, the share of **subsidies** will amount to 1.8% of gross domestic product (1.9% of gross domestic product in 2000).

Table 4.1.3: Cost structure of gross domestic product

	Structure in %, current prices			
	1999	2000	2001	2002
			forecast	
1. COMPENSATION OF EMPLOYEES	51.8	52.6	52.8	52.7
2. TAXES ON PRODUCTION AND IMPORTS	18.3	17.3	17.4	17.6
2a. taxes on products	16.2	14.9	14.9	15.0
2b. other taxes on production	2.1	2.4	2.5	2.6
3. SUBSIDIES	2.2	1.9	1.8	1.8
4. GROSS OPERATING SURPLUS AND GROSS MIXED INCOME (4=5+6)	32.1	32.0	31.6	31.4
5. Consumption of fixed capital	17.4	17.5	17.4	17.4
6. Net operating surplus and gross mixed income	14.7	14.5	14.2	14.0
7. GROSS DOMESTIC PRODUCT (7 = 1+2-3+4)	**100.0**	**100.0**	**100.0**	**100.0**

Source of data: SORS; the IMAD's forecast.

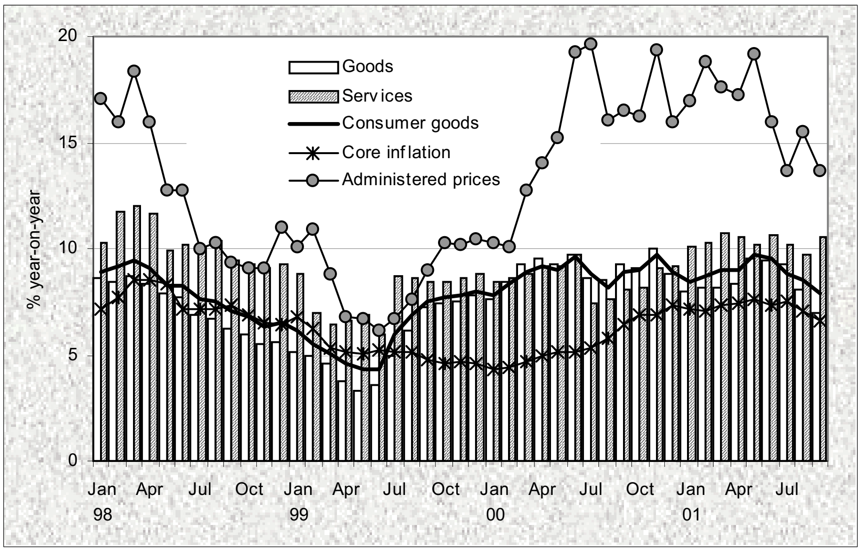
[7] Other taxes on products and services comprise taxes on air pollution, the tax on motor vehicles, special taxes on gambling machines, the tax on insurance contracts, the tax on real estate, and tourist tax.

Taking into account the companies' adaptation to the fall in export demand, accompanied by strong pressures to cut prices, the share of **gross operating surplus** in gross domestic product will be at a slightly lower level than in 2000 in both 2001 and 2002. Mostly due to the further falling of the share of agriculture in value added related to the liberalisation of agricultural markets, the relative share of the **gross mixed income** in gross domestic product will continue to fall by 0.2 of a percentage point per year in 2001 and 2002.

4.2. INFLATION AND PRICE POLICY – Long-term inflation indicators continue to slow down gradually

Following the relatively rapid increase in consumer prices in 2000, largely due to higher oil and other primary commodity prices, inflation stayed at relatively high levels in the first half of 2001, while in the third quarter of the year the **price rises began to slow down**. Inflation was 2.6% in the first quarter, it fell to 2.4% in the second quarter, yet prices went up 1.1% in the third quarter of the year. Compared to December 2000, consumer prices were up 6.0% in September 2001, the annual rise in prices was 7.9%, and the average price rise was 8.9%.

Figure 2: Inflation and dynamics of selected price indices from January 1998 to September 2001



Source of data: SORS, estimates by the IMAD.

External factors, mainly the rising prices of oil products and other primary raw materials in world markets, the relative strengthening of the US dollar and the growing inflation in the EU, which mostly affected price dynamics in 2000, continued to take effect in the first half of 2001, while in the following months internal factors became increasingly important determinants of price changes.

A decomposition of overall price changes into individual price groups indicates that in the **first nine months of 2001 the biggest contribution to inflation** came from the higher prices of goods and services in food and non-alcoholic beverages, transport, and housing. In the first quarter, the biggest contribution to inflation, namely 36.7%, came from the prices of food and non-alcoholic beverages, followed by the transport group, accounting for 27.9% of total price rises, and the housing group adding 13.6%. In the second quarter, a strong contribution to inflation came from the higher prices of products and services mostly affected by increased fuels prices, namely in transport (31.6%) and housing (6.7%), followed by food and non-alcoholic beverages (25.7%). In the third quarter of the year, the contribution made by products and services in the food and non-alcoholic beverages group increased to 45.8%, particularly because of a relatively insignificant seasonal reduction of prices.

The movements in agricultural producer prices and prices of food and non-alcoholic beverages did not contribute to the reduction of inflation as planned in the agricultural policy reform programme. Similarly to 2000, higher price rises than expected were mostly due to two factors: for the second year running the summer drought considerably reduced the size of the harvest and had an indirect impact on increased prices in the bread and cereal product groups. Moreover, animal diseases in the EU member-states indirectly affected the rise in prices of meat and fish (the price of the latter rose because of increased demand). Although producer prices of fruit and vegetables were lower than in the same period of 2000, their retail prices rose as a result of the more expensive imports on which Slovenia depends heavily because it cannot produce enough on its own.

Higher oil prices push up mainly the prices of goods and only partially and indirectly the prices of services. At the end of 2000, the prices of **services** rose 0.4 of a percentage point more than the prices of goods (by 1 percentage point in December 1999), while in 2001 the difference between the rises of prices of goods and services has been growing mainly due to the reduced inflationary pressures of oil prices; in September, the rise in the prices of services was 3.6 percentage points higher than the rise in the prices of goods. Among **individual groups of services**, in the first nine months of 2001 compared to the same period the year before, the biggest increase in the contribution to inflation was recorded in hotel and restaurant services (from 3.7% to 7.2%), telephone services (from 0.1% to 2.4%), recreation, culture, and sport (from 2.3% to 4.3%), and local utility services (from 3.1% to 4.7%).

The widening of the gap between prices rises of services and goods is partly the result of the deferred adjustment of prices of services to the prices of goods which grew relatively more rapidly in the previous months, partly due to increased demand in individual sectors, and partly due to uncompleted structural reforms in those areas where prices are still under government control. Furthermore, the relatively faster growth of prices of services is a consequence of different rates in factor productivity growth between sectors that are subject to international competition and those operating mostly in the domestic market. Higher wages in mostly non-tradable sectors are not the result of increased productivity (as in tradable sectors) but of the higher prices of services provided by these sectors (the Balassa-Samuelson effect, cfr. 2001 Spring Report).

The selection of products and services subject to **different regimes of government control** has not changed in 2001, however, due to modifications to the system of consumer goods prices index weighting, their share is lower and amounts to 13% (14% in 2000). Similarly to previous years, in 2001 growth of prices under government control is faster than the growth in the overall price rate. The difference between annual growth rates, equalling 8.5 percentage points in January dropped to 5.8 percentage points in September. The average rise of prices under government control in the last twelve months, compared to the average rise in the previous twelve months, was 16.6% in September, 7.7 percentage points more than the average growth in consumer goods prices.

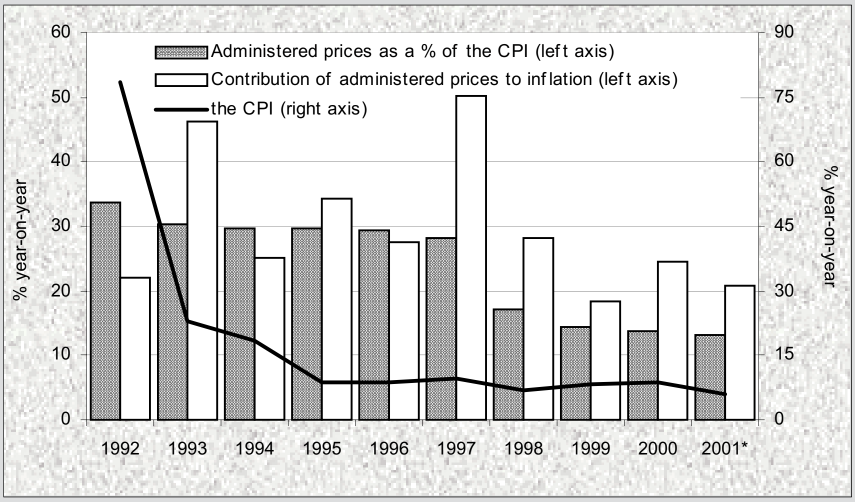
In the first nine months of 2001, monthly changes of prices under government control ranged between -0.2 and 2.8%. In the first quarter of the year, **administered prices** rose by 5.8% and added approximately 30% to total inflation. The biggest contribution to administered price rises came from the higher prices of local utility services (accounting for 58% of total administered price rises) and transport and heating fuels (accounting for 40% of total administered price rises). Given the increased pressure of price rises in local utility services, the Government adopted the Decree on prior notification of prices for local utility services in June providing that it is necessary to obtain the prior consent of the Government for any price rise in local utility services, where prices are determined in accordance with the prescribed methodology (waste removal, household water supply and sewage system fees), exceeding inflation by more than 28% (in water collection, treatment and supply) or 39% (other local utility services supervised by the Government). The rise in prices for local utility services slowed down in the following months and dropped

Box 1: Administrative prices

In the period 1992-1997, the share of prices under various regimes of government price control accounted for approximately 30% of the consumer price index, and its movements were mostly due to changes in the index's weighting system taking into account the changes in the consumption structure. In 1998, the share of administered prices dropped to approximately 17%, particularly because of the liberalisation of prices of food, energy for heating, and insurance, and because of modifications to the price index, while in the following years it fell to approximately 13% and stayed like that in 2001.

Before 1997, the contribution of prices under government control to inflation was in line with their share in the price index (meaning that administered prices rose almost equally with the price average). There are, however, some exceptions such as 1993 and 1997 when the contribution of administered prices to inflation was higher due to increased oil prices, or 1992 when the considerably lower administered prices contribution to inflation was an instrument of anti-inflationary policy. After 1997, the contribution of prices under government control to inflation each year significantly exceeded their share in the price index; the widening of the gap in the last two years was mostly due to higher oil and other raw material prices, while before that it was a result of eliminating price imbalances in the administered sectors. Although the selection of products and services under government price control remained the same, the way of setting their prices has changed in the last two years.

Figure 3: Share of administered prices in the consumer price index and their contribution to inflation



Source of data: SORS, estimates by the IMAD.
Note: * by end of September 2001.

Box 1: Administrative prices - *continued*

The prices of oil products and natural gas are set on the basis of a previously defined model taking into account the prices of raw materials in the world markets, changes in foreign exchange rates, and distributor's profit margin. Given the predominantly monopolistic position of fuel distributors, the emphasis is no longer on price regulation but on distributors' monopolistic profit regulation. Although fuel price volatility increased after the introduction of the pricing model, it is expected that the pricing model will contribute to the faster elimination of price disparities.

The main objective in the field of price control is to level out the contribution of administered prices to inflation to their share in the price index. In 2001, the contribution of administered prices to inflation should not exceed 20% and should be gradually reduced in the following years. A gradual reduction should facilitate the elimination of the remaining price imbalances in administered sectors. Decreased share and contribution of administered prices to inflation (through the liberalisation of remaining administered prices) will ease inflationary pressures, both direct and indirect, which are the result of the relatively higher share of services in administered prices, manifested through the Balassa-Samuelson effect.

Furthermore, the envisaged modifications to the legal regulation of the operations of the Bank of Slovenia provide that the concern over price levels will be set a monetary policy goal. To achieve smooth transition to this goal, it is necessary to clearly define the direction of administered price movements and, in particular, to reduce the volume of prices subject to the price control regime as well as the gap between their share and their contribution to inflation.

from 19.4% in the first quarter to 0.5% in the third quarter of the year. In the second quarter, prices under government control rose by 5.1%, and their contribution to inflation remained at the first quarter's level. Prices under government control mostly increased due to the higher prices in transport and heating fuels (69% of the total administered price rises), whereas higher prices in telephone services accounted for 25% of total administered price rises. Contrary to the last quarter of 1999 and 2000 when transport and heating fuels prices rose mostly because of increasing petrol prices in the world market, their current rise is mostly due to increased excise duties. In the first nine months of 2001, transport and heating fuels added 0.6 of a percentage point to inflation, 0.4 of a percentage point of which is due to higher excise duties. In the third quarter of the year, energy prices calmed down but the increase in prices of services continued and exceeded fuels price increase for the first time since 1999.

Similarly to consumer prices, **industrial producer prices** started climbing in the last quarter of 1999 and continued to rise in 2000 and in the first half of 2001, recording a 10% annual rise. In the third quarter of 2001, they began to slow down as a result of lower import prices that reduce inflationary pressures on domestic prices. In September, the annual rise in industrial producer prices was 8%, 1.2 percentage points less than in September 2000, while their average rise (9.4%) was 1.8 percentage points higher than in December.

As in previous years, the prices of investment goods recorded the most stable growth among the groups comprising the producer price index. Their annual growth totalled 3.5% in September. The prices of intermediate goods, increasing at a 13.1% annual rate in January, slowed down in the following months and recorded 5.5 percentage points lower annual growth in September. For the first time since 1999, in the third quarter of 2001 their growth was lower than the growth of consumer prices (9.6% in September).

After increasing from 5% to 7%, **core inflation** in 2000 stabilised at around 7.5% in the first nine months, thus narrowing the gap between measured and core inflation. Such movements suggest an easing of external pressures on price rises, meaning that for a continuation of a sustainable disinflation process it is no longer sufficient to merely restrict the transposition of foreign prices into the national environment through price control measures and excise duties adjustment, but it is necessary to adopt an anti-inflation-oriented monetary policy supported by the co-ordinated measures of income and fiscal policies.

In the final quarter of 2001, a further gradual reduction of the long-term inflation indicators is expected. According to the prevailing opinion of foreign analysts, it is expected that oil prices will not begin to rise by the end of the year, which will, together with further decreasing of foreign prices, contribute to slower growth of domestic prices in the following months. In addition, we do not expect any major changes in macroeconomic policy. Due to the moderately restrictive monetary policy on one hand and the preservation of balance of payment relations on the other, the slow growth in foreign exchange rates will continue and there will be no pressures on reducing interest rates. If the moderate rise of administered prices in the third quarter continues, and given the expected wage movements, such combination of monetary policy and foreign exchange rate policy will contribute to a further reduction of inflationary pressures. Therefore, in the last quarter of 2001, a further gradual reduction of the long-term inflation indicators accompanied with relatively strong volatility is expected. **In such circumstances, the average price rise at the end of the year should not exceed 8.5%.**

In 2002 it is expected that external pressures on price rises will decrease mostly because of the slowdown in global economic activity. **Price rises in 2002 will to a greater extent depend on monetary policy measures** and to a lesser extent on foreign exchange rate policy. Until the moment Slovenia joins the EU, the Bank of Slovenia will keep open the possibility of managing foreign exchange rate movements and thus the possibility of indirectly influencing price movements. If the Bank of Slovenia defined more precisely the level of inflation, consistent with its monetary objective, and the measures for its achievement, it would have a stronger influence on the creation of low inflationary expectations.

For the disinflation processes to continue, it is necessary to pursue structural reforms regarding the abolition of indexation mechanisms, labour market, privatisation, and controlled prices, since the existing situation in the above areas makes it difficult to further reduce inflation (the Balassa-Samuelson effect).

Additional barrier to expected reduction of inflation could be a widening of the gap between **wage growth** within one industry as well as between individual industries, in particular if such momentum of changes in wages will be, to a greater extent than this year, reflected in increased consumption. Maintaining the existing mechanisms and indexation rates in household income and finance would increase the persistence of inflation and slow the process of disinflation down.

Considering that the government deficit in the next two years will not differ considerably from deficits recorded after 1996 (taking into account the deficits relating to a calendar year), fiscal policy decisions will affect inflation mainly through adjustment of excise duties (mostly for alcoholic beverages and tobacco) to the EU levels, and on the increase of existing VAT rates. It is estimated that the planned increase in the VAT rate in January 2001 will contribute between 0.6 and 0.8 of a percentage point to inflation, which is approximately as much as has been added by the increased excise duties on fuels in 2001. Given the fact that the increase in VAT rate would considerably reduce the fiscal reasons for any further increase in excise duties, their increased stability could strongly alleviate the price effect of higher VAT.

If the above assumptions regarding domestic and foreign environment were realised, it would be possible, taking into account given restrictions, that the process of disinflation will continue. At the end of 2002, long-term inflation indicators could reach the levels recorded before the tax reform of 1999. **The average inflation rate in 2002 should decline to 6.4%**, whereby the **risks that inflation would differ significantly from the plan** are equally distributed. If slower economic growth in foreign countries resulted in a further decline of raw material prices (a barrel of Brent oil under USD 20), while at the same time financial flows from abroad increased (because of the announced sale of state property and the sale of capital shares in the private sector) causing slower exchange rate growth, inflation would be lower than expected by about 0.5 of a percentage point. On the other hand, macroeconomic measures (mostly in fiscal policy) aimed at stimulating economic growth could generate further pressures on price rises and thus increase inflation by about 0.5 of a percentage point at the end of the year 2002.

4.3. EMPLOYMENT AND UNEMPLOYMENT – Employment growth to slow down in 2002

The employment growth that started in 1999 continued into the first half of 2001. After having decreased in both December 2000 and January 2001, the number of persons in employment rose in the period from February to June by around 2%, however, the summer months saw stagnation, like every year. Thus, the average number of persons in employment in the period from January to August was 1.2% higher than in the same period of 2000, or 1% higher than the average of 2000. In 2001, as in previous years, fastest growth was recorded in the number of people employed in the small business sector, however, that growth is relatively slower than in previous years. The number of those employed in enterprises and organisations saw only a slightly lower rise (up 1.7% in the period from January to August compared to the same period of 2000). From December to August, the number of farmers grew by almost 3%; however, on average it was still 3.6% below the average of 2000. In 2001, the number of self-employed entrepreneurs is stagnating and was 0.3% lower in August than in December, while the number of own-account workers is on the increase, on average up by around 2% compared to last year's average.

Similarly, the number of persons in employment is increasing according to the Labour Force Survey, albeit with slightly slower dynamics. In the first two quarters of 2001, this number was on average 2.5% higher than in the same period of 2000, or 1.1% higher than the average of 2000. The survey showed that employment rate in the second quarter of 2001, measured by the SORS method (population sample of those aged 15 or more[8]), was higher (54.4%) than in the same period of 2000 and also higher than the average of 2000 (53.9%). The employment rate of women (51.3%) remains higher compa-

[8] The employment rate measured on the population sample aged 15-64 (which is comparable to Eurostat's methodology) was 63.3% in the first quarter of 2001 (the average of 2000 was 62.9%). The employment rate of women measured by the Eurostat method was 58.5% in the first quarter of 2001 (the average of 2000 was 58.5%), and of men 68.0% (the average of 2000 67.2%).

red to both the same period of 2000 and the average of 2000, as does the level of employment rate of men, which rose to 64.8%. Monthly records also show that working activity of men is rising faster, while the working activity of women remains at approximately the same level as in 2000.

Table 4.3.1: Structure and growth of employment by activities

		Annual growth (%)		Structure (%)	
		2000 / 1999	Jan-Aug 2001/ Jan-Aug 2000	2000	Jan-Aug 2001
Total		**1.3**	**1.2**	**100.0**	**100.0**
A+B	**Agriculture**	**-5.3**	**-5.3**	**5.6**	**5.3**
C:F	**Industry**	**0.2**	**0.6**	**40.2**	**39.9**
C	Mining	-18.0	-4.8	0.7	0.7
D	Manufacturing	0.0	1.3	30.5	30.5
E	Electricity, gas and water supply	-2.2	-0.8	1.5	1.5
F	Construction	4.1	-1.2	7.5	7.3
G:O	**Services total**	**2.8**	**2.4**	**54.2**	**54.7**
G	Trade, motor vehicle repairs	3.4	1.4	12.7	12.7
H	Hotels and restaurants	3.0	0.4	3.8	3.7
I	Transport, storage, communications	1.0	1.4	6.2	6.2
J	Financial intermediation	3.6	3.0	2.5	2.5
K	Real estate, renting and business services	3.1	4.6	6.0	6.2
L	Public administration and defence	3.2	3.9	5.7	5.9
M	Education and training	1.7	2.0	6.9	6.9
N	Health care and social security	3.3	3.1	7.1	7.2
O	Other public, common and personal services	3.8	2.2	3.4	3.4

Source of data:SORS, the IMAD's calculations

With the exception of mining and the winter seasonal employment fall in construction, the number of those employed was on the increase from February to June in all activities. In absolute terms, the number rose most in manufacturing[9], business services, trade and construction, and in relative terms, mainly in business services. July and August saw a steady rise in employment in business services, state administration, transport and construction, while in the majority of other activities the number of employees fell, especially in the sector of training and education (a seasonal fall). The number of those employed also fell in manufacturing. In the first eight months of 2001, exclu-

[9] In the period from February to June, employment rose most in metal processing, and rubber and plastics manufacturing, while it fell the most in the leather and textile industries.

ding mining, the number of those employed was still below the average of 2000 in agriculture, electricity, gas and water supply, and construction. The highest growth compared to the average of 2000 was seen in the sectors of business services and public administration, and this period also recorded growth in manufacturing.

Table 4.3.2: Value added per actively employed worker by activity

		Index: Slovenia= 100			Year-on-year growth (%)	
		2000	Q1 2001	Q2 2001	Q1 2001	Q2 2001
TOTAL		**100.0**	**100.0**	**100.0**	**2.5**	**1.4**
A	Agriculture, hunting, forestryo	55.4	68.5	61.9	5.7	3.9
B	Fishing	54.5	62.9	64.9	25.5	-9.1
C	Mining	132.6	141.3	148.1	2.7	-9.1
D	Manufacturing	82.7	100.1	100.0	4.9	1.9
E	Electricity, gas and water supply	151.2	194.4	177.5	1.1	9.6
F	Construction	71.5	69.3	80.7	-1.3	-5.0
G	Trade, motor vehicle repairs	79.1	92.2	94.9	0.9	0.6
H	Hotels and restaurants	68.4	71.2	82.6	1.7	5.1
I	Transport, storage, communications	106.2	126.5	126.9	1.8	4.8
J	Financial intermediation	141.8	172.3	168.3	2.6	2.2
K	Real estate, renting and business services	161.1	193.9	183.4	0.8	-2.0
L	Public administration, social insurance	88.6	105.2	101.9	1.1	0.7
M	Education and training	66.8	78.8	77.3	0.6	0.0
N	Health care and social security	64.6	76.8	75.9	0.4	0.8
O	Other public, common and personal services	87.2	104.8	102.9	1.2	2.4

Source of data:SORS; the IMAD's calculations.

Taking into account the impacts of the subdued economic growth on the international scale, we can predict that employment growth will slow down or even stop, although the September data on registered unemployment flows do not indicate this trend yet (more lay-offs, however, employing of the unemployed did not yet decrease in September). This is why we anticipate that the rise in the number of those employed will remain at the current level by the end of the year, which means around 1.2% annually. **According to the estimates, employment growth in the full-time equivalent will be much lower (down 0.7%)**. We can expect that the slight fall in informal employment, which began in the first half of 2001, will continue due to the deterioration of economic conditions, and the share of activities involving less than full working time will increase. Given the estimated growth of gross domestic product (3.7%), this would lead to labour productivity growth of only around 3%, which is less than in previous years. The low growth of productivity is also indicated by the available quarterly information on gross value added broken down by activity.

With the even lower gross domestic product growth and the approximately same labour productivity growth **in 2002**, we can also expect a **smaller increase in employment in the full-time equivalent (up by around 0.6%).** In 2002, growth in the number of employees established by monthly sources should still exceed the growth of the number of the employed in the full-time equivalent by around 0.3 of a percentage point.

For the third year in a row, the **trend of a fall in the number of the registered unemployed is continuing** in 2001. The main reason remains deletions from the unemployment registers. By September, they were 8.4% higher compared to the same period of 2000. Almost a quarter of the deletions were due to retirement, while a good one-tenth was due to the renewed regular schooling of the unemployed. Employment of the unemployed, however, continues to decline; in the first nine months of 2001 it was lower than in the same period of 2000 by as much as 12%, while the inflow of the unemployed resulting from the loss of work was 6.1% higher than in the same period of 2000. Almost half of this inflow was due to the termination of temporary employment. Until September this year, the number of first-time job-seekers who entered registered unemployment was 6.2% higher than in the same period of 2000.

The number of the registered unemployed was falling in the period from January to September in all months, except in January, July and September, so that from December 2000 to September 2001 it fell from 104,583 to 99,834. The registered unemployment rate decreased from 12% in December 2000 to 11.1% in August 2001, wherein the level of women's registered unemployment rate remained much higher (in August 12.6%) than the level of men's registered unemployment rate (9.9%). Taking into account the usual seasonal dynamics, **the end of 2001** should see more than 100,000 **registered unemployed** or 11.4% of the active population and, **on average,** 101,300 or 11.5% of the active population. In 2002, given the anticipated employment growth **unemployment will continue to drop** (98,800 or 11.2% of the active population), whereas the slow increase in the activity rate of the working-age population will continue.

Despite the falls in the number of unemployed and the high number of deletions from the registers, the **structural problems of unemployment remain** more or less **unchanged**. The share of the unemployed aged over 40 still exceeds half of all unemployed people, and the share of the unemployed aged over 50 exceeds a quarter of all unemployed people. The structural share of long-term unemployed people remains over 60%, while the share of unskilled unemployed people remains at the level of around 47%. Among these, again, there are more than 72% of people unemployed for more than a year (last year 70%). More than one-half of the unemployed are women.

The **number unemployed as revealed by the survey continues to fall** in 2001. The survey unemployment rate was 6.7% in the first quarter of the year, and in the second it was only 5.9% (the average of 2000 was 7.0%, and the last quarter's average was 6.6%). The survey unemployment rate of women (last quarter 6.3%) remains higher than the unemployment rate of men (5.6%). The number of those registered as unemployed but who are not considered unemployed according to the survey criteria remains over 50,000. Among these, over 80% of people (the average of 2000 76.8%) are not considered unemployed according to international criteria because they were not seeking employment in the preceding four weeks. In the first quarter of 2001, the survey unemployment rate of the young was 17.8%, lower than in the same period of 2000 (19.0%). The unemployment rate of young women (in the first quarter of 2001 19.4%) remains higher than that of men (16.5%).

In 2001, **the number of job vacancies** was on average **slightly lower than in 2000.** As a result, the ratio between the unemployed and vacancies has worsened slightly: 8.4 unemployed persons per vacancy compared to 8.3 in 2000. It improved only in the field of job vacancies for people with a university degree (from 2.4 in 2000 to 2.2 in 2001), while it again deteriorated for those vacancies requiring secondary school education (from 7.5 to 7.7) and lower-level education (from 12.6 to 13.1).

4.4. PRIVATE CONSUMPTION – Gradual strengthening in 2001 and 2002

In the **first half** of 2001, **private consumption** rose by 1.8% in real terms compared to the respective period of 2000 (calculation made on the basis of the SORS' data on the growth of gross domestic product in the first two quarters of the year). After the slow year-on-year growth seen in the final quarter of 2000 and the first quarter of 2001 (0.8%), private consumption gained strength in the second quarter (2.8% real growth), rising even faster than gross domestic product. According to the Agency of the Republic of Slovenia for Payments, **household income** increased by 2.4% in real terms year-on-year in the first half of 2001; the fastest growth was recorded in total net salaries (5.1%), while total transfers to households and other incomes remained practically unchanged in real terms compared to the same period of 2000. In the first half of the year, households increased their savings as a result of higher income which they did not spend. At the end of June **savings** in banks were 7.7% higher in real terms in comparison with December 2000, and as much as 15.3% higher than in June 2000. This is partially due to higher deposit interest rates (long-term tolar deposits are growing fastest in 2001) and the result of a certain shift in the structure of spending disposable income: the national housing savings scheme (important for long-term savings) and the gradual changing of the social security system call for a strengthening of various forms of household saving (pension, health and life insurance).

In accordance with the dynamic rise in household savings seen in 2000 and 2001, and the lower demand for bank loans (see Chapter 4.8), the **household net indebtedness with banks** has been falling slowly but steadily since the end of 1999 (the ratio of loans to deposits); indebtedness dropped from 0.42 at the end of 1999 to 0.38 at the end of 2000 and 0.35 in July of 2001).

Table 4.4: Ratio of loans to registered monthly income of households

Period	Average monthly level of commercial banks' loans to households (in SIT billion)	Average registered monthly household income (in SIT billion)	Loans/Income
1995	123.9	88.9	1.39
1996	192.9	106.4	1.81
1997	224.6	119.8	1.87
1998	272.7	131.8	2.07
1999	390.2	146.5	2.66
2000	472.1	164.3	2.87
2001 (July)	506.1	179.3	2.82

Source of data: Bank of Slovenia.

The relatively low level of newly approved long-term loans in the first half of 2001 is indicative of households' lower spending but, at the same time, household incomes are still heavily burdened by the repayment of loans taken out mainly in 1999. **The ratio of the average stock of bank loans to the average registered monthly income** considerably increased in 1999 (it had, however, been growing gradually since 1995, while a comparatively high rise was also recorded in 1996). The ratio fell somewhat in the spring months of 2000, while in the second half of the year it started to rise again so that the average annual ratio was higher than in 1999 (2.9, see Table 4.4). In the second quarter of 2001, the value of this indicator started to decrease again, which was expected owing to the maturity of loans approved in 1999 and the low demand for new bank loans in 2001.

The fairly slow private consumption growth recorded in the first half of 2001 is also revealed by retail sales (according to data gathered by the TRG-15 survey, see Chapter 4.7) which remained practically unchanged in real terms compared to the same period of 2000 (a pronounced increase was primarily recorded in the category of food, drink and tobacco). In 2001, the stocks of consumer goods have been increasing each subsequent month, especially the stocks of durable goods which, by the end of June, had already climbed by 28% compared to the first half of 2000. However, some indicators point to the gradual strengthening of private consumption in the second quarter (according to the SORS' data). The number of new car registrations rose by 10.8% in the second relative to the first quarter, indicating that car sales rose in this period, however, in the first six months sales lagged behind the respective figures for 2000 by 16%. In the second quarter of 2001, the dynamics of value-added tax charged on final consumers, which is to become one of the indicators of private consumption, also slightly improved; in mid-2001 VAT charged on final consumers was up 9.2% compared to the same period of 2000 (up 0.2% in real terms). Imports of consumer goods increased somewhat in the first half of 2001 (by 1.2% in real terms). In the same period, according to the Bank of Slovenia, Slovenian households spent more money for travelling abroad than in the same period of 2000, and the average number of their overnight stays was higher (the SORS, A Survey on Tourist Travels).

The **consumer confidence indicator**, reflecting consumers' opinions on the current and expected financial situations of households, the general economic situation and the advisability of making major purchases, which varies significantly on a monthly basis, has experienced three major falls this year – in March, May and August. Each fall was followed by a rise, so that the indicator – despite the latest October fall – is still on an above-average level (taking into account average in the period March 1996 to October 2001). Thus, we can expect a slight increase in private consumption by the end of the year. According to the estimates, a further disburdening of household income through the repayment of loans granted two years ago should also contribute to that.

Drawing on private consumption trends in the first half of 2001, anticipated growth of wages and salaries, the employment rate and household disposable income by the end of 2001, and taking into account the expected price movements, savings trends and the repayment of loans, **private consumption is estimated to rise by 1.9%** in 2001. Despite the fact that private consumption growth will be almost a half lower than gross domestic product growth, this still represents a substantial increase in comparison with the 0.8% rise seen in 2000.

Box 2: Household disposable income

In 2001, household disposable income is estimated to increase by **3.0%** in real terms. In accordance with the slow consumption growth, household savings will increase further, which will lead to a higher savings ratio of households (after a strong rise from 12.2% in 1999 to 14.3% in 2000 it should grow further to 15.3%). The structure of income sources has not witnessed any substantial changes. The gross wage per employee is estimated to increase by 2.5% which, together with the 1.5% increase in the number of persons in employment, should raise the compensation of employees by approximately 4%. Representing an 84% share, compensation of employees is the most important source of household disposable income (total net wages represent 48.7% of disposable income). The transfers for social security from the budget will be 3.2% higher in real terms in 2001. Due to the fact that around one-quarter of the population are pensioners, the total of pensions is a very important household income source and it is estimated to rise by 2.1% in real terms. This is a result of the 1.2% increase in the number of pensioners (2001 has seen a high increase in the number of people entitled to state pensions) and the existing mechanism of pension indexation. Family benefits and parental leave benefits (pursuant to the amended 1999 Family Income Act, which introduces a new regulation of the child-benefit system, materially deprived families receive higher child benefits) are estimated to grow by 2.7% in real terms, while unemployment benefits will be lower for the fourth year in a row (an estimated fall of 8.6% in real terms) as a result of a lower number of people entitled to it. With the amended Social Protection Act,[10] social benefits in cash will increase to the level which will cover minimum living expenses, meaning that this form of social benefit will no longer be tied to the guaranteed wage. This should facilitate harmonisation with the EU's legislation and provide a higher level of social security for the socially and materially deprived. As a result of the higher savings, household income will also increase on account of interest and insurance money received from non-life insurance. As far as the use is concerned, income tax should rise somewhat faster than in 2000 in accordance with the faster growth of the gross wage, and a considerable rise miscellaneous current transfers[11] and interest on loans is also expected. Assuming that income, social and fiscal policies are pursued in line with the set guidelines, the real growth of household disposable income should be around **3% in 2002.**

[10] The amendments to the Social Protection Act entered into force on 1 October 2001. However, the amount of the social benefit in cash for a single person will gradually (by 1 January 2003) level out with the minimum wage, set by the same Act.

[11] Legal, state, administrative, and community municipal duties, fines, membership fees, public road tolls and current transfers abroad.

In **2002,** real growth of private consumption will gain some strength, however, it will not exceed 3%. This projection is based on the assumption that both wages and social policies are properly implemented and is in accordance with the growth of household disposable income (see Box 3) and shifts in the structure of its spending. Consumption should also be positively influenced by a further disburdening of household income by the loans granted in 1999.

4.5. INVESTMENT – After a decline in 2001, investment activity to pick up in 2002 underpinned by public sector investment

In analysing the modest growth of investment in 2000 and 2001, one should not overlook the high level of investment of previous years. The average annual growth of gross fixed capital formation in 1995 to 1999 (13.5%) considerably exceeded the average annual real growth of gross domestic product (4.2%). The growth in gross fixed capital formation was extremely lively especially in 1999, when it increased by as much as 19.1% in real terms, with its structural share in gross domestic product (27.4%) exceeding that achieved in the previous year by up to 2.8 structural points. In the same year, the deficit in the current account of the balance of payments rose by 3.4 structural points of gross domestic product, which shows that the relatively high investment activity in Slovenia in that year was primarily financed through borrowing abroad. Due to the aggravated terms of trade (lower purchasing power of incomes), investment growth slowed down in 2000 (to 0.2%). Nevertheless, even such low growth means that, amidst the reduced current account deficit and the aggravated terms of trade, the volume of investments was preserved at the high level of the previous year.

The slowdown in investment activity has become stronger in 2001. As far as loan repayment capacity is concerned, the indebtedness of certain public companies came close to the upper limit. As a result, in the first half of 2001, company financing through foreign loans fell heavily. Among others, lower net loans from abroad compared to 2000 were envisaged by Slovenske železnice (Slovenian Railways), DARS (Motorway Company of the Republic of Slovenia) and Elektrogospodarstvo Slovenije (Slovenian Electric Power Industry). It is thus estimated that in 2001 investments in economic infrastructure (energy, transport, excluding communications) as well as housing (see also construction in Chapter 4.7) will be lower in real terms compared to 2000. With regard to the fact that the licence for providing third generation mobile telephony services UMTS-IMT-2000 had still not been granted at the end of October 2001, investments in telecommunications will also be lower than planned in spring. Despite problems caused by falling export demand, which has resulted in a slowdown of the investment cycle, the estimated investment growth in market activities (excluding infrastructure) remains positive in 2001. On the basis of the dynamics of taking out loans abroad, growing again in the second half of the year, the increase in long-term loans that companies take out from domestic banks, and the typical dynamics of general government expenditure for investments, which usually strengthen largely in the last quarter (in 2001, this cycle will be even more obvious, as the budget was only adopted in April), we estimate that the fall in investments probably reached its bottom in the second quarter. In the last quarter, it is realistic to expect real annual investment growth. However, mainly due to the drop in investment activity in the first half of this year, the average annual gross fixed capital formation will be 1.4% lower than in 2000 in real terms.

In the last medium-term period, investment activity was driven by dynamic **investment in economic infrastructure**, especially in the sector of transport infrastructure. Within this sector, it was investment in telecommunications that strengthened the most; in 2000 its share in total investments was as much as 2.6 structural points higher than in 1995. We expect the investment cycle, mostly financed from private sources, to continue in future years. In 1995 to 2000, 2.5% of gross domestic product or 10.2% of total investment was dedicated on average every year to the construction of transport infrastructure (excluding communications). In the last medium-term period, the most important investments in the transport infrastructure were those in the road network. In 1995 to 2000, they amounted to 2.1% of gross domestic product or 8.3% of total investments. The share of investments in the road network has been decreasing since 1997; in 2001 it is estimated to amount to only 1.4% of gross domestic product or 5.7% of total investments (in 1996, it was 2.4% of gross domestic product or 10.6% of total investments). The second large segment of investments in economic infrastructure involve investments in the supply of electricity, gas, steam and hot water; in the last medium-term period their share in gross domestic product amounted to 1.2%, which represents 4.7% of total investments. After the extremely fast growth of 1999, a heavy fall has been recorded in this investment segment in 2000 and 2001. Unlike the sectors of transport and energy, investments in the environmental protection infrastructure, which still stagnated in 1999, have grown quickly in 2000 and 2001 in real terms. We expect, especially regarding the achievement of European environmental standards, investments in the environmental protection infrastructure to continue to grow in future years at an average annual level considerably exceeding the average growth level of total investments. It is expected that private and EU sources will play a significant role in financing these investments.

Taking into account the real **public finance framework**, the budget passed for 2001 envisaged a considerable drop in budget funding for national infrastructure programmes with regard to the funds planned in those programmes (down by SIT 36 billion)[12]. Public finance sources earmarked for these investments in the 2001 budget are 0.8% of gross domestic product lower than that planned in the national programmes. Since it is difficult to provide substitute sources in a short period of time and within the existing regulations (whether by borrowing or from private investments based on concessions), this will result in a relative fall in infrastructure investments from 5.9% of gross domestic product in 2000 to 5% of gross domestic product in 2001. In 2001, lower budget funds will thus result in a proportionate decrease in the realisation of national programmes in the area of economic infrastructure.

The existing mechanisms of adopting national programmes do not guarantee the *ex-ante* harmonisation of the commitments made in these programmes with the overall financial possibilities. Therefore, further amendments and supplements to the national programmes will be necessary in following years, with regard to the budget financial sources, in order to either postpone or slow down implementation of the programmes or compensate for the shortfall of revenue sources by borrowing in the domestic and foreign markets and through foreign direct investment (by attracting private capital from abroad in concession arrangements for financing economic infrastructure). The amendments to the Slovenian railway infrastructure programme are already under preparation, envisaging a reduction of the funds earmarked for the programme, which will mean a postponement of its implementation. With the changed conditions and dynamics of motorway construction, a revision of the national motorway construction programme in the Republic of Slovenia is also expected. After joining the EU, it will also be possible to obtain sources from the EU structural funds and the cohesion fund, which is also planned in the proposed National Development Programme 2001-2006.

In 2002, real **growth in gross fixed capital formation** is expected to strengthen and it should rise by **around 4.6%.** According to the areas of investing, 2002 is to see faster growth than 2001 in investment in telecommunications (compensation for the shortfalls seen in 2001, further liberalisation of the market and the entry of the new provider of mobile telephony), investment in public services (paediatric clinic, oncology institute, many other hospitals,

[12] The main source of financing the national motorway construction programme is the targeted funds (the 'petrol tolar'). The national motorway construction programme envisages for 2001 an inflow of SIT 58,970 million of such funds. The budget for 2001 limited the inflow from this source to SIT 28,122 million. The reduced inflow of targeted funds will result in a reduced amount of motorway construction compared to 2000 and the amount of works planned in the national programme. The value of works on motorways in the amount of SIT 52.6 billion planned for this year only represents 78% of the amount of work performed in 2000. In line with the amended budget proposal, 18.7% nominal growth in targeted funds for motorway construction is envisaged for 2002.

Table 4.5: Gross fixed capital formation by purpose, real growth rates, in %

	2000	2001	2002
		forecast	
TOTAL	**0.2**	**-1.4**	**4.6**
1. ECONOMIC INFRASTRUCTURE	**-0.2**	**-10.7**	**13.8**
Supply of electricity, gas, steam, hot water	-23.1	-25.0	3.4
Environmental protection infrastructure	12.1	15.5	5.3
Transport without communications	12.9	-24.2	9.7
Communications	-1.0	14.9	25.9
2. MARKET ACTIVITIES (excluding economic infrastructure)	**2.4**	**3.6**	**1.1**
3. NON-MARKET ACTIVITIES	**-4.0**	**-3.9**	**5.0**
Housing construction	-4.1	-4.7	2.8
Public services	-4.0	-2.8	8.0

Source of data: The IMAD's estimates and forecasts.

students' halls of residence), housing construction (a fall in real terms in 2001) and energy (a very heavy fall in 2001). Investment in transport infrastructure is also expected to be higher than in 2001 (9.7% growth in real terms; in 2001 the level is estimated to be a quarter lower compared to 2000). The public finance sources, representing around 16% of total investments, will increase by 9.5% in real terms in 2002 (2% real growth is expected in 2001).

In 2001, the real gross national savings growth, which was 4.1% in 2000, will further strengthen primarily due to the high increase in household savings (see Chapters 4.4 and 4.8); it will rise by around 7.2% and the share of gross national savings will increase to 25.1% of gross domestic product. The investment-savings gap, financed by foreign savings, is expected to decrease in 2001 and in following years (in 2001, the deficit in the current account of the balance of payments is expected to amount to 1.1% of gross domestic product). With the moderation of investment demand in 2000 and 2001, the investment-savings gap will thus shrink by approximately as much as it increased in 1999 (with substantial growth in investments).

4.6. INTERNATIONAL ECONOMIC RELATIONS

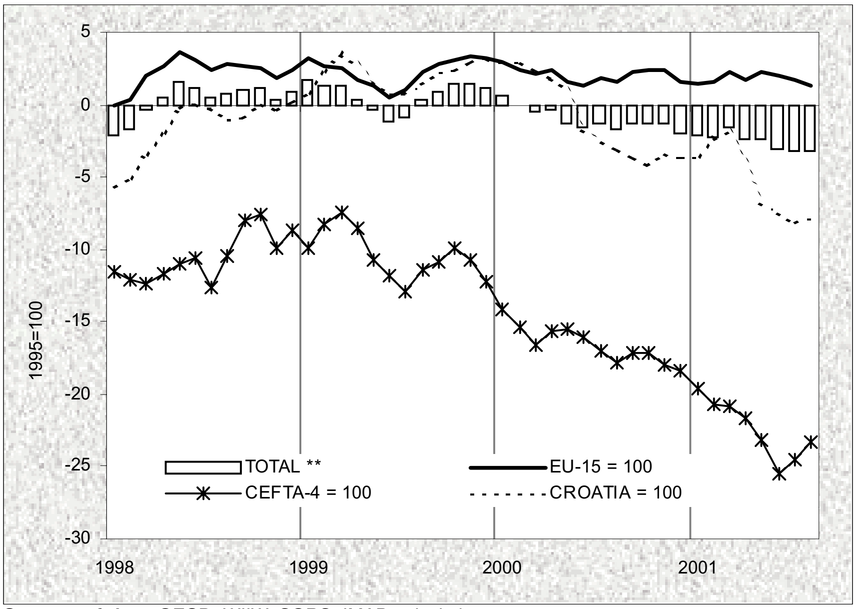
4.6.1. INTERNATIONAL COMPETITIVENESS – Cost competitiveness expected to worsen in 2002

Slovenian manufacturing's international competitiveness is likely to fall in 2001 after experiencing an improvement in price and cost competitiveness in 2000. As the tolar's exchange rate is relatively stable, the worsening will be due to rising unit labour costs as expressed in the basket of currencies. Real compensation of employees will rise faster than labour productivity, especially in foreign markets, as the nominal rise in the tolar's effective exchange rate will be significantly lower than Slovenia's inflation rate. After the big rise in 2000 underpinned by dynamic production growth, labour productivity growth will slow down in 2001 because of the weak rise in production and growing employment. Nevertheless, Slovenia's market shares in international markets are set to increase in 2001 after two years of decline.

In the **first nine months of 2001, the tolar's nominal depreciation against the euro slowed down gradually** as a result of the over-supply of foreign exchange in the foreign exchange market fuelled by the favourable trade balance and inflows in the capital and financial account of the balance of payments (see Chapter 5.1). In spite of this, in September the tolar's real value against the main EMU currencies was roughly the same as in December owing to the gradual slowdown in relative prices seen at the same time. The tolar's nominal and real depreciation against the basket of the seven OECD currencies experienced from January to July (measured by consumer prices) and its appreciation seen in August and September was primarily the result of the rises and falls in the value of the US dollar in international foreign exchange markets. Depreciating by 3.2% in nominal terms, the tolar's effective exchange rate rose by 0.8% in real terms in September over December on the basis of relative consumer prices and by 1.3% on the basis of relative producer prices. In the first nine months, **the tolar's real effective exchange rate fell by** 0.8% and rose by 0.5%, respectively, year-on-year, suggesting that the **tolar was relatively stable in annual terms** as well. Slovenian manufacturing's price competitiveness against the EU-15 was maintained at the level of 2001, while the improvement of its price competitiveness against the CEFTA-4 countries (the Czech Republic, Hungary, Poland, and Slovakia) and Croatia, which started in 2000, continued into 2001. In the first eight months, the tolar fell by 5.9% in real terms against the CEFTA-4 currencies and by 4.5% against the Croatian kuna compared to December, and by 7.6% and 5.7% year-on-year, respectively.

The **fall in Slovenian manufacturing's international competitiveness seen in the first eight months of 2001** was indicated by the rise in unit labour costs as expressed in the basket of currencies: the trend rate was up 2% and the year-on-year rate was up 1.2%. The downward trend in cost competitiveness was mainly due to summer's rise in the compensation of employees along with the decelerating nominal effective exchange rate. Since January, labour productivity growth has more or less levelled off, as the modest production growth was neutralised by an increase in employment. After slowing down to 0.2% in the second quarter, following a 4.1% rise in the first quarter,

Figure 4: The tolar's real effective exchange rate relative to the main trading partners

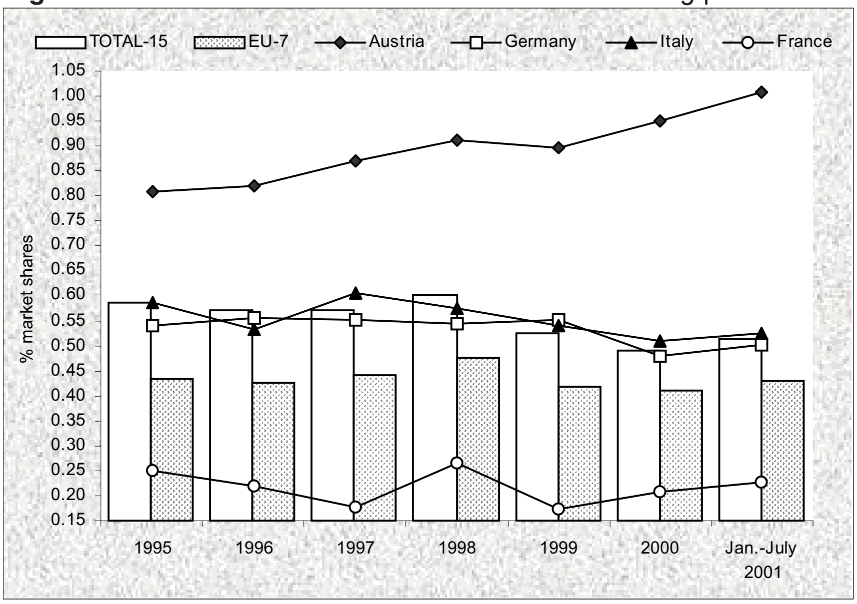


Sources of data: OECD, WIIW, SORS, IMAD calculations.
Note: * deflator CPI; ** including USA and Switzerland.

labour productivity rose by 2.6% year-on-year in the first eight months as a result of stronger production growth in July and August on one hand, and the slow rise in employment on the other. The real compensation of employees, deflated by domestic inflation, recorded similar dynamics as labour productivitiy; because of the 1.6% real fall in other remuneration, it lagged behind labour productivity by 0.3% in the first eight months. In the first eight months, the real wage per employee was 2.6% higher than in the same period last year, and the tax burden increased by an estimated 0.3% because of the progressive payroll tax determined in nominal terms, while the contribution rates remained unchanged. Unit labour costs measured in the basket of currencies increased in foreign markets despite labour costs lagging behind productivity growth because the nominal effective exchange rate rose 1.8 percentage points more slowly than inflation in Slovenia . However, figures for the first six months show that the trend of improving cost competitiveness relative to CEFTA-4 seen in 2000 continued into 2001, which was entirely due to the weaker tolar. Relative unit labour costs fell by 4.5% year-on-year in the first six months, with real gross wages maintaining their trends, whereas Slovenian manufacturing's labour productivity growth was 3.1% below the average of the Czech Republic, Hungary, Poland and Slovakia.

Slovenia's market shares in the main trading partners[13] increased from an average of 0.490% in 2000 to an **average of 0.520% in the first seven months of 2001**. This increase was primarily the result of the resumed rise in Slovenia's market share in the German and Italian markets after experiencing falls in 2000 and the sustained increase in French, Austrian and Russian markets. As in 2000, the expansion to Croatia was relatively modest, while the shrinking of Slovenia's market share in CEFTA-4 continued at a moderate rate. Falls in Slovenia's market shares in the main trading partners experienced in 1999 (from 0.581% in 1998 to 0.520%) and 2000 (to 0.490%) were only partly due to the reorientation of Slovenia's merchandise exports to Bosnia and Herzegovina, Macedonia and the Federal Republic of Yugoslavia (these countries are not included in the aggregate shares). Larger market shares in these countries accounted for one-third of the fall in the aggregate share in 1999 and a half in 2000. Figures for the first five months of 2001 show further increases in market shares in the Federal Republic of Yugoslavia, as well as in Macedonia after experiencing falls in 2000, while figures for Bosnia and Herzegovina are as yet unavailable.

Figure 5: Slovenia's market shares in the 15 main trading partners

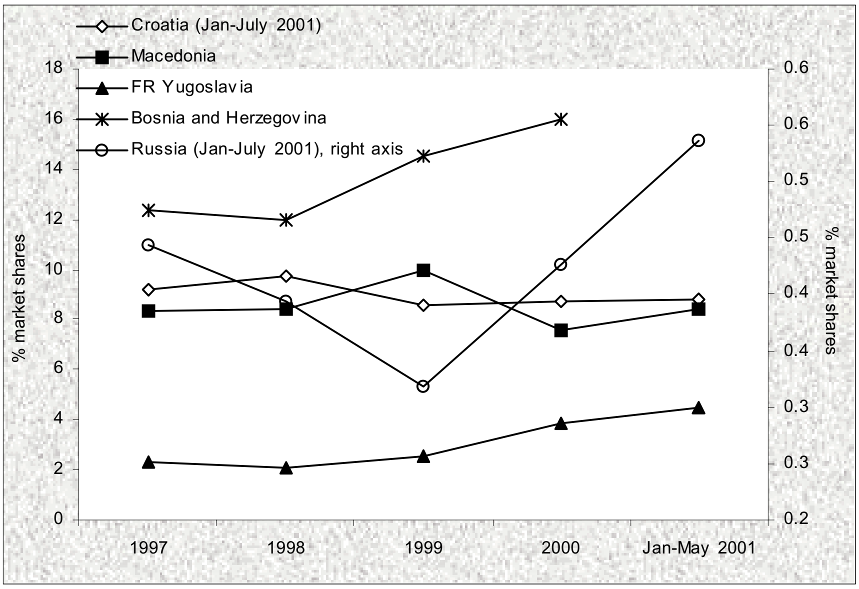


Sources of data: SORS, WIIW, calculated by the IMAD.

[13] Germany, Austria, Italy, France, the United Kingdom, Belgium, and the Netherlands (EU-7), the USA, Switzerland, and the Czech Republic, Hungary, Poland and Slovakia (CEFTA-4), and Croatia and Russia.

The tolar's slow nominal fall against the euro is estimated to continue until the end of 2001. The Bank of Slovenia intervened in the foreign exchange market in mid-September because of the impact of the over-supply of foreign exchange on exchange rate movements by fixing the lowest exchange rate (see Chapter 5.1). Should the tolar strengthen in real terms in the last few months of 2001, **the tolar** will depreciate by 5.7% in nominal terms **against the basket of currencies in 2001** as a whole and **maintain roughly the value of 2000 in real terms**. In 2001 as a whole, the worsening of Slovenian manufacturing's cost competitiveness in international markets is expected to be slightly stronger than in the first eight months (according to year-on-year data). Up until the end of 2001, year-on-year labour productivity growth will slow down to around 2% because of the subdued rise in production underpinned by expectations of reduced foreign demand for Slovenian goods (see Chapters 4.6.2.2 and 4.7). The real compensation of employees, deflated by consumer prices, will rise by 0.2 of a percentage point faster than labour productivity growth and its rise in foreign markets will be further fuelled by the 2.4 percentage points slower nominal rise in the effective exchange rate relative to domestic inflation. With an around 0.8% nominal rise in unit labour costs in the main trading partners, the **relative unit labour costs expressed in the basket of currencies will rise by around 1.7% in 2001**.

Figure 6: Slovenia's market shares in former Yugoslavia and Russia



Sources of data: SORS, WIIW, Central Bank of Macedonia and FR Yugoslavia, calculated by the IMAD.

The **trend of Slovenian manufacturing's falling international competitiveness is very likely to continue in 2002**. In conditions of strong pressure exerted by the over-supply of foreign exchange on the exchange rate (partly due to the inflows generated by privatisation), the **tolar's real effective exchange rate is estimated to appreciate** by about 1% (measured by relative consumer prices). Labour productivity growth will be slightly higher than in 2001 despite the expected further slowdown in production and is estimated to rise by 2.6% as a result of the resumed fall in employment. Even if the real compensation of employees, which is expected to rise by around 2% (deflated by consumer prices), lags behind labour productivity growth, relative unit labour costs measured in the basket of currencies are forecast to rise by 2.2% because of the assumed 3.6% nominal rise in the effective exchange rate.

4.6.2. EXPORT-IMPORT FLOWS AND THE BALANCE OF PAYMENTS – Negative impacts from the international environment to intensify in 2002

In the first eight months of 2001, the dynamics of export flows were underpinned by the still relatively favourable foreign demand, which began to decelerate gradually in the middle of the year due to the slower growth in the most important export markets (see Chapter 3). The dynamics of import flows were greatly influenced by the subdued growth in domestic consumption. Compared to the same period of 2000, the total volume of trade in goods and services increased by 5.5% in real terms. Total exports rose by 8.4% in real terms (exports of goods by 9.1%), while total imports went up by 2.7% (imports of goods by 2.4%). Compared to the same period of 2000, the terms of trade slightly improved (index 100.3).

The figures on export-import flows for the **first two quarters show a gradual moderation of exports, while import growth remained at a relatively low level**. Exports of goods and services rose by 6% in real terms year-on-year in the second quarter of 2001, almost one-half lower than in the first quarter of the year (11.1%). In the second quarter, exports of goods grew by 6.5% in real terms (in the first quarter of this year by 12.5%). Real imports of goods and services rose by 2.6% year-on-year in the second quarter, while in the first quarter they were up 3.4% (real growth in imports of goods was 2.2% and 2.9%, respectively). In July and August, the real growth of exports remained at considerably high levels, while imports started to gradually strengthen again.

Broken down by end-use product groups, the **share of investment goods in exports** increased by 1.2 structural points (to 13.8%) year-on-year in the first eight months of 2001, while the share of consumer goods was lower by 1.1 structural points (36.9%). The share of intermediate goods remained at approximately the same level as in 2000 (49.3%). The **imports structure** saw a slight increase in the share of consumer goods, especially due to imports of textile products, up by 0.3 of a structural point (to 23%). The slowdown in domestic investment activity influenced imports of investment goods, whose share went down by 0.7 of a structural point. In accordance with industrial production volume growth, the **share of intermediate goods rose** slightly by 0.4 of a structural point (to 59.9%).

The **regional orientation of trade flows** in 2001 shows a **greater dispersion** compared to previous years which has been due to the more intensive reorientation of some exports to the markets of former Yugoslavia and Russia, partly connected to the decrease in orders in EU countries, and to a large extent also to the increased investment activity of Slovenian companies in the form of foreign direct investment (this is mostly true of the countries of former Yugoslavia; see Chapter 4.6.3). Within exports to the Russian market, which grew by 57.2% in real terms this year, fastest growth was recorded in the exports of telecommunications devices and pharmaceuticals. Within exports to the markets of former Yugoslavia (16.2% real growth in the first eight months of 2001), exports of electrical machinery and equipment, paper and paper products, and pharmaceuticals prevailed. In these markets, Slovenia has increased its market share in 2001 (see Chapter 4.6.1) and recorded a higher trade surplus than in the same period of 2000. However, due to the slowing down of economic activity in the EU and lower export orders, **real export growth to the EU (6%) lagged behind total growth in goods exports by 3.1 percentage points**. Within exports to the EU, the largest share belonged to road vehicles, electrical machinery and equipment, furniture, clothes and non-ferrous metals.

In the first eight months of 2001, the dynamics of export-import flows resulted in an overall lower trade deficit compared to the same period of 2000 (down USD 424.1 million), which is a consequence of both the higher foreign trade surplus with countries of former Yugoslavia and Russia, and the lower foreign trade deficit with EU countries.

In the first eight months of 2001, the **dynamics of real growth in services trade lagged behind the dynamics of real growth in goods trade**, which is **especially** obvious on the **exports side**. Compared to the same period of 2000, exports of services increased by 4.1% in real terms. As reflected by the favourable indicators on foreign guests' overnight stays, primarily in July and August (see Chapter 4.7), tourist income rose by 5.5% in real terms. Compared to the same period of last year, exports of transport services edged down by 0.5% in real terms, in line with the slower dynamics of total

Table 4.6.2.1: Slovenia's regional trade: shares of selected countries in goods exports and trade balance

	Share in Slovenian exports of goods (in %)		Slovenian trade balance (in USD million)	
	Jan-Aug 2000	Jan-Aug 2001	Jan-Aug 2000	Jan-Aug 2001
EU	64.7	63.0	-845.5	-679.9
Germany	28.2	26.8	337.6	354.6
Italy	13.5	12.7	-371.5	-402.4
France	7.0	6.8	-304.9	-308.8
Croatia	7.9	8.7	157.4	267.2
Bosnia	4.2	4.2	205.1	215.6
FRY	1.6	2.3	66.4	111.2
Macedonia	1.8	1.3	84.5	65.9
Russia	1.9	2.7	-41.8	-20.3
USA	3.1	2.7	-26.8	-34.2

Source of data: SORS.

foreign trade. With regard to the gradual improvement of the situation in countries of former Yugoslavia and the more intensive exports to this area, the share of road transport within transport exports increased the most (by 3.9 structural points to 36.7%). Due to Slovenia's boosted investment in former Yugoslav countries and the improved payment capacity of investors in the Russian market, in the first eight months of 2001 exports of construction services grew strongly, by as much as 16.9% in real terms. Apart from the low dynamics of total growth in services exports, its main weakness remains the small share of other services, which are mostly services with high value added, like communication, financial, computer and various business services. With regard to their characteristics (high intensity of using know-how and information), such services can best exploit the advantages of e-commerce in the international trade in services. In 1999, other services accounted for 22.3% of total exports of services; they recorded shares of 23.1% in 2000 and 22.1% in the first eight months of 2001, which is low not only compared to developed countries[14] but also compared to certain countries in transition, where other services account for at least one-third of total services exports. In the first eight months of 2001, imports of services rose by 5% in real terms. The highest increase was recorded by imports of other services (by 8.9% in real terms), which was mainly contributed to by the imports of communication, computer and other business services. The first eight months of 2001 also saw above-average imports in travel, which grew by 6% in real terms. Compared to the same period of 2000, the surplus in services trade

[14] According to information from the World Trade Organisation, (WTO, 2000), exports of other services, presenting the most dynamic category of services exports in the EU, accounted for 48% of total services exports in the EU.

went up by USD 28 million, with the major influence on its improvement coming from the increased net inflows from tourism.

In the first eight months of 2001, interest payments on foreign loans and the Slovenian securities owned by foreigners increased considerably compared to the same period of 2000: they rose more than interest incomes on foreign exchange reserves (see Chapter 4.6.4). This resulted in a deficit of USD 3 million in the balance of factor incomes (in the same period of 2000, there was a surplus of USD 35 million). The surplus in the balance of current transfers (USD 88 million) was USD 15 million higher than in the same period of 2000; net transfers to the non-government sector increased. **In the first eight months of 2000, the current account of the balance of payments was almost balanced** mostly due to the favourable trends seen in the trade of goods and services (a deficit of USD 17 million; in the same period of last year, USD 446 million).

In the first eight months of 2001 **the net capital inflows to Slovenia** (including statistical error) were **lower compared to the same period of 2000** (USD 574.4 million in 2001, USD 693 million in 2000). **Although** in this period the **inflow of foreign direct investment increased strongly** (USD 200 million; in the same period of 2000 USD 44 million, see Chapter 4.6.3), and the state issued additional Eurobonds in February ("reopening" in the amount of EUR 100 million) and new ten-year Eurobonds in April (EUR 450 million), **borrowing by the private sector was lower**, **especially** by **banks** which record high liquidity this year (see Chapters 4.6.4 and 4.8). Besides, in 2001 there has been an increase in the net commercial international crediting (in the first eight months USD 142 million, in the same period of 2000 USD 80 million), while in August the state repaid the Eurobonds of 1996, which caused an outflow of capital of USD 325 million. Compared to the same period of 2000, the first eight months of 2001 also saw a rise in the outflow of portfolio (USD 76 million, in 2000 USD 28 million) and foreign direct investment from Slovenia (USD 41 million, in 2000 USD 24 million) while, after abolishing the custody accounts on 1 July 2001, foreigners are expected to make large purchases of securities. Negative results were recorded in portfolio inflows from abroad in the first eight months of the year (large sales of Slovenian securities owned by foreigners; government bonds are not taken into account). With regard to the almost level balance of the current account of the balance of payments, this year's capital inflows have enabled growth of total foreign exchange reserves (see Chapter 4.6.4).

Taking into account the envisaged economic conditions until the end of 2001, both domestic (gradual strengthening of domestic consumption and moderate growth in industrial production volumes) and foreign (moderate dynamics of foreign demand, especially in the last quarter), the year-on-

Box 3: Balance of Slovenia's international investments

Table 4.6.2.2: Balance of Slovenia's international investments[1] in 1994-2000

	1994	1995	1996	1997	1998	1999	2000
NET POSITION	**777.1**	**497.3**	**-499.9**	**-297.3**	**-975.6**	**-2,002.6**	**-2,339.2**
ASSETS	**5,899.1**	**6,798.0**	**7,125.4**	**7,719.7**	**8,458.2**	**7,787.5**	**8,213.7**
Direct investments abroad	354.0	489.9	459.5	459.4	608.3	605.0	794.0
Portfolio investment	62.1	106.4	93.9	56.0	49.1	62.8	70.7
Other investments [2]	3,983.9	4,380.8	4,274.6	3,889.6	4,162.2	3,951.6	4,152.9
Reserve assets	1,499.1	1,820.9	2,297.5	3,314.8	3,638.6	3,168.1	3,196.1
LIABILITIES	**5,121.9**	**6,300.7**	**7,625.3**	**8,017.0**	**9,433.8**	**9,790.0**	**10,552.9**
Direct investments in Slovenia	1,325.9	1,763.4	1,998.1	2,207.3	2,765.8	2,656.5	2,808.5
Portfolio investments	88.9	104.1	1,138.2	1,276.6	1,420.5	1,643.9	1,769.6
O Other investments [2]	3,707.1	4,433.2	4,489.0	4,533.0	5,247.5	5,489.6	5,974.9

Source of data: Bank of Slovenia.
Notes: [1] The balance of international investments of the state expresses the value of financial claims and liabilities of residents towards non-residents as at a certain day. The net position of the balance of international investments is the difference between financial assets and liabilities. Changes in the balances of Slovenia's international investments are a consequence of transactions on the capital and financial account of the balance of payments as well as prices, exchange rates and other changes.
[2] Trade loans, cash and deposits, other assets and liabilities.

In 1994-2000, Slovenia's net position shifted from net assets in 1994 and 1995 through to net liabilities in the following years. At the end of 2000, net liabilities amounted to USD 2,339 million, nominally increasing by 17% (USD 337 million) compared to 1999. The main reason for the increase in net liabilities, i.e. opening of the net position, is growth in borrowing by the banking and other sectors (USD 410 million) and the government through issuing Eurobonds (worth USD 132 million). Compared to 1999, total loans taken out by the state were USD 48 million lower, and have been decreasing since 1998. The period from the end of 1994 until the end of 2000 saw an increase in the share of private non-guaranteed debt by 18 structural points in the structure of foreign debt (from 37% to 55%), i.e. by more than USD 3 billion. In the same period, the share of public and public-guaranteed debt dropped by 16 structural points.

The level of international investments expressed in current USD is also influenced by exchange rate changes, as most assets and liabilities are expressed in European currencies. In 2000, the level of net liabilities in USD increased by 17%, however, due to the USD's strengthening compared to the basket of currencies, the level of net liabilities expressed in euros rose by 26%.

year export growth will continue to fall through to the end of the year, while imports are to strengthen gradually. Nevertheless, the average annual dynamics of export flows will be much higher than the import ones. In 2001, total exports are thus set to grow by 7.2% (goods exports by 8.0% and services exports by 3.5%), with total imports rising by 3.3% (imports of goods by 3.2% and imports of services by 4.1%). With regard to the fall in the prices of oil and other primary commodities, and the slight strengthening of the euro, in 2001 the terms of trade are on average to improve by 0.1 of a percentage point compared to 2000. The surplus in services trade is estimated to be higher than in 2000, amounting to around USD 465 million, which will mainly be contributed to by the higher net income from tourism. The expected larger reinvested earnings of foreign investors, methodologically included among capital expenditures at the end of the year, and interest payments on foreign debt, mostly paid by domestic companies, will cause an increase in the deficit of factor incomes in the amount of some USD 130 million. Taking into account both the higher net other incomes and the envisaged inflows from pre-accession aid, the balance of current transfers will show a surplus of USD 140 million. According to the forecast levels of sub-balances, in 2001 the **current account of the balance of payments** will record a **deficit of USD 215 million or 1.1% of gross domestic product** (USD 611 million or 3.4% of gross domestic product in 2000).

In 2002, real growth in exports of goods and services will slow down on average, due to the expected fall in foreign demand (see Chapter 3), which is to influence the sale of Slovenian products abroad especially in the first half of the year. With the gradual revival of growth in export markets expected in the second half of the year, exports of goods will gradually start to strengthen in the third and final quarters of 2002 which, however, will be insufficient to raise the average export dynamics to the level of 2001. The expected continuation of relatively faster growth in exports to the countries of former Yugoslavia, Russia and the CEFTA countries will not be able to compensate for the loss in import demand in the EU countries. The forecast of real growth in total exports for 2002 is thus 4.8% (5.1% for exports of goods). With regard to the higher growth in domestic private and investment consumption expected in 2002, the real increase in imports of goods and services will strengthen to 4.7% (imports of goods to 4.8%). With regard to the dynamics of export-import flows expected in 2002 and no change in terms of trade, the **deficit in the current account of the balance of payments** will slightly increase **in 2002**, amounting to **around USD 253 million or 1.2% of gross domestic product**.

4.6.3. FOREIGN DIRECT INVESTMENT – Higher inward and outward foreign direct investment

The rapid rise in global foreign direct investment (FDI) flows continued in 2000. FDI inflows totalled USD 1,271 billion, recording an increase of 18.2% from 1999. FDI growth was much stronger than growth in other macroeconomic aggregates (world production, gross investment, and exports), suggesting that the importance of international production in the global economy is growing. However, FDI flows are expected to decelerate in 2001. The main reasons are expectations of a lower level of cross-border mergers and acquisitions, which have been the most important elements of FDI growth over the last few years. The value of cross-border mergers and acquisitions fell by 17% year-on-year in the first half of 2001 to USD 300 billion (UNCTAD 2001).

FDI inflows to Central and Eastern European countries continued to rise in 2000. Recording USD 27 billion in FDI inflows, these countries retained a 2% share of world FDI inflows. FDI inflows were underpinned by transactions related to privatisation, except in Hungary where privatisation is more or less finished, and in the former Soviet Union where the privatisation of large companies which could attract foreign investors has not yet started. While the countries attracting the largest amounts of FDI remain Poland (USD 10 billion in 2000), the Czech Republic (USD 4.6 billion), Hungary (USD 2 billion) and Russia (USD 2.7 billion), these countries witnessed some changes in 2000. Significant rises in FDI inflows were seen in Poland and Slovakia (USD 2.1 billion), while the Czech Republic and Russia experienced significant falls (UNCTAD 2001). Preliminary data for 2001 show a stagnation of FDI inflows in these countries. In the first six months of 2001, net FDI inflows in the Czech Republic, Hungary and Poland, countries which are the main FDI recipients in Central and Eastern Europe, remained at the same level as in 2000 (Newton Holding, a.s. 2001).

FDI in Slovenia totalled USD 2,808.5 billion at the end of 2000. This was USD 152 million higher than the year before, but only USD 42.7 million more than in 1998. In 1999, the fall in FDI stock expressed in USD was mainly the result of the dollar's strong appreciation, whereas FDI measured in euros increased by EUR 317.8 million. Yet, FDI inflows in Slovenia have been on a downward trend since 1997 and came in at only USD 181 million and USD 176 million in 1999 and 2000, respectively. This negative trend is highly evident if FDI inflows are broken up into actual inflows from abroad and the reinvested earnings of the existing foreign investors in Slovenia. Reinvested earnings have been on a rising trend or have at least maintained the same levels in the last few years, while new inflows of FDI have experienced strong and persistent falls.

Table 4.6.3.1: Flows, stock and changes in stock of FDI[1] in Slovenia in 1993-2000

	1993	1994	1995	1996	1997	1998	1999	2000
VALUES, USD mln								
Year-end stock - total [2]	954.3	1,325.9	1,763.4	1,998.1	2,207.3	2,765.8	2,656.5	2,808.5
Equity and reinvested earnings	709.7	966.5	1,203.5	1,274.9	1,559.4	2,011.6	1,893.9	1,883.2
Net liabilities to foreign investors	244.4	359.4	559.8	723.1	647.9	754.2	762.6	925.3
Changes in stock - total values [2]	N/A	371.6	437.5	234.7	209.2	558.5	-109.3	152.0
Annual inflows - total	112.6	128.1	177.4	194.0	375.2	247.9	181.2	181.0
Inflows from abroad	112.6	128.1	176.0	185.5	320.8	165.4	83.4	83.4
Reinvested earnings	N/A	N/A	1.4	8.5	54.4	82.5	97.8	97.6
GROWTH RATES, %								
Year-end stock - total values [2]	N/A	38.9	33.0	13.3	10.5	25.3	-4.0	5.7
Annual inflows - total	1.4	13.7	38.5	9.4	93.4	-33.9	-26.9	0.0

Source of data: Bank of Slovenia.
Notes: [1] companies in which a foreign investor holds a 10% or higher stake,
[2] total value = equity + liabilities to foreign investors - claims on foreign investors.

There has been a significant positive change in 2001, with FDI inflows rising strongly. From January to August, they totalled USD 199.8 million as against the mere USD 44 million recorded in the same period of 2000. These higher inflows were largely fuelled by large foreign acquisitions, speaking in terms of the size of the Slovenian market. The questions remain whether this positive shift in fact reflects the better image of Slovenia in the eyes of foreign investors and to what extent this change is due to occasional opportunities for affordable acquisitions; nonetheless, further growth in FDI inflows is expected in Slovenia before the end of the year. The projects already carried out and those announced suggest a total of USD 500 million of FDI inflows in Slovenia in 2001.

Provided that the state carries out the announced privatisation of state-owned assets – a project that cannot take place without the participation of foreign investors for developmental, strategic and financial reasons – at least the same or even higher FDI inflows are expected in the next few years. If the policy of attracting FDI is appropriately implemented, Slovenia may become a recognisable location for FDI, which should lead to higher FDI inflows. Within this context, a positive role may be played by the Government's Scheme for Attracting Inward Foreign Direct Investment in 2001-2004, which focuses on the lifting of administrative barriers to investment, improving the supply of building sites for industry, and the setting up of an internationally comparable system of non-refundable incentives, provided that the agents responsible for implementing the Scheme have an appropriate level of funds and the political will is strong enough to carry out the programme.

Box 4: Wages as one of the determinants of FDI in Slovenia

The analysis of foreign investors' motivation to invest in Slovenia shows that, as far as labour is concerned, it is the quality and not the low cost of labour that motivate foreign investors (the former motive was cited by 26.9% of respondent investors and the latter by 1.8%; Dedek & Novak 1998). This is further confirmed by the sectoral distribution of FDI in Slovenia which is characterised by the tendency of foreign investment enterprises to locate in capital- rather than labour-intensive manufacturing industries. Furthermore, foreign investment enterprises tend to use much more capital-intensive techniques than domestic enterprises within the same manufacturing industry. Foreign investors do not point to factors like favourable conditions in the labour market or industrial relations as their motives for investing in Slovenia. Such labour-force-related motives may be accounted for by Slovenia's highest labour costs among the countries in transition and the relatively rigid conditions in the labour market and industrial relations.

Foreign investment companies operating in the manufacturing sector use 2.33 times more machinery and equipment per employee than domestic enterprises and have only 17% higher labour costs per employee on average. Such proportions can be seen in the majority of manufacturing industries. However, despite the higher level of technical equipment recorded in foreign investment enterprises, the qualification structure of their workforce is almost the same as in domestic enterprises. Foreign investment enterprises do tend to use much more capital-intensive production techniques, but these techniques are highly standardised and, in principle, do not require more skilled labour. Foreign investment enterprises use more or less equally skilled labour as domestic enterprises, but they pay somewhat higher wages; however, the better technical equipment enables them to achieve much higher labour productivity (measured by value added per employee) than domestic enterprises.

Table 4.6.3.2: Value added per employee, labour costs per employee and value added per labour costs in the manufacturing sector of Slovenia and the main countries investing in Slovenia in 1998; national accounts data

	Value added per employee (EUR)	Labour costs[1] per employee (EUR)	Value added per labour costs (ratio)
EU - 15	48,800	33,400	1.46
Austria	58,072	34,736	1.67
Germany	56,120	39,078	1.44
Italy	38,552	27,722	1.39
France	62,952	38,744	1.63
Slovenia	16,680	10,624	1.57
Foreign investment enterprises [2] in Slovenia	22,565	11,784	1.92

Source of data: Eurostat 2000; Statistical Office of the Republic of Slovenia 1999.
Notes: [1] labour costs taken from national accounts statistics; [2] calculated by applying the ratio of foreign investment enterprises to all enterprises taken from companies' financial statements to national accounts data for Slovenia's total corporate sector.

Box 4: Wages as one of the determinants of FDI in Slovenia

This is supported by the ratio of value added to labour costs: with SIT 1 of labour costs, manufacturing foreign investment enterprises are able to produce SIT 1.84 of value added, 33% more than domestic enterprises (figures for 1999).

Table 4.6.3.3 clearly demonstrates that one cannot make a decision to relocate an activity by investing abroad solely on the basis of labour costs per employee. Slovenia does have a much lower price of labour (labour costs per employee) than any of the main investing countries, but it lags behind even more in terms of productivity (value added per employee). The only probable basis for making an investment decision is a comparison of productivity and the price of labour measured in terms of value added per labour costs. Ex ante, and from the point of view of a prospective foreign investor, this means that they must be sure that with the given production technique they will achieve approximately the same productivity as at home but with lower labour costs. Ex post, a successful foreign investor's decision to relocate production abroad should be reflected in higher value added per labour costs in foreign subsidiaries than at home. The case of Slovenia seems to support this reasoning. The ratio of value added to labour costs in foreign investment enterprises operating in Slovenian manufacturing is much higher than in the manufacturing sector of any of the main countries investing in Slovenia (Rojec & Stanojević 2001).

The year 2000 saw the biggest FDI outflows from Slovenia so far, totalling USD 47.6 million; the stock of Slovenia's direct investment abroad amounted to about USD 794 million at the end of 2000. Further growth in Slovenia's FDI abroad was recorded in 2001. From January to August, FDI outflows totalled USD 40.6 million compared to the USD 24.1 million recorded in the same period in 2000. The growing investment of Slovenian companies abroad is largely underpinned by their activities in the countries of former Yugoslavia and countries in transition, as Slovenian companies are becoming increasingly

Table 4.6.3.3: Flows, stock and changes in stock of FDI[1] in Slovenia in 1993-2000 (USD million)

	1993	1994	1995	1996	1997	1998	1999	2000
Year-end stock - total	280.6	354.0	489.9	459.5	459.4	608.3	605.0	794.0
Equity and reinvested earnings	241.7	342.4	366.2	342.9	324.7	367.8	359.6	466.2
Net liabilities to foreign investors	38.9	11.7	123.7	116.5	134.7	240.5	245.4	327.8
Changes in stock - total	n.p.	73.4	135.9	-30.4	-0.1	148.9	-3.3	189.0
Annual outflows [2]	-1.3	2.9	5.1	-6.3	-35.6	1.7	-37.5	-47.6

Source of data: Bank of Slovenia.
Notes: [1] companies in which a foreign investor holds a 10% or higher stake; [2] the - sign signifies outflows.

aware of the need to internationalise their operations through foreign direct investment. The countries of former Yugoslavia and countries in transition are the most obvious destinations in the initial phase of internationalisation. These trends are expected to be intensified in the future. The initiative to set up a regional investment fund for South-eastern Europe shows that the country is aware of the strategic significance of investment activity and the problems faced by companies in these areas.

4.7. CURRENT ECONOMIC DEVELOPMENTS AND SHORT-TERM PROJECTIONS BY ACTIVITY

Broken down by sectors, the highest rise in value added has been recorded in the service sectors (in 2000, 60.6% of value added was recorded in activities G to O) and their share is annually increasing at the expense of the reduced share of industrial activities in total value added (from C to E) and due to the shrinking economic importance of agriculture, forestry and fishing. This is a normal process of restructuring, typical of all developing countries. According to the Strategy for the Economic Development of Slovenia, in the next short-term period (up until 2006) the share of industries in value added will drop below 31%, and the share of agriculture, forestry and fishing below 3% of value added. A detailed analysis of economic trends by individual sectors in 2001 and a projection of value-added growth in 2001 and 2002 are indicated below.

In 2001, real growth of value added in **agriculture, forestry and hunting (A)** is set to be negative for the third year running. The continuation of negative trends in agriculture is due to the several natural disasters this sector has been affected by in 2001 (the spring frost, hail, severe drought). In the first half of 2001, the real-terms purchase value of arable farming products was 28% lower than in the same period the year before, whereas the purchase value of livestock breeding increased. A greater quantity of all types of animals for slaughter was purchased; following the problems seen in 2000 (lower consumption due to the BSE breakout), the quantity of purchased cattle increased considerably thanks to state financial incentives.

Assuming that in the second half of 2001 the trends in agriculture will be more favourable than in the first six months, it is estimated that **value added in agriculture, hunting and forestry (A) will drop by** about **1% in real terms in 2001**. Growth in value added in agriculture, forestry and hunting, assuming that natural disasters will be less threatening to agriculture than in the recent years, is expected to gradually compensate for the negative growth in the last three years and will reach approximately **3% in 2002.**

Table 4.7: Growth and structure of value added by sectors

		Real growth rates in %, 1995 prices			Structure in %, current prices		
		2000	2001	2002	2000	2001	2002
			forecast			forecast	
A	Agriculture, forestry, hunting	-1.0	-1.0	3.0	2.9	2.7	2.7
B	Fishing	-3.5	0.0	2.0	0.0	0.0	0.0
C	Mining	-1.4	-5.0	-3.0	0.9	0.8	0.8
D	Manufacturing	8.6	4.5	3.3	24.0	23.8	23.4
E	Electricity, gas and water supply	2.9	4.0	0.0	2.8	2.7	2.6
F	Construction	2.8	-2.5	3.0	5.3	4.9	4.8
G	Wholesale, retail trade, repair of motor vehicles	2.5	3.0	3.5	10.0	10.1	10.1
H	Hotels and restaurants	9.8	4.5	5.0	2.8	2.8	2.9
I	Transport, storage, communications	4.7	4.5	4.0	7.0	7.2	7.2
J	Financial intermediation	5.9	6.5	6.0	3.9	4.0	4.2
K	Real estate, renting and business services	3.0	3.5	3.5	10.5	10.6	10.6
L	Public admin., defence, soc. insurance	5.7	5.5	4.5	5.0	5.2	5.3
M	Education	3.7	2.5	2.5	5.1	5.1	5.1
N	Health services and social work	4.2	4.0	3.5	4.8	4.9	4.9
O	Other community and personal services	4.5	4.5	4.5	3.3	3.4	3.4
	FISIM	1.9	1.0	2.0	-1.9	-1.9	-1.9
1.	VALUE ADDED (A ... O + FISIM) in basic prices	5.1	3.6	3.4	86.4	86.3	86.2
2.	Net corrections (taxes on products and services - subsidies)	1.9	4.2	4.3	13.6	13.7	13.8
3.	GROSS DOMESTIC PRODUCT (3 =1+2)	4.6	3.7	3.6	100.0	100.0	100.0

Source of data: SORS; estimates by the IMAD.

In **mining (C),** about two-thirds of value added are generated by commercial companies in the production of lignite and brown coal. In 2001, the extraction of brown coal is expected to drop by 7% and the extraction of lignite by 4.4% compared to 2000 (Energy Balance of the Republic of Slovenia, September 2001). According to the SORS' data, value added in mining in the first quarter of 2001 decreased by 2% and in the second quarter by 13.6% in real terms compared to the same period of 2000. Based on the figures on the production of Slovenian mines in the first nine months of 2001 and assuming that the production of non-energy mining will stop decreasing in the second half of the year (such trends have been confirmed by data for July and August), value added in mining in the third quarter of 2001 is estimated to be lower than in the same period the year before. In the last quarter, however, due to the higher production of brown coal (in order to reach the planned extraction quantities) mining will record growth. It is estimated that **in 2001 value added in mining will fall** in real terms **by about 5%**. In **2002,** a **3%**

drop in value added is expected as a result of a further reduction of extraction activity in the Trbovlje-Hrastnik mine as provided by the law on the gradual closing of this brown coal mine (the last brown coal mine still operating).

The favourable trends in the international economic environment seen in 2000 contributed to the 8.6% real growth of value added in **manufacturing**[15] **(D)**, however, growth began to decelerate in 2001. Value added growth was modest in the first half of 2001 which can be explained in part by a high benchmark resulting from the accelerated growth in the same period of 2000. However, the slower growth in 2001 is a consequence of downward export trends, mostly trends in merchandise exports, (see Chapter 4.6.2) and the weakening of cost-competitiveness (see Chapter 4.6.1).

In manufacturing, similar trends were also recorded in the volume of production. In the first eight months of 2001, the volume of production was 4.1% higher than in the same period of 2000. Following the diminishing business optimism, the second and third quarters of the year were characterised by the decelerating year-on-year growth rates in production volumes, as reflected in the trend dynamics: after a moderate increase in the first half of the year, the volume of production in August dropped for the second month running[16]. Such trends are also recorded in the level of stocks in the second quarter of the year. The level of stocks from January to August 2001 was 6.2% higher than in 2000, while stocks per unit of production went up by 2% (in the same period a year earlier they recorded a 6.3% decrease).

Slovenian enterprises successfully reacted to the changes in the international environment and partly compensated for the loss in revenue in EU markets with increased exports to the countries of former Yugoslavia and Russia. It is therefore not surprising that in the first eight months of 2001 (compared to the same period the year before), the predominant exporters[17] increased the

[15] Ten out of fourteen manufacturing subsectors generate more than half of their total operating income in foreign markets, while exports on average account for 55.9% of the operating income of the entire sector.

[16] The volume of production in manufacturing in August was 0.1% lower than in July (the IMAD's calculations according to the *TRAMO-SEATS* method).

[17] Manufacturing subsectors which according to statistical data from balance sheets and profit and loss accounts create more than half of their operating income in foreign markets (manufacture of textiles and textile and fur products, manufacture of leather and leather products, wood-processing and manufacture of wood products, manufacture of chemicals, chemical products and man-made fibres, production of rubber and plastic materials, production of metal and fabricated metal products, production of machinery and equipment, manufacture of electrical and optical equipment, production of vehicles and vessels, and manufacture of furniture).

volume of their production by 5.7% and were by 1.6 percentage points above the sector's average. In the same period, the volume of production of other manufacturers, mainly oriented towards the domestic market, went down by 0.5%. The trends within the group of predominant exporters are similar to those of previous years. Thus, in the first eight months of 2001, the highest growth rates in production volumes and, simultaneously, the less pronounced drop compared to the same period of 2000 were recorded in industries characterised by value added per employee and return on assets and sales that are both above the average (7.2% in the manufacture of chemicals and chemical products; 16.5% in the production of machinery and equipment; 8.1% in the manufacture of electrical and optical equipment; the greatest shift occurred in the manufacture of furniture and other manufacture sectors where the volume of production, following a 0.4%-decrease in 2000, grew by 11% in the first eight months of 2001). The worst results (decrease in production volumes) among the predominant exporters were recorded by two labour-intensive sectors with relatively low value added per employee and a share of labour costs in value added that is above the average (manufacture of textile products and wood-processing and manufacture of wood products). In the first eight months of 2001, two other manufacturing subsectors, mostly oriented towards the domestic market, recorded a decrease in production volume compared to the same period of last year, namely the manufacture of fibres and paper and publishing and printing (-2.6%) and the production of coke, oil products and nuclear fuel (-72.3%).

The downward trends in employment in manufacturing recorded in the last few years slowed down in 2001. In the first eight months of the year, the number of people employed increased by 0.1% compared to the same period of 2000. Employment mostly increased in the production of electrical and optical equipment (4.8%) and in the production of machinery and equipment, also recording a rise in the volume of production above the average. Similarly to 1999, in the first eight months of 2000 employment significantly decreased in certain labour intensive sectors, such as the manufacture of textile products (-4.1%) and wood-processing and manufacture of wood products (-5.6%). In terms of movements of the persons employed, the worst results were achieved in the production of coke, oil products and nuclear fuel, where employment fell by 15.1%. Since the latter sector is dying out, it would be wise if production capacities were reallocated to new activities with new production programmes as soon as possible.

Following the relatively high growth of value added in manufacturing in real terms in the first quarter of 2001 and the slowdown in the second quarter of the year, the average year-on-year growth is expected to remain stable at 4% in the second half of the year which is in line with the data on the volume of production in July and August and with business expectations in the corporate sector. It is estimated that **in 2001 value added will increase by 4.5% in real terms**, mostly as a result of further slowing down of the volume of production, distribution of the number of working days in the autumn and winter months and the dynamics of export demand in the second half of 2001 (see Chapter 4.6.2).

In 2002, particularly in the first half of the year, the increase in foreign demand and, consequently, of Slovenian merchandise exports are expected to further slow down and reach the bottom of the cycle, affecting production activity in manufacturing. In the third and final quarters of 2002, a revival is expected and the year-on-year growth rates in real terms will range between 5% and 6%. In accordance with quarterly movements, **value added is estimated to increase by 3.3% in real terms**.

In **electricity, gas and water supply (E)** the greatest contribution to value added is made by companies operating in the energy sector, and among them more than 60% by electricity suppliers. According to ELES' data, in the first nine months of 2001, the production of electricity (measured in GWh) increased by 10.7% compared to the same period last year, meaning 2.5% more than planned in the energy balance of the Republic of Slovenia. Assuming that in 2001 the volume of consumption of natural gas and water supply will be similar to that of 2000, that the use of heat distribution will increase by 13% (as envisaged by the energy balance of the Republic of Slovenia for 2001) and that electricity production in the last months of the year will be as planned by the energy balance of the Republic of Slovenia, it can be expected that in the third and final quarters of 2001 electricity, gas and water supply will record moderate growth in value added. Total **value added in electricity, gas and water supply in 2001 will increase by 4%** in real terms. The energy balance of the Republic of Slovenia for the period 2002-2006 does not plan any substantial changes in the volume of total production of electricity in the next few years, therefore we anticipate that **in 2002 value added** in real terms in electricity, gas and water supply **will stay at the level of 2001**.

Following the substantial growth of value added in real terms in **construction (F)** in 1999 (15.8%) and the respective slowdown in 2000 (to 2.8%), in the first half of 2001 value added was lower than in the same period of 2000 (2.2% lower in the first quarter, and 6.3% in the second quarter). In the first six months, the value of construction put in place by companies and organisations employing 10 people or more was lower than in the same period of 2000 by 10.8% in real terms. In terms of the value of construction put in place, the value of completed works grew in building construction by 1.1% in real terms. In building construction, the value of construction put in place in non-housing construction was higher than in the same period of 2000 (by

3.8% in real terms), while the value of construction put in place in housing construction was lower (by 9.8%). Civil engineering works recorded a fewer number of activities in the first half of the year; the value of construction put in place was 22.1% lower than in the first six months of 2000. This fall in activities is mainly linked with the reduced public finance and the resulting slowdown of motorway network construction, and is also reflected in data on employment. In the first half of 2001, the number of people employed in construction was 1.1% lower than in the same period last year, mostly as a result of the 2.2% decrease of employment in companies and other organisations. The number of people employed by sole proprietors stayed at the same level, while the number of sole proprietors grew by 1.3%.

The reduction of activities in construction is expected to slow down in the third quarter of 2001. According to preliminary data, the value of construction put in place in July and August was 7.8% lower than in those two months of 2000, representing a lower reduction compared to the second quarter (12.9% decrease in real terms). In the last quarter, the year-on-year growth rate will be positively affected by the fact that in the same period of 2000 activity in construction was already calming down, and a further rise of growth rate may be expected. Value added in the third quarter is thus expected to be lower than in 2000 (by about 3.5% in real terms) and record a 1.5% year-on-year growth rate in the last quarter, accounting for a **2.5%decrease of value added in construction in real terms in 2001**. In 2002, we expect a gradual increase in the construction of infrastructure (more investments in public utility services and road infrastructure) and more lively activity in housing construction (an expected increase in demand due to the national housing savings scheme). Value added **in 2002 will increase by 3% in real terms**.

According to the SORS's data on value added growth in the first half of 2001, **hotels and restaurants (H)** recorded almost 4% growth in value added in real terms compared to the first half of 2000 (2.1% growth in the first quarter and 5.7% in the second quarter due to a successful tourism season). The number of overnight stays increased by 1.4% in the first quarter and by 6.4% in the second quarter of 2001 compared to the same period of 2000 mainly due to more foreign tourists' overnight stays. The higher number of overnight stays contributed to higher turnover in hotels and restaurants: it rose by 2.7% in real terms year-on-year in the first quarter of 2001 and by 7.0% in the second quarter. Estimates show that the favourable trends in tourism continued in the third quarter of 2001 (6.4% increase in overnight stays compared to the same period last year); moreover, according to data for July and August the growth in turnover in hotels and restaurants continued rising (by 7.6% in real terms in July, and by 10.2% in August compared to the same months of 2000). If such favourable trends continue until the end of the year, the growth of value added in the second half of 2001 is expected to exceed the growth seen in the first six months. **Value added in hotels and restaurants is expected to increase by 4.5% in real terms in 2001**. **In 2002**, the positive trends will continue. The average annual occupation of beds indicates that the number of overnight stays might increase particularly in the low season. Given the increase of overnight stays and the improved and more attractive services, **5% growth of value added in real terms** may be anticipated.

Compared to the same period of 2000, in the first half of 2001 value added in **wholesale and retail trade and motor vehicle repairs (G)** grew by about 2.1% in real terms (according to the SORS' data, by 2.2% in the first quarter and by 2.0% in the second). The movements of value added in wholesale and retail trade are revealed by the quarterly TRG-15[18] survey, according to which income in retail trade in the first half of the year grew by 8.5% in nominal terms (in the first quarter by 5.6% and in the second quarter by 11% in nominal terms) against the same period of 2000. Income in wholesale in the first half of the year was higher than in the same period of 2000 by 12.7% in nominal terms (by 13.5% in the first quarter and by 12% in the second quarter).

Consumer spending is expected to increase in the second half of 2001, as indicated by July and August's data on sales in retail trade and the sale of motor vehicles[19] (by 12.6% and 10.4% in real terms compared to July and August 2000). **Real value added growth is forecast to reach 3% in 2001**. Given the expected increase of private consumption (see Chapter 4.4), value added in the trade sector will continue to grow and reach about **3.5% in 2002**.

According to the SORS' data for the first half of 2001, the **transport, storage and communications sector (I)** recorded year-on-year 4.4% growth of value added in real terms (2.8% in the first quarter and 6.0% in the second quarter of the year). In 2001, according to the SORS' data until August, passenger public bus transport, air passenger transport and the number of passengers at airports are decreasing. In the first eight months of 2001 compared to the same period the year before, the most substantial drop in freight transport was recorded in harbour goods traffic (-7.2%), while freight transport

[18] Data of the TRG-15 survey refer only to those activities of business entities dealing with trade activity and also include the trade within non-trade companies.

[19] Data are taken from the monthly TRG-10 survey, where the unit observed is a company whose main activity is retail trade or the sale of fuels and motor vehicles and the maintenance and repair of motor vehicles, with the data referring to the enitre company, including any side activities not connected to trade.

via railways (measured in tonne-kilometres) dropped by 0.8%. Both activities might improve the above values by the end of the year if certain planned operations are successfully carried out. The hitherto decrease in the volume of business is particularly affected by the reduced transporting of livestock, Hungarian cereals and cars transported to Greece and Turkey. On the other hand, the volume of freight land transport and transhipment considerably increased by 12.7%[20] and 8.1%, respectively and, furthermore, successful business results and higher turnovers are recorded by shipping companies. Taking into account the postal activity where, up until August 2001, the volume of letters and parcels received and mailed was 13.9% higher than in the same period last year, and the growing telecommunications activity where mobile telephony is becoming increasingly important, **in 2001 4.5% growth in value added** in **transport, storage and communications** is expected. For **2002,** a mere **4% growth in value added** in real terms is anticipated since certain activities in the transport, storage and communications sector (such as sea and air transport, tourist agencies) will certainly be affected by reduced production activity and exports as a consequence of the tragic events in the USA.

In the first half of 2001, value added in real terms in the **real estate, renting and business services (K)** was 3% higher than in the same period of 2000, meaning that the moderate growth recorded by this sector in 2000 is continuing (3% growth in real terms in 2000). Following the 2.8% increase in the first quarter, real growth of value added reached 3.1% in the second quarter. Similarly, the number of people employed increased (2% year-on-year growth in the first and 5.2% in the second trimester). The accelerated growth of employment continued in July and August to reach so far 2001's peaks of 7.3% and 7.6% respectively. In the first eight months, the year-on-year employment growth was 4.6% (2000 saw an average annual rise of 3.1%). A more obvious increase in employment than in past years was recorded in the fiscal, legal and business consulting group, while in the planning and technical consulting group the slower growth of employment continued (only 2% higher in the first eight months) due to the reduced activities in construction.

Given the 2000 growth in value added (slowdown in the second half of the year) and employment trends in 2001, **3.5%** real growth of value added in the real estate, renting and business services sector is anticipated for **2001**. In 2002, it is estimated that dynamic growth in real estate trading will continue, stimulated through realisation of the national housing savings scheme. As a result, activities of planning and technical consulting are also expected to

[20] Preliminary SORS data; private hauliers and freight transport for a company's own needs excluded.

recover. In computer activities, the moderate growth of previous years is continuing and is expected to increase in the next few years thanks to the project of expanding information technologies in the public administration. Considering the above trends, the growth of value added **in 2002** should stay at **3.5%**.

In the **public administration, defence and social insurance sector (L)**, the year-on-year value added growth rate in real terms is gradually slowing down in 2001 (5.5% in the first quarter, 4.5% in the second quarter; 5.7% last year), whereas wages and employment have increased considerably. In the first eight months of 2001, the average gross wage per employee rose by 5.3% and the number of people employed by 3.9% compared to the same period last year (in 2000, the average gross wage per employee in real terms increased by 0.4%, and the number of persons employed by 3.1%). The growth rate in employment is expected to further speed up by the end of 2001 and slightly calm down in 2002. According to the above data, **in 2001** growth of value added in real terms in public administration, defence and social insurance will reach **5.5%** and then slow down to reach **4.5% in 2002**.

Value added in **education (M)** grew by 2.3% in real terms in the first half of 2001 (by 2.7% in the first and by 2% in the second quarter). A stimulating fact is that employment is increasing mostly in adult education (12% in the first eight months of 2001 compared to 6.2% in 2000), causing positive changes in an area where Slovenia lags behind the developed countries considerably, although it is probably mainly due to the adjustment of the offer to the growing demand for language and computer courses. Programmes intended for encouraging the education of marginal groups and less qualified persons are being introduced but have not yet been allocated sufficient public resources. Considering the growth of value added in the first half of the year and the estimated trend in employment and wages, real growth of value added in education will reach **2.5% in 2001**. In 2002, growth in higher and university education as well as adult education is expected to increase, while growth in pre-school, elementary and secondary education, representing the largest share in the education sector, will stay at the same level[21]. The anticipated **growth rate in real terms in 2002** is **2.5%**.

According to the SORS' data for the first half of 2001, value added in real terms in **health services and social work (N)** was 3.7% higher than in the same period last year. Employment in social work continues to grow, mostly in sheltered workshops (by 11.9%) employing almost 20% of all persons

[21] The share of pre-school, primary and secondary education in the total value added of the education sector was 74% in 1999.

employed in the health services and social work sector. The share of market activities in value added has been growing in the last few years (20.5% in 1999 and 17% in 1995) due to the rapid increase in the number of sheltered workshops and to the expansion of private health services. Given the movements of wages and employment it can be estimated that **real growth of value added** in health services and social work will reach **4% in 2001. In 2002,** further activities in social work[22] will maintain **real growth of value added** at a relatively high rate, namely at **about 3.5%**.

In the sector of **other public, community and personal services (O),** growth of value added continued to slow down in the first quarter of 2001 (3.4% year-on-year growth rate in real terms). In the second quarter, value added slightly increased to reach 4.5% year-on-year growth rate in real terms. Similar trends were recorded in employment. The largest share of value added of the entire sector is generated by recreation, cultural and sports activities where growth has been slowing down in 2000 and 2001 as confirmed by the low level of private consumption (see Chapter 4.4). In public hygiene services, recording rapid growth of value added and employment in the last few years, employment only increased by 1.3% in the first eight months of 2001. According to data speaking of a renewed growth of employment in the sector of other public, community and personal services, it is expected that in the second half of the year the year-on-year growth rate of value added will further rise to reach about **4.5% in 2001**. **In 2002**, given the expected continuation of employment growth at a rate of 2001, real value added growth will again reach **4.5%**.

4.8. FINANCIAL FLOWS AND THE CAPITAL MARKET – Savings continue to rise and household bank loans continue to fall

In 2001, the **dynamic growth of retail deposits in banks has continued**. At the end of July, the volume of **retail savings in banks** was 8.7% higher than in December 2000 (the comparable growth level in 2000 was 8.4%). The trend of extending the maturity of deposits continued, as long-term tolar and foreign currency savings grew the most dynamically, and the average maturity of short-term tolar deposits extended as well.

[22] Intensive building of residences for the elderly and centres for home assistance, granting concessions for housing groups programmes in the area of mental health, maternity houses and shelters for the homeless, social rehabilitation of addicts.

In 2001, the share of tolar savings in total households' deposits in banks increased, amounting to 56.3% at the end of July (in December 2000 it was 55.6%). In the first seven months of 2001, **tolar savings** recorded 9.6% real growth, with **short-term deposits** (excluding sight deposits) rising by 8.3% and **long-term deposits** by 23% in real terms. The more dynamic growth in long-term tolar deposits also resulted in their higher share in total tolar retail savings (from 11% at the end of 2000 to 12.2% at the end of July 2001). The rise in long-term savings was also contributed to by the growth in savings within the national housing savings schemes (according to the assessment of the Housing Fund, these savings accounted for around 1.5% of total tolar savings and around 11% of long-term tolar savings in December 2000).

In the first seven months of this year, the **volume of foreign currency savings** increased slightly less dynamically than tolar savings, with the real growth being 7.6%. The still considerably high growth was **mostly due to the increase in the volume of long-term foreign currency deposits**, which was 15% higher in real terms than in December 2000. The share of long-term deposits in foreign currency savings, amounting to 14.5% at the end of July, strengthened by 0.9 of a percentage point compared to December 2000, and the long-term foreign currency deposits accounted for approximately half (48%) of the total long-term household deposits in banks. The changes in the structure and maturity of bank deposits also marked the dynamics of growth in money aggregates (see Chapter 5.1).

In line with the dynamic growth in savings, in 2001 households' net indebtedness with banks (the relation between loans and deposits) decreased from 0.38 at the end of 2000 to 0.35 at the end of July 2001, as bank loans to households rose much more slowly than household deposits. In the **first seven months of 2001, household crediting was very moderate**, especially compared to 1999: the balance of household bank loans was 3.4% lower in real terms at the end of July relative to the end of December 2000 (last year 3.6%, and in 1999 as much as 34% real growth). In the structure of bank loans to households, long-term loans largely prevail (more than 80%), however, in the first seven months of this year, a net increase was only recorded in short-term loans (7.1% in real terms with regard to December 2000). At the end of July, the level of long-term loans was less than one percent lower in real terms than at the end of 2000, which mostly points to the repayment of loans taken out in previous years.

In the first seven months of 2001, the **volume of domestic bank loans to the corporate sector** grew by 13% in real terms compared to December 2000, which is a slower increase compared to the same period of 2000. In the first seven months, the real growth in **tolar loans** was 6.9%, while the real increase in **foreign currency loans** granted by Slovenian banks was 24.5% (at the end of July 2001, foreign currency loans accounted for around 22.6% of total corporate bank loans, with their share rising by 1.7 percentage points compared to December 2000). In the first seven months of 2001, **short-term tolar loans to companies increased faster** (10.1% real growth compared to December 2000) than long-term ones (1.5% real growth compared to last December). However, compared to the same period of 2000, growth in long-term loans has strengthened relatively faster in 2001 (in the same period of 2000, short-term loans rose by 9% in real terms, while long-term ones dropped by 6.2% in real terms compared to the previous December). One of the reasons for the increased taking out of short-term loans in both years was to avoid debt enforcement, as the Act Amending the Financial Operations of Companies Act, which took effect on 31 December 1999, does not allow non-liquid companies to keep operating for a long period of time. The faster growth in short-term borrowing, especially in the first half of the year 2001, was also influenced by the dynamics of growth in foreign exchange rates which aggravated the conditions of borrowing abroad in the short term, and the more restrictive budgetary policy in the period of temporary financing (up until April 2001) and the consequently delayed payments made by the state.

In the first eight months of 2001, total **net flows of bank loans to the corporate sector and other financial organisations** (OFOs) strengthened **with regard to the same period of 2000**, amounting to SIT 135.8 billion, which is almost half more than in the same period of 2000 in real terms. This information also points to the relatively stronger growth in long-term and foreign currency bank loans compared to short-term ones. Thus, **in relative terms**, this period saw **the greatest increase in long-term tolar loans**, which only amounted to SIT 344 million in the first eight months of 2000, while in the same period of 2001 it was SIT 27.7 billion (the flow of long-term loans to companies and OFOs already started to strengthen in September 2000). This was also enabled by the high growth in bank assets (primarily deposits by the non-banking sector and borrowing in the form of securities) and their improved maturity structure. While in the first eight months the flow of short-term tolar loans to companies and OFOs was much higher than that of long-term ones (it amounted to SIT 66 billion), it increased considerably less dynamically than long-term corporate bank loans compared to the same period of 2000. In the first eight months, the flow of foreign currency loans by domestic banks also rose strongly (46% in real terms, taking into account the effective tolar exchange rate in this period), which is connected to the high foreign currency liquidity of banks in this period.

In the first seven months of 2001, the **borrowing of companies abroad** was lower than in the same period of 2000, however, it **started to strengthen**

again in the summer months. In the first seven months, the net flow of loans that companies took out abroad – among which long-term loans prevail – only lagged behind the comparable flow in 2000 by 4%[23] in real terms while, according to information from the balance of payments on companies borrowing abroad, in August the eight-month financing of companies from abroad has already exceeded the comparable level in 2000 in real terms. The reasons for long-term borrowing abroad remain similar to the ones seen in 2000. On one hand, the lending terms are still more favourable abroad, and on the other, despite the high liquidity of banks in 2001 the granting of larger loans to the corporate sector is also limited by low bank capital due to the regulation on the credit exposure towards individual borrowers[24].

In 2001 the oscillation in nominal interest rates has again largely been connected to movements in the tolar indexation clause which, due to the way it is calculated, moved between 8.56% and 10.18% at the annual level (it was the highest in June) in line with price movements while, on average in the first ten months (9.08%), it was approximately at the level of 2000's average (9.06%). In the second quarter, the average **interest rates on top of the tolar indexation clause** on short-term **loans** were on average lower by 0.12 of a percentage point compared to the first quarter, and remained at the level of around 5.7% until October. On the other hand, the average interest rates on top of the tolar indexation clause on long-term loans grew slightly in the second quarter and settled at the level of around 7.9%. Otherwise, average interest rates on short-term and long-term loans on top of the tolar indexation clause **on average** moved **at a slightly lower level than in 2000**.

The movement of deposit interest rates, which is also influenced by the movement of the tolar indexation clause for time deposits exceeding 30 days, was affected by some other factors. In February, banks officially withdrew from the recommendations of the Banks' Association on maximum deposit interest rates, which co-created the movement of deposit interest rates in the past two years (after the inter-bank agreement on the maximum deposit interest rate ceased to be in effect in February 1999), in March the average

[23] Recalculated into tolars according to the average monthly exchange rates (source: Table of Slovenia's financial flows, Bank of Slovenia, September 2001) and deflated by the effective tolar exchange rate.

[24] A bank's exposure to an individual client cannot exceed 25% of the bank's capital; in the exposure of a bank to persons that it governs or to persons governed by the same person as the bank, it cannot exceed 20% of the bank's capital; the law limits the exposure of a bank to persons who are in a special relation with the bank (member of the management board of the bank, member of the supervisory board of the bank, legal entity where the person is a member of the management or supervisory board, and the like) to 10% of the bank capital.

interest rates on top of the tolar indexation clause on short-term **deposits** increased, while for long-term deposits they remained the same.

In 2001, **the movements of share prices on the Ljubljana Stock Exchange** have been influenced more by consolidation activities than general movements in share prices in foreign capital markets, the abolition of capital restrictions on foreign portfolio investors and the business results of companies. Share price movements on the Ljubljana Stock Exchange are very independent of events in foreign capital markets[25]. The main reasons for this are the still low activity of foreign investors and the large influence of transition factors.

In the first nine months of 2001, the Ljubljana Stock Exchange achieved a record volume of securities traded as it amounted to SIT 231 billion or 86% of the value of trade in 2000. Only trade in company shares increased, while trade in bonds and shares of investment companies stagnated or even slightly dropped. Despite the record turnover, one cannot speak of the improved liquidity of the Slovenian capital market, as the turnover value ratio at the annual level (the relation between turnover and market capitalisation) is still a very low (0.25). Besides, the number of deals in 2001 has decreased. In the first nine months of 2001, liquidity of the Slovenian capital market was thus also at a similarly low level as in 2000, with growth in turnover mostly being due to the higher transfers of ownership regarding the take-over activities of certain companies. In the first nine months of 2001, similarly to last year, block trades (mostly trades made outside the organised market) accounted for around 60% of total turnover.

In the first nine months of 2001, general share prices on the Ljubljana Stock Exchange, as measured by the SBI 20 index, went up by 10%, with the whole rise being fuelled by the third quarter's growth. Nevertheless, in 2001 the rise in the index was mostly due to the high increases in the share prices of certain medium and large joint-stock companies that were either directly or indirectly included in take-over activities[26]. On average, the prices of shares of the largest four joint-stock companies (Krka, Lek, Mercator and Petrol) nominally only increased by 5%, while in real terms they remained at the same levels as at the end of 2000. Besides, the prices of shares of in-

[25] In the years of high general growth in share prices in the world (the period 1998-1999), prices on the Ljubljana Stock Exchange fell in real terms, while this year, when the value of the world stock exchange index MSCI World fell by 21.8%, measured in euros, until the end of September, the Slovenian capital market was one of the most profitable markets (better put, least non-profitable) in the world.

[26] This mostly concerns the shares of Banka Koper, Istrabenz, Pivovarna Union and SKB banka.

Table 4.8: Turnover by groups of securities on the Ljubljana Stock Exchange (in SIT million)

Period	Shares	Bonds	(Authorised) investment companies	Short-term securities	Pension coupons	Total
1998	133,757	22,070	10,036	7,512	0	165,863
1999	168,422	35,298	53,802	6,446	1,701	265,670
2000	145,323	56,441	62,824	3,187	1,841	269,617
1.1.2001 - 30.9.2001	155,903	32,641	40,766	646	977	230,933

Source of data: Ljubljana Stock Exchange.

vestment companies and the general share prices in the free market stagnated or even fell in real terms. Nevertheless, the stagnation of share prices on the Ljubljana Stock Exchange was at least partly contributed to by the negative trends seen in the world's stock exchanges.

The events in Slovenia's capital market confirm that the **business results of companies have a relatively small influence on the movement of share prices**, as the basis for share price growth was almost exclusively the dynamics of the consolidation of ownership in individual companies. Although on 1 July this year the Bank of Slovenia abolished capital restrictions on foreign portfolio investors, there was no major inflow of foreign capital in the third quarter. It is true that in this period foreign investors made net purchases of SIT 0.85 billion in the organised market, however, their share in total turnover in this market amounted to a modest 3%. The ownership share of non-residents in public limited companies on the Ljubljana Stock Exchange thus remained at an approximately similar level (8%) as before the abolition of restrictions. The small inflow of foreign capital was also due to the negative trends and increased uncertainty in foreign capital markets, which made foreign capital quickly withdraw from less developed markets, i.e. it did not enter them.

The **first nine months** of 2001 did not see **any major share issues** in the organised securities market. The number of long-term securities issues (shares including the shares of authorised investment companies, bonds and pension vouchers) increased by 8 (to 275). In this period, the market capitalisation of shares in the organised market thus grew almost entirely as a result of the increase in share prices. Compared to the end of 2000, the market capitalisation of shares rose by 11.4%. In the first three quarters of 2001, the market capitalisation of bonds grew by 23.6%, almost exclusively due to new issues and the increased quotation of government bonds.

Slovenians did not increase their investments in shares in 2001. The **volume of savings in mutual funds**, which is the most reliable indicator of household savings in securities, is only **increasing modestly** and still only accounts for a small percentage of the volume of household savings in commercial banks. Besides, half of the growth in the volume of assets in mutual funds was due to the increased share prices and not due to the increased inflow of savings. Higher share price growth on the Ljubljana Stock Exchange is thus still hindered by the lack of demand for shares, whether domestic or foreign. Demand only increases when a legal entity or group of legal entities see a strategic interest in a certain other legal entity, which gives the Slovenian capital market a distinctly corporate character.[27] The pension reform and the foundation of pension companies or pension funds have not yet exerted any major influence on the capital market movements as these entities have collected a relatively small amount of assets, mostly placed as bank deposits and government bonds.

In order to develop the capital market (i.e. increase its depth and width, which would allow the expanded financing of companies by equities) after the abolition of custody accounts, it will be necessary to stimulate the greater activity of commercial banks and insurance companies in the area of developing and marketing goods and services related to saving in the form of securities. A positive influence could also be exerted by bank privatisation and the possible greater competition from foreign financial intermediaries, which will contribute to the development or larger range of financial products based on securities, and the abolition of interest rate indexation, which will reduce the comparative advantage of savings deposits.

[27] This means that events in the market are mostly the consequence of corporate activities and not the activities of portfolio investors (whether private or institutional).

5. MAIN ECONOMIC POLICY GUIDELINES

5.1. MONETARY POLICY – M3 growth above the upper end of the target band in 2001

In 2001, the Bank of Slovenia (BS) is continuing to pursue the underlying monetary policy goal of **bringing inflation down to levels comparable to the EU**. According to the BS, Slovenia's inflation on accession to the EU should not be above the level of those member-states with the highest inflation rate. This goal is consistent with the IMAD's assessment of structural effects (the Balassa-Samuelson effect, also see the Spring Report 2001, p. 59) which will cause the difference between inflation rates in Slovenia and the EU to persist even when the tolar's exchange rate is fixed, and with the projected price movements which serve as a basis for drawing up the national budget.

The monetary policy's intermediate target remains **growth in the M3 money aggregate**. After its stable growth in 2000, the BS lowered both the floor and ceiling of the target band by one percentage point, setting the target band between 11% and 17%. However, M3 growth reached the ceiling as early as January 2001 and overshot it in the following months (by up to 3.9 percentage points in September). In the third quarter (compared to the same period of 2000), average M3 growth was 20.9%, while September's year-on-year rise was 21%.

Among the **M3 components**, the largest share is made up of foreign currency deposits with banks. Measured as the quarter's average against the respective period of the year before, foreign currency deposits rose by 32.9% in January, growth slowed down in the following months and reached 25.6% in September. The second biggest component was tolar time deposits with banks. Their average growth was on a rising trend throughout the year: they increased by 13.1% in January and 22.6% in September (see also Chapter 4.8). The relatively fast rise in tolar time deposits led to accelerated growth in the M2 money aggregate, which has climbed by 8.1 percentage points in 2001 and recorded a rise of 19.1% in September.

The increased growth rates in the broad money aggregates seen in the last few months was largely due to the favourable trends in the current account of the balance of payments and financial inflows generated by the sales of equity shares. Decomposition of the M3 money aggregate shows that the issuing of M3 through tolar transactions increased by 56% year-on-year in the first eight months, while the issuing through foreign exchange transactions climbed 2.3 times. As these trends may lead to the tolar's lower depreciation,

Box 5: Inflation targeting

Inflation targeting is the monetary policy's strategy whereby monetary authorities set the target inflation rate they want to achieve in a given period. After ten years of experience in countries which were first to introduce the inflation targeting strategy, it has been increasingly applied by central banks in both advanced and developing economies. Previous experience shows that countries which introduced the inflation targeting strategy differ in terms of: (i) the clarity of its targeting intentions, as some countries launched inflation targeting before their strategy was announced; (ii) the price level on the introduction of inflation targeting, which generally range between low and moderate; (iii) a price index that is monitored (measured inflation or the narrow price aggregates); (iv) discrepancies allowed between the target goal and the actual results and the consequences of larger discrepancies; and (v) the time span during which the targeted level of inflation should be achieved.

Even though **inflation targeting strategies** differ significantly between countries, their **common denominator is that a certain level of prices is set as the most important (direct) monetary policy goal**. This is underpinned by the realisation that monetary policy is mostly incapable of successfully balancing short-term real oscillations in the economy and that, in the long term, monetary policy may only be successful in affecting price levels. Moreover, the belief recently prevailing is that moderate inflation may equally affect other macroeconomic aggregates, such as economic growth. Nevertheless, inflation targeting does provide a nominal anchor which is fairly easy to set, measure and monitor. However, the issue of what is the optimum inflation rate or price levels consistent with other economic goals remains open because inflation targeting is similar to other strategies at the central bank's disposal in that it is impossible to pursue several goals at the same time independently.

The transparency of the inflation-targeting strategy enhances the understanding of the interested public of how monetary authorities work, which in turn increases their credibility. In current circumstances, given the realised and expected capital inflows, the relationship between broad money aggregates and price levels is unstable, which is weakening the BS' impact on bringing inflation down. Furthermore, structural changes in the financial area will affect both the structure and dynamics of money aggregates, leading to their greater instability and a looser relationship between the level of prices and money aggregates. This may give rise to an alternative strategy of direct price level targeting, which could help reduce inflation more rapidly.

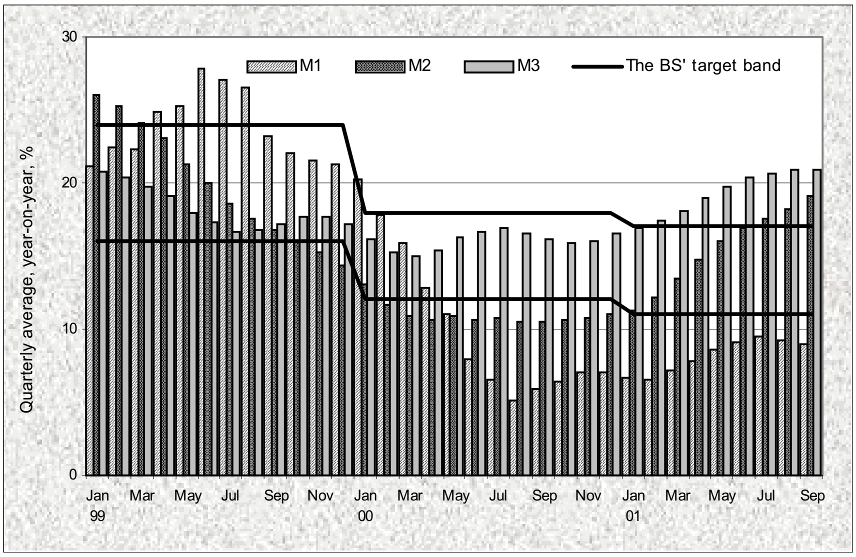
Another factor supporting the option to introduce the strategy of inflation targeting is the process of acceding to the EU. Even though the European Central Bank's main goal is to maintain price stability and its strategy aimed at achieving this goal is founded on two pillars – the first pillar stresses the primary importance of the volume of money, while the second pillar is focused on analysing the broad range of economic and financial indicators – the ECB does not expect candidate-countries to adopt the same method when pursuing their monetary policies.

the **Bank of Slovenia's priority remains focused on maintaining exchange rates at a certain level, meaning its manoeuvring space to influence M3 growth is narrowing**. The prospect of increased capital inflows in the next few years again **raises the issue of the suitability of M3 targeting** because the failure to meet the monetary target in the long term would undermine the central bank's credibility and obstruct realisation of its strategic goal to bring inflation down to EU levels.

In the first quarter of 2001, year-on-year **growth in base money** was 1 percentage point lower than in the last quarter of 2000; in subsequent months growth started to strengthen and the average base money growth intensified to 7.6% year-on-year in the third quarter. In 2001, similar dynamics have been recorded by M1: after decelerating early in the year, M1 started to rise faster in the second quarter and recorded a rise of 8.9% in September, 3.1 percentage points higher than in September 2000 mainly as a result of stronger growth in sight deposits held with banks.

The relatively higher volume of financial inflows from abroad has had a significant impact on the issuing of base money in 2001. Except in January, the BS issued base money in net terms through foreign exchange transactions, of which the most was through repo deals, totalling SIT 71.4 billion in the

Figure 7: Bank of Slovenia's money aggregates (the average of the last three months against the average of the same three months the year before)

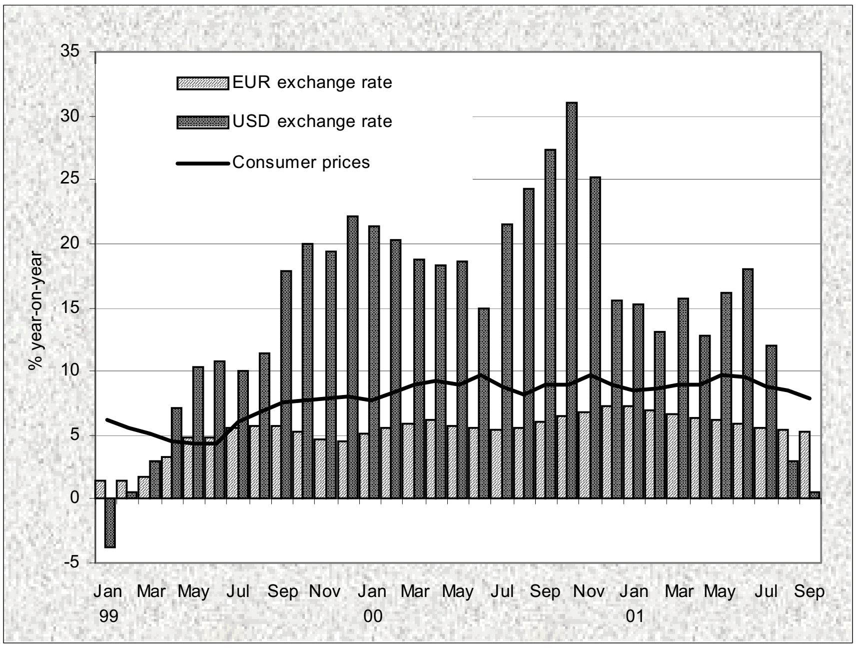


Source of data: Bank of Slovenia.

first eight months, while the BS reduced the volume of base money through other foreign exchange transactions in a total amount of SIT 8.6 billion. The BS withdrew base money in net terms through tolar transactions: the highest amounts were withdrawn through tolar bills of the BS (a total of SIT 47.9 billion) and higher government and corporate deposits (a total of SIT 15.8 billion). The withdrawal of base money through the BS' foreign exchange bills amounted to SIT 53.8 billion compared to the SIT 11.3 billion seen in the same period of 2000.

In 2001, the BS continued to pursue a policy of **managing exchange rate fluctuations**, with exchange rates being strongly influenced by the increased foreign exchange inflows. After depreciating by 7.1% in nominal terms against the euro in 2000, the tolar depreciated by a further 5.3% in the first nine months of 2001. In the first quarter, the average monthly rise in the euro's exchange rate was 0.6% and the rise slowed down to 0.3% in the second quarter. As the tolar's exchange rate continued to decline slowly in subsequent months, the BS intervened in the foreign exchange market in September by setting the minimum exchange rates at which those commercial banks which had signed an agreement to co-operate in the central bank's interventions in

Figure 8: Year-on-year changes in the exchange rate of the euro, the US dollar, and inflation



Source of data: Bank of Slovenia, SORS.

the foreign exchange market should trade. As in previous years, the US dollar's monthly exchange rate volatility was relatively stronger: in the first quarter it climbed by 0.1%, in the second by 2.6%, while in the third quarter it fell by an average of 1.8% per month. In the first nine months, the tolar depreciated in nominal terms against the US dollar by 2.2%, while its year-on-year depreciation was 0.8%.

The Bank of Slovenia is setting the level of its **interest rates** on the basis of its monetary and exchange rate policy goals. After raising the lombard and discount rates by two percentage points in 2000, the BS raised the lombard rate from 10% to 11% and the discount rate from 11% to 12% in April 2001.

For **the rest of 2001**, the BS is expected to apply its instruments to maintain an internal and external balance. In 1999, the rapid price rises were mainly fuelled by external factors, but these factors have subsided in the last few months of 2001 along with the importance of partial measures aimed at minimising their spillover effects into the domestic environment. In the next few months, the **key role in pursuing disinflation efforts will be played by restrictive monetary and exchange rate polices** and their harmonisation with fiscal and incomes polices, since analyses show that it is monetary and exchange rate polices that have the greatest influence on price changes. In the environment of wages rising below the rate of productivity growth on one hand, and the lower proportion of prices under various regimes of regulation and their diminishing impact on inflation on the other, monetary and exchange rate policies will become the main levers of bringing inflation down to EU levels.

As interest rate policies abroad are expected to remain unchanged in the rest of 2001 and in the first half of 2002 – meaning that interest rates abroad may fall further or maintain the levels seen at the end of the third quarter of 2001 – any raising of the BS' key interest rates would additionally increase the discrepancy between domestic and foreign interest rates. Since the process of lifting barriers to short-term capital flows is very likely to be pursued further, an increase in interest rate parities would put additional pressure on exchange rates, causing them to rise more slowly.

The pursuing of the process involving Slovenia's harmonisation with the EU will prompt the BS to introduce some changes as regards the method of conducting monetary and exchange rate policies as well as the selection of policy instruments despite maintaining the same goals. In the next two years, it will be necessary to enhance the role of money market instruments in conducting monetary policy, whereas accession to the EU and the EMU will prompt exchange rate policy to change the current exchange rate regime. In the meantime, the exchange rate will be used to buffer shocks caused by accession processes. As **indexation mechanisms** hamper the process of disinflation, especially in the financial area, and obstruct Slovenia's nominal convergence with EU economies, the BS will have to assume a more active role in efforts to abolish indexation, primarily in the areas of commercial banking where indexation has the biggest impact. The abolition of the interest rate indexation, which is done by means of the tolar indexation clause (TOM), would undoubtedly help reduce inflation's inertia and accelerate its reduction, however, this abolition entails some risk in its early stage. The uncertainty of savers who will have to compare nominal interest rates with the anticipated inflation is likely to increase; the same goes for lenders who will have to include an offset for anticipated inflation into the nominal interest rate. In order to prevent any short-term raising of interest rates and extensive moves from tolar to foreign currency savings, inflationary expectations should be as low as possible and oriented downwards at a time when indexation is abolished. In addition, a 'replacement' should be provided in the form of a reference interest rate which should be determined on the basis of market principles, however, as the financial market is shallow, it is likely to be set on the basis of an agreement.

These conditions will only be satisfied if monetary and fiscal policies are co-ordinated, and appropriate co-operation with the banking sector is established.

5.2. PUBLIC FINANCE

5.2.1. GENERAL GOVERNMENT REVENUE IN 2001-2003 – In 2001 revenues from value-added tax lower and revenues from excise duties higher than anticipated

In 2001, general government revenue was calculated and paid according to the tax legislation and tax instruments already in force at the end of 2000. Only certain amendments were enforced with a minor impact on the scope and structure of general government revenue. Social security contributions were paid at a rate equal to the year before (38%). The payroll tax remained a tax source in 2001, and its progressive taxation scale was not changed. In order to help lift the burden off people in the lowest income brackets, adoption of the Exceptional Reduction of Tax Liability Act was agreed with the social partners in 2000, which was applied in 1999 and 2000 and therefore reduced revenues from personal income tax in 2001. Excise duties on mineral oils were raised several times in 2001, excise duty on gas was introduced, and excise duties on alcohol and alcoholic beverages and tobacco and tobacco products were increased as well. The free-trade agreements and the Europe Agreement caused a further reduction of import tax rates for certain products and, consequently, the proceeds of customs and import taxes. The Public Finance Act has been amended to globally regulate the preparation, submission, and adoption of budgets for the following two years.

Upon the adoption of the national budget for **2001** it was anticipated that real **general government revenue** will be 5.7% higher than the year before and will equal 42.9% of gross domestic product (0.1 of a structural point more than in 2000). The actual trends of general government revenue in 2001 however show that the foreseen general government revenue will not be completely realised. Downward discrepancies are expected especially in value-added tax, where the revenues at the beginning of the year were relatively low. Early in 2001, domestic consumption was quite low; also lower than planned was the growth of the import of goods expressed in tolars. This has slowed down the payments of value-added tax. On the other hand, in the first few months of 2001, the dynamics of export growth were higher than expected, which in tax terms means greater reimbursements of the input VAT. Although domestic consumption gradually started to pick up, the autumn forecast of domestic consumption is lower than the spring one. Also somewhat lower than in spring is the assessed growth of exports and imports, where the downward correction of the import forecasts is relatively stronger than the correction of exports. All this affects revenue from value-added tax, which will be slightly lower than planned in the national budget. Higher than planned in the national budget in 2001 will be revenues from excise duties. During the year, excise duties were raised more than foreseen; especially excise duties on oil derivatives, where the changes of oil prices in world markets were used as a reason to increase the excise duty rates. We estimate that revenue from value-added tax and excise duties will reach the total value of 13.2% of gross domestic product, which is about the same as in 2000 and about 0.1 of a structural point less than anticipated in the national budget upon its adoption. Quite favourable are the movements of contributions and taxes calculated on the basis of salaries. We estimate that salary-based general government revenues, representing over 55% of general government revenue, will increase by 4.2% in real terms in 2001. It will contribute to general government budgets about 23.9% of gross domestic product, which is 0.3 of a structural point more than in 2000. This will accelerate the increase in revenues from payroll tax and the tax from salaries, while social security contributions will increase somewhat more slowly. The payroll tax in 2001 will, due to the fixed nominal and progressive scale, increase by 15.3% in real terms, while the tax on salaries, which creates 90% of personal income revenues, will increase by 5.5% in real terms due to the progressive scale involved. Because of final assessments (also based on the Exceptional Reduction of Tax Liability Act) and the slightly slower growth of other income tax, the entire revenue from income tax will rise in real terms by 4.9%. In 2001, social security contributions will increase by 2.8% in real terms given unchanged contribution rates. Because of the decreasing customs rates and poorer import results than initially planned, the revenue from customs duties and other import taxes in 2001 will also be lower than foreseen. In real terms it will decline by over 23% and will amount to just 0.7% of gross domestic product. After the consolidation of general government revenue (in line with the methodology of the Ministry of Finance), we estimate that **general government revenue** will increase by 4.5% in real terms **in 2001;** it will reach 43.1% of gross domestic product, which is 0.3 of a structural point more than in 2000[28].

The activities aimed at drafting the new systemic laws to regulate personal income tax and corporate income tax will continue in 2002 and 2003, and taxes on property will be reformed as well. This will add to disburdening of labour and increasing taxes on capital. In 2002 it is proposed to increase employers' contribution rate for health insurance by 0.2 of a percentage point. The same increase is also planned for pensioners' contributions for health insurance. The line below which salaries are exempted from tax will be raised slightly in 2002. The rate of salary taxation will fall slightly in some payroll tax bands, which will result in the lower cost of labour. The value-added tax rates will also increase in 2002.

In **2002 and 2003,** considering the forecast macroeconomic developments, the share of mandatory taxes in gross domestic product is likely to decrease further. As a result, balanced public finance will only be achieved if taxes and contributions are consistently charged, collected and enforced, tax and contribution bases are expanded, and the existing tax relief rationalised (especially with respect to corporate income tax and personal income tax). It will also be necessary to increase other revenues, particularly non-tax ones such as revenues from domestic and foreign donations, as well as capital and concession revenues. We estimate that, after the consolidation in accordance with the methodology of the Ministry of Finance, the consolidated general government revenue will equal about 42.5% of gross domestic product in 2002 and about 43.5% in 2003 (without the prolonged budget year to include revenues from January 2003).

[28] The estimate is based on the corrected forecast of Slovenia's nominal gross domestic product for 2001. The new figure is SIT 30.7 billion lower than the spring forecast.

5.2.2. GENERAL GOVERNMENT EXPENDITURE IN 2001-2003 – Restructuring of general government expenditure in 2002 to the benefit of investment

According to the **state budget** adopted for **2001**, state budget expenditure equals SIT 1,210 billion, 8.4% more than in 2000 in real terms, and represents 26.7% of gross domestic product or 1.2 structural points more than in 2000. The budget foresees that external interest payments will rise fastest among budget expenditures. A rise faster than total state budget expenditure will also be seen in real expenditure on salaries, contributions and other expenses for employees of government and public institutions, expenditure on goods and services, and capital expenditures. The current transfers to the Pension and Disability Insurance Institute will increase in real terms by almost 14%; it will represent 15.4% of state budget expenditure, or 4.1% of gross domestic product. The funds allocated for subsidies and transfers to individuals and households will rise somewhat slower than the entire state budget expenditure (up by 3.8% and 2.8% in real terms). Lower funding in real terms than in 2000 will be allocated from the budget for domestic interest payments, expenditure on goods and services in public institutions, capital transfers, and transfers to municipalities.

Table 5.2.2: The structure and share of state budget expenditure in gross domestic product in %

	Structure in %				GDP share in %			
	2000	2001	2002	2003	2000	2001	2002	2003
TOTAL STATE BUDGET EXPENDITURE	**100.0**	**100.0**	**100.0**	**100.0**	**25.5**	**26.7**	**26.9**	**26.5**
Current expenditure	30.5	31.1	30.8	30.4	7.8	8.3	8.3	8.0
Of which:								
Salaries, contributions, other expenses for government employees	13.0	13.1	13.3	13.5	3.3	3.5	3.6	3.6
Expenditure on goods and services in the state administration	10.6	11.4	10.6	10.5	2.7	3.0	2.9	2.8
Domestic and external interest payments	5.9	5.9	6.0	5.4	1.5	1.6	1.6	1.4
Current transfers	**59.6**	**58.9**	**58.9**	**59.0**	**15.2**	**15.7**	**15.9**	**15.6**
Of which:								
Subsidies	5.1	4.9	4.6	4.6	1.3	1.3	1.2	1.2
Transfers to individuals and households	14.6	13.9	13.7	13.7	3.7	3.7	3.7	3.6
Transfers to public institutions	20.8	20.7	21.1	20.7	5.3	5.5	5.7	5.5
Transfers to Pension and Disability Insurance Institute	15.0	15.4	15.5	15.8	3.8	4.1	4.2	4.2
Capital expenditures and transfers	**9.8**	**9.9**	**10.4**	**10.6**	**2.5**	**2.6**	**2.8**	**2.8**

Source of data: MF; calculations by the IMAD.

The actual movements of macroeconomic aggregates and the evaluation of crucial factors that affect general government expenditures show that the state budget expenditure in 2001 will record a lower realisation than foreseen in the adopted budget. In 2001, state budget expenditure is estimated to total SIT 1,198.8 billion, 7.4% higher in real terms than in 2000. It represents 26.4% of gross domestic product or 0.3 of a structural point less than expenditure planned in the budget adopted for 2001.

The drafting of the state budget for **2002 and 2003** was focused on fiscal policy's goal of achieving stable and balanced public finance. However, greater importance was attached to the structure of general government expenditure. The Government proposes to carry out, within the framework of the given limitations, the accelerated restructuring of general government expenditure aimed at development projects.

According to the draft state budget, state budget expenditure is anticipated to rise by 5.1% in real terms in 2002, meaning an increase in the share of state budget expenditure from 26.4% of gross domestic product in 2001 to 26.9% in 2002. Due to strong pressure exerted by salaries of employees of government and public institutions on state budget in 2002, expenditure for this purpose is to increase by 5.6% in real terms and its share in gross domestic product will grow from 8% in 2001 to 8.2% in 2002. The share of capital expenditure and capital transfers will also increase in the structure of state budget expenditure – from 2.5% of gross domestic product in 2001 to 2.8% in 2002. Slower growth vis-ŕ-vis total state budget expenditure growth will be registered in expenditure on goods and services, and subsidies. In 2002, current transfers to the Pension and Disability Insurance Institute will retain the same share as the year before. In 2002, the same share of gross domestic product as in 2000 will be allocated for domestic and external interest payments and for transfers to individuals and households.

The adoption of a new law to regulate salaries in the public sector will alleviate their pressure on state budget expenditure probably in 2003, when we expect that the funds for salaries and contributions of employees in government and public institutions will increase by 2.4% in real terms. In 2003, a 7% real fall in interest payments is also envisaged. Under the planned budget, expenditure on goods and services will increase in real terms by only about 1%. Compared to 2002, in 2003 the real growth of transfers to individuals and households will slow down to 3.1%. The total planned state budget expenditure in 2003 will increase by 2.6% in real terms; its share in gross domestic product will fall to 26.5%, which means it will go back to the level of 2001.

Expenditures of **municipal budgets** are estimated to rise by 1.9% in real terms in 2001. Their share in gross domestic product will reach 5.2%, 0.1 of a structural point less than in 2000. In 2001, expenditures on salaries and contributions, domestic interest payments, subsidies, transfers to individuals and households, and capital transfers are estimated to rise faster than the total expenditure of municipal budgets. In real terms, expenditure on goods and services is estimated to drop, as are other transfers. Slightly slower growth in expenditure of municipal budgets is estimated for 2002 and 2003. In both cases, it will be slower than the growth of gross domestic product. Expenditure of municipal budgets relative to gross domestic product will gradually decrease from 5.2% in 2001 to about 5% in 2003.

In 2000, the pension reform was enforced. The gradual introduction of stricter conditions for retirement and a gradual reduction of the accrual rate have alleviated pressures on **expenditures for the pension and disability system**. The related law has also introduced the possibility of voluntary pension insurance. It was estimated that, in order to enforce the rights from the new Pension and Disability Insurance Act (excluding the payment of contributions for pensioners' health insurance), 2.7% more funds in real terms will be necessary in 2001 against 2000, or 13.2% of gross domestic product. The relative drop in expenditure will continue in 2002 and 2003, when further falls in the accrual rate and the moderate rise in the number of beneficiaries (by 1.1% a year) will take place. Funding for this purpose is projected to equal 13.1% of gross domestic product in 2002 and about 13% in 2003.

In 2001, expenditures on obligatory **health insurance** are estimated to be 7.1% higher in real terms than in 2000 and will reach 6.9% of gross domestic product. Legally determined rights from the obligatory health insurance have not changed in 2001. Several activities were initiated to control spending on medicines and to economise on implementation of health programmes. Nevertheless, it is estimated that transfers to health institutions will increase by 7.7% in real terms in 2001. That means funds for salaries and contributions in health institutions will grow in real terms by 7.4%, and the funds for medicines by as much as 13.4% in real terms. Activities to reduce expenditure in health will continue in 2002 and 2003. The limited resources in the obligatory health insurance, which demand ongoing efforts to control expenditure in health services, have already significantly deteriorated the possibilities of access to health services. Continuation of this trend would bring into play the issues of equality and solidarity in the obligatory health insurance system. Therefore, we are already preparing the analyses and measures that will be required in this field in 2002 and 2003.

After the consolidation, real **general government expenditure** will increase by 4.5% in **2001**, reaching 44.5% of gross domestic product, 0.4 of a structural point more than in 2000. In **2002** we estimate that the share of total (consolidated) general government expenditure will be a little higher than in 2001 (the consolidation based on methodology of the Ministry of Finance), while **in 2003** it will again fall to a little more than 44% of gross domestic product.

5.2.3. GENERAL GOVERNMENT DEFICIT IN 2001-2003 – The 2001 general government deficit higher than planned in the Budget Memorandum

Although the economic policy measures have attempted to alleviate pressure on public finance expenditure and ensure stable sources of financing in 2001, the general government deficit in **2001** reached 1.4% of gross domestic product, which is 0.4 of a structural point more than planned in the budget memorandum.

Table 5.2.3: Consolidated general government revenue and expenditure according to GFS-IMF methodology (as a % of gross domestic product)

	1995	1996	1997	1998	1999	2000	2001 estimate
General government revenue	43.1	42.7	42.0	43.0	43.6	42.8	43.1
General government expenditure	43.1	42.4	43.2	43.8	44.2	44.1	44.5
Surplus / deficit	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-1.4

Source of data: MF; calculations by the IMAD.

In order to achieve the goal of balanced public finance in 2002 and 2003 it will be necessary to take further measures directed at the revenue side of public finances (to ensure stable financing sources), and especially measures aimed at limiting and reducing general government expenditure. In **2002,** the draft state budget foresees an adjustment of the budget year with the calendar year, which means that the annual state budget expenditures will be realised with the revenue from 11 months (excluding January's revenue in 2003). Therefore, in 2002 the actual budget deficit will increase by the 'levelling' deficit, which is estimated to equal 1.5% of gross domestic product. Together with the actual budget deficit, the general government deficit will reach about 2.5% of gross domestic product in 2002. In **2003**, the actual deficit will fall compared to the previous year and will reach, according to the estimates, about 0.7% of gross domestic product.

5.2.4. STRUCTURAL CHANGES IN PUBLIC FUNDING – Changes in the structure of budget funding not significant in the next two years, the direction of these changes is important

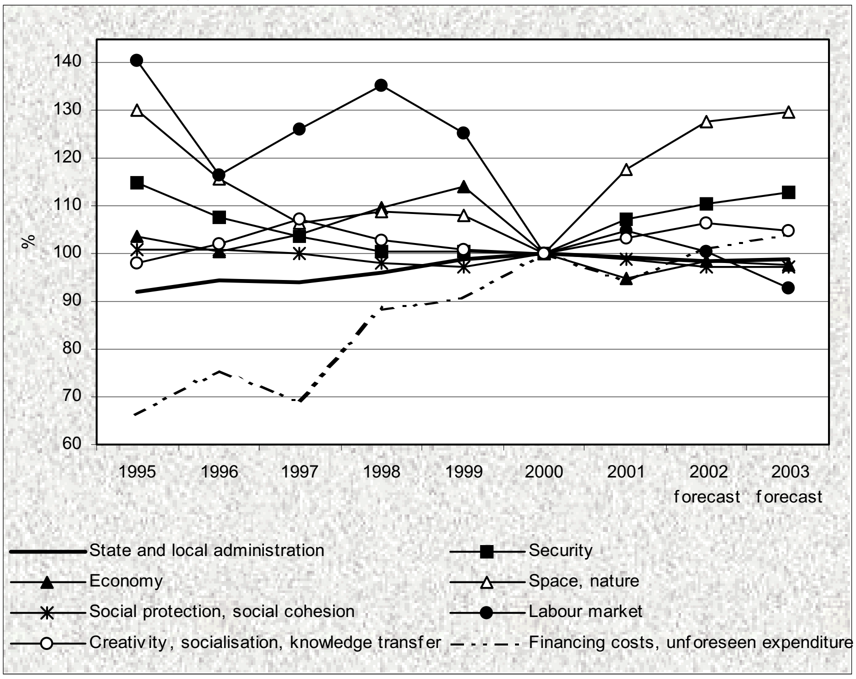
To a large extent, public funding reflects the social consensus, tradition and political will, and they are regulated by rules that do not allow any quick structural changes. This is true of all relatively regulated and stable states, and Slovenia is no exception. Bigger changes can be made only over a longer period of time and/or if the individual elements determining the nominal scope of expenditure are very changeable or uncontrollable.

Slovenia adopted and enforced its major structural reforms in the period after 1995. Each reform brought about changes in both the purpose and structure of public financing. The reform of the national and local administration, which was more organisational than substantial, has contributed to the increased share of state costs in all public expenditure, while the reforms of social security systems prevented an increase of their share in total general government expenditure. The issue of security and defence, which is insufficiently articulated but still supported by collective political will, was reflected in the relative reduction of this purpose in public financing, while the relatively successful employment policy is the main reason for cutting the share for this purpose in public financing.

In the previous period, changes to instruments for allocating state aid and the attempts to achieve the smallest fiscal deficit possible resulted in the reduced share of expenditure on the economic sector. Due to increased liabilities for servicing public debt, expenditures on financing costs increased in both absolute and relative terms.

The state budget submitted in September 2001 and the pension, health and local government budgets reflect the changes in the structure of funding. These changes will not be substantial in a period of two years, but the direction of these changes is important. Since 2000, the highest increases have been seen in expenditure on security, developing creativity, socialisation and the transfer of knowledge, whereas in 2002 and 2003 the allocations for industry, including investments, are to experience the largest increases. Higher expenditure (up by a small percent) will be allocated for physical space and nature. Even after the draft budget has been amended, the structure has not changed significantly, as amounts have mainly been raised in those groups where development efforts enjoyed the support of fiscal policy even before the amendments.

Figure 9: Public financing by purpose[29]
(changes in structural shares; 2000=100)



Source of data: MF; calculations by the IMAD.

In the next two years, expenditure on social protection and social cohesion relative to total public expenditure will remain roughly the same (in 2000 its shares was reduced). It is estimated, equally, that the share allocated by the state for financing costs and unforeseen expenditure will not increase. The

[29] The Ministry of Finance classified national budget expenditure into 23 functional/programme areas. In our review of the programme structure of public financing (additional expenditure for the obligatory pension insurance and obligatory health insurance, and expenditures of local communities), these 23 functional/programme areas are classified into eight groups, namely: **State and Local Administration** – Political System, Economic and Fiscal Administration, Foreign Policy and International Assistance, Common Administrative Services and General Public Services, Local Self-government; **Security** – Defence and Emergency Measures, Internal Affairs and Security, Judiciary; **The Economy** – Agriculture, Forestry and Fisheries, Extraction and Distribution of Energy Resources, Transport, Transport Infrastructure and Communications, Economic Affairs; **Space and Nature** – Protection of the Environment and Natural Heritage, Spatial Planning and Natural Construction; **Social Protection, Social Cohesion** – Health Care, Social Care, Pension Insurance; **Labour Market** – Labour Market and Working Conditions; **Creativity, Socialisation and Transfer of Knowledge** – Science and Technological Development, Education, Culture, Sports and Non-governmental Organisations; **Cost of Financing and Unforseen Expenditure** – Public Debt Servicing, Intervention Programmes and Commitments.

share of expenditure on the labour market is expected to remain relatively fixed as well.

The relatively negligible decline in the share of large recipients of public funds, especially in 2000, nevertheless opened some room for a bigger increase in the share of small users. The changes in the structure thus reflect the state's priorities and goals as well as take into account measures necessary to sustain the country's development pace.

5.2.5. CENTRAL GOVERNMENT DEBT – Central government debt on a gradual decline in the next few years

In the first half of **2001 central government debt** increased nominally by SIT 229.3 billion, and as at 30 June 2001 it equalled SIT 1,242.6 billion. At the end of June 2001, there was 40.3% of the debt denominated in tolars, in euros 46.9%, and in US dollars 12.8%. The share of debt with a variable interest rate was 15.2%, while the share involving a fixed rate was 84.8%.

Table 5.2.5.1: Stock and changes of debt of the Republic of Slovenia (RS) in the first half of 2001 (in SIT billion)

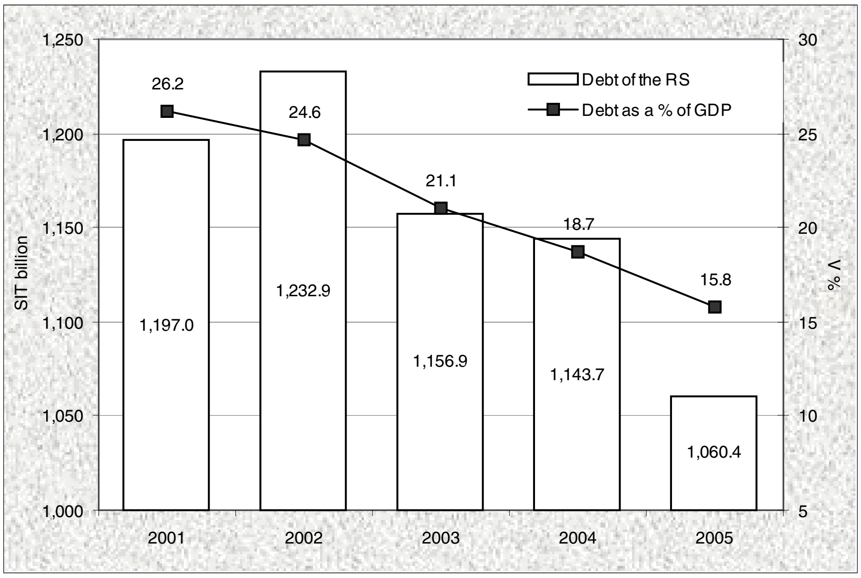
	31.12.2000 Stock	Disburse-ments	Repayments	Net Disburse-ments	Revaluation and changes	Change of debt	30.06.2001 Stock
DEBT OF RS	**1,013.3**	**280.6**	**99.9**	**180.7**	**48.6**	**229.3**	**1,242.6**
I. Internal debt	505.0	147.2	88.3	58.9	20.2	79.1	584.2
II. External debt	508.3	133.4	11.6	121.8	28.4	150.2	658.4

Source of data: Public Finance Bulletin, MF.

In the first six months, the state was indebted at home to the amount of SIT 147.2 billion (SIT 37.7 billion by raising loans, and SIT 109.5 billion by issuing securities), and abroad to the amount of SIT 133.4 billion (SIT 15.1 billion by raising loans, and SIT 118.3 billion by issuing securities, calculated using the medium rate of the Bank of Slovenia).

Given the present level of indebtedness in 2001, and assuming that borrowing will proceed as planned until the end of the year, and taking into account the take-over of the debt of Slovenian Railways amounting to SIT 53.9 billion, and the debt of Slovenian Steelworks amounting to SIT 28.5 billion, central government debt will at the end of 2001 presumably equal **SIT 1,197 billion or 26.4%** of the estimated gross domestic product (1.3 percentage points more compared to the end of 2000).

Figure 10: Debt of the Republic of Slovenia in 2001-2005



Source of data: MF.

On the assumption that in **2002 and 2003** the state will not take over additional debts pursuant to special laws, in both years the nominal growth of debt will be influenced by the budget deficit, the growth of debt due to the indexation of principal, and movements in exchange rates (revaluation and changes in debt stock).

With a consistent policy of a gradually reducing the budget deficit aimed at a balanced budget by 2005, and on the assumption that the privatisation of the state property will be completed and that the proceeds of privatisation (presumably SIT 442 billion) will be used to pay off debts, debt will fall to the level of SIT 1,060.4 billion, or 15.8% of gross domestic product by the end of 2005. Such fiscal policy will help Slovenia keep the pace of debt growth in check, and consequently preserve a stable level of debt relative to gross domestic product. A relative decrease in the share of interest payments

Table 5.2.5.2: Payment of interest in 2001-2005

	2001	2002	2003	2004	2005
Payment of interest (in SIT billion)	71.1	81.6	79.9	76.6	77.4
Interest as % of total budget expenditures	5.9%	6.1%	5.4%	4.3%	3.3%

Source of data: MF.

in general government expenditure, and a decrease in the relative level of debt stock will also be influenced by the changed structure of the debt portfolio. With the purpose of performing more pro-active debt management, the Treasury intends to reduce the share of indexed debt, replace more expensive debt with cheaper one, and change the currency structure of external debt.

5.2.5.1. State debt in 1993-2000[30]

In 1993-2000 the increase of central government debt was influenced by the following activities: borrowing to finance the budget deficit, financing of extra-budgetary programmes[31] and debt growth due to the indexation of principal and exchange rate changes.

In 1993, the Republic of Slovenia completed two extra-budgetary rehabilitation programmes (totalling SIT 204 billion) to resolve the problem of claims of Slovenian companies on Iraq, Angola and Cuba, and resolving the problem of foreign currency savings in Slovenia. Another reason for borrowing was to pay off the principal of the existing debt.

In 1994, the Republic of Slovenia issued about SIT 22.8 billion of additional bonds for bank rehabilitation, raised new loans for programmes not planned in the budget (for the reconstruction of main roads, and for basic development programmes of the armed forces). For financing the extra-budgetary programmes it took out loans worth SIT 25 billion.

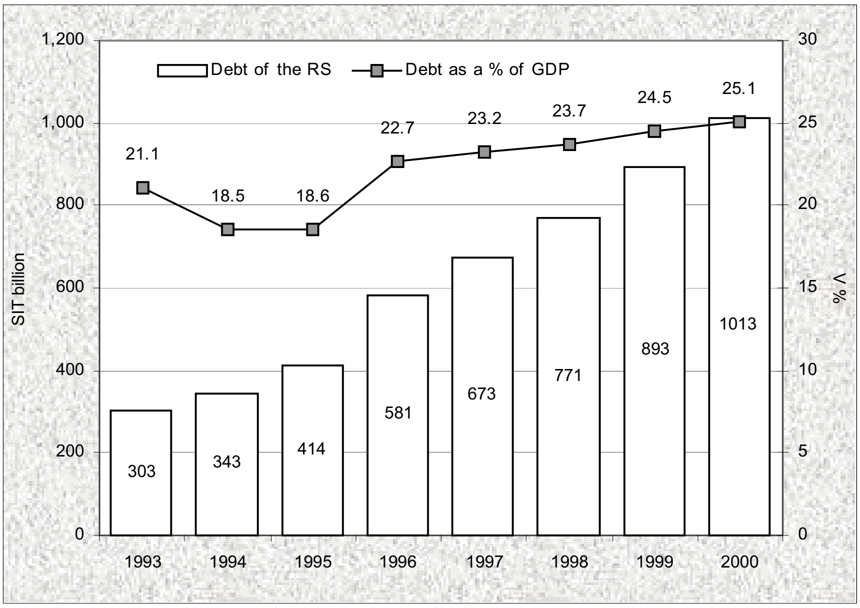
The increase in 1995 was also primarily the result of financing extra-budgetary programmes (continuation of the programme of bank rehabilitation and the take-over of debt incurred by the payment of foreign currency deposits of banks, continuation of issuing bonds for the purchase of claims on Iraq, Cuba and Angola, and borrowing for basic development programmes of the armed forces).

Similarly, in 1996 the state increased debt levels in order to finance the payment of maturing liabilities and for specific purposes, but not for financing the budgetary balance. In that year, it legally regulated the succession problem

[30] Data on the Republic of Slovenia's debt stock which includes loans and securities of the central government composed of the state bodies from the legislative, executive and judiciary branches of power and their organisational units were first published in 1993.

[31] The extra-budgetary programmes in particular include the programmes of bank rehabilitation and the related resolution of the problem of the foreign currency deposits of citizens, rehabilitation of the economic system, basic development programmes of the armed forces, and resolution of the problem of succession to the former SFRY debts.

Figure 11: Central government debt as a percent of gross domestic product



Source of data: MF.

of the former Yugoslav debts with the London and the Paris Club. Following the agreement with the consortium of commercial banks (the London Club), the Republic of Slovenia issued NFA[32] bonds in a total amount of USD 812 million. In addition, it issued the first five-year Eurobond in August 1996 denominated in US dollars in a total amount of USD 325 million.

In 1997, central government debt increased because of financing the budget deficit and because of borrowing for specific purposes (liabilities related to the succession of debts of former Yugoslavia). For financing the budget deficit, it issued the second Eurobond with seven-year maturity denominated in German marks in a total amount of DEM 400 million. Its net borrowing for financing extra-budgetary programmes was SIT 9.5 billion.

In January 1998 the budget year was extended for the first time, when the expenditures of the 1997 calendar year were covered by the revenue of almost 13 months (including January 1998). The 'deferred' budget year increased the need for liquidity borrowing and, consequently, increasingly higher payments of interest[33]. In 1998, the Treasury started with regular

[32] New Financing Agreement.

[33] Since a state's debt is always recorded for the calendar year, when calculating the changes of debts it is necessary to start from the deficit that the state financed within a calendar year.

monthly auctions of three-month treasury bills, the third (ten-year) Eurobond was issued denominated in euros in a total amount of EUR 500 million (the major part was aimed at the early payment of NFA bonds, and SIT 26.8 billion for financing the budgetary balance and the payment of principal). Net extra-budgetary borrowing equalled SIT 12.9 billion in 1998.

In 1999, debt increased especially because of the indexation of principal and exchange rate changes, and because of borrowing to finance the budget deficit. The Republic of Slovenia issued the fourth Eurobond, which was again denominated in euros and held a ten-year maturity, in a total amount of EUR 400 million. It also proceeded with regular monthly auctions of three-month treasury bills. In October, the Treasury issued for the first time a six-month treasury bill which is now regularly issued every two months.

In 2000 as well, central government debt increased primarily because of debt growth and the financing of the budget deficit. In order to meet the needs of domestic financing, in 2000 the Treasury prepared for the first time the timetable of issues of individual long-term securities with a maturity of 3, 5, and 10 years with the objective of systemising the issues and increasing the scope of securities. In line with the timetable, it issued five new bonds intended for financing the budget deficit and the payment of principal in a

Table 5.2.5.3: Changes in debt in 1994 -2000 (SIT million)

Type of change / year	1994	1995	1996	1997	1998	1999	2000
Initial debt stock	303,019.70	342,982.20	418,121.00	580,698.00	673,276.40	771,296.00	893,293.00
Fiscal deficit (+) / surplus (-)	-11,827.14	-20,042.14	-18,857.73	32,085.36	35,132.76	19,615.00	37,388.59
Fiscal year adjusted to calendar year	0.00	0.00	0.00	-14,156.81	4,514.85	10,596.95	31,059.05
The 'B' balance	4,170.00	-2,080.00	3,146.00	27.00	-4,121.00	1,217.00	-5,129.00
Changes due to new classification in 1998	3,823.44	1,601.14	2,542.53	2,567.53	0.00	0.00	0.00
Extra-budgetary borrowing	25,036.40	48,709.73	116,713.30	9,413.28	12,864.59	-315.05	-3,238.76
- foreign	0.00	0.00	107,689.35	434.57	922.18	-42.45	0.00
- domestic	23,871.27	38,359.71	3,739.56	-1,618.11	3,296.97	8,520.67	204.60
Indexation, exchange rate changes	22,707.10	33,171.50	35,628.20	64,671.20	23,490.50	65,785.30	79,979.11
- indexation	20,067.30	30,808.80	24,538.20	30,744.80	25,764.30	29,750.30	30,556.15
- exchange rate changes	2,639.80	2,362.70	11,090.00	33,926.40	-2,273.80	36,035.00	49,422.96
Changes in the account	-123.86	15,379.72	25,947.23	538.36	26,137.90	25,098.80	-19,827.99
Changes in debt	39,962.50	75,138.80	162,577.00	92,578.40	98,019.60	121,997.00	120,231.00
Debt stock as at year-end	342,982.20	418,121.00	580,698.00	373,276.40	771,296.00	893,293.00	1,013,524.00
USD/SIT exchange rate (year-end)	128.8086	118.5185	135.3655	159.6893	166.1346	181.7704	273.3771

Source of data: MF.

total amount of SIT 27.2 billion. In May 2000, the Treasury completed the set of short-term securities with regular issues of twelve-month treasury bills. In 2000, the Republic of Slovenia also issued the third ten-year Eurobond denominated in euros in a total amount of EUR 500 million.

5.3. WAGES POLICY – Wage growth in the public sector significantly above the moderate wage growth in the private sector

In 2001, two mechanisms of adjusting wages, different for the public and the private sectors, were applied for the first time. In December 2000 the **public sector** signed the Agreement on Wage Adjustment Mechanism in the Public Sector in 2001. The Agreement took into account the new way of adjusting wages, that is by 90% of the expected consumer price growth, which was 7% when the Agreement was signed (from December 2000 to December 2001). The basic wage thus increased on the whole by 6.3%, that is by 3.6% in January 2001 and by 2.6% in August. The August wage adjustment took place in order to decrease the deviations between the wages in the public sector. The Government and the trade unions operating in the area of the public sector had to agree on the manner of implementing the second part of wage adjustment in branch collective agreements and in the decrees issued by the Government. The adjustment mechanism adopted also includes a “safety valve.” In case the consumer price rises exceed the expected 7%, the basic wage in January 2002 is to increase by the difference occurring above 6.3%. If, on the other hand, consumer prices do not reach 6.3% growth, the increase of the basic wage is to be reduced by the difference upon the following adjustment.

In the **private sector**, the Agreement on Incomes Policy for 1999-2001 enacted by the Act on Minimum Wage, Wage Adjustment and Holiday Allowances for 1999-2001 was still in effect until June 2001. On the basis of the adjustment mechanism, the basic wage increased by 4.5% in January 2001. May 2001 saw an agreement on the Annex to the Agreement on Incomes Policy for 1999-2001. On the basis of this Annex, the adjustment mechanism has two phases. The adjustment in August took into account the previous consumer price growth, that is 92.5% of the growth in the first half of 2001. For the second half, the same way of adjusting is applied as in the public sector since the beginning of the year. With the second adjustment in January 2002, the basic wage will thus rise by 2.7% (90% of the consumer price growth planned for the second half of 2001). This adjustment mechanism also has a “safety valve” built in: if the actual consumer price growth exceeds the expected price growth, in January 2002 the basic wage is additionally adjusted by the difference occurring, however, the total increase of the basic wage in 2001 must not exceed 95% of the consumer price growth.

In the first quarter of **2001**, the real year-on-year growth of gross wage per employee was high, amounting to 5%, in the second quarter it moderated to 2.6%, while in the third quarter – with the September growth assessed to -2% – the year-on-year growth of gross wage per employee was approximately the same as in the second quarter (2.4%). In the last quarter the year-on-year real growth of gross wage per employee is estimated to 1%. This is a low rise, but one must take into account that in the same period of 2000, the increase in wages was exceptionally high. The real growth of the gross wage in the last quarter of 2001 compared to the third quarter is estimated to 3.5%. We estimate that, on the basis of such trends in 2001, the real gross wage per employee will achieve 2.5% growth, which is slightly more than estimated in the Spring Report 2001 (2.3%). Nevertheless, it will still lag behind the growth in labour productivity by half a percentage point.

In the **private sector**, the growth in gross wage per employee mostly depends on the length of a working month and the payment of wages at the end of the year on the basis of business results. In the first quarter of 2001, the real gross wage per employee at the year-on-year level went up by 3.4%, in the second quarter the wage growth was much more moderate (1.3%), while in the third quarter, taking into account the decrease assessed for September due to the extremely high August level, wage growth will achieve around 2% at the year-on-year level. The high monthly increase of wages in August (3.4%) was the consequence of the simultaneous adjustment of the basic wage by 4.4% according to the Annex to the Agreement on Incomes Policy for 1999-2001 and of the additional adjustment of the minimum wage to GDP growth in the previous year by 4.6% (the minimum wage thus went up by 9.2%). This adjustment had a considerably high influence, since the basic wages in the first four job grading groups of the general collective agreement for the private sector are under the level of the minimum wage. This is also true of many branch collective agreements, especially in manufacturing, construction, trade and transport. It is estimated that in the last quarter, the year-on-year real growth in the gross wage per employee will be zero, which is based on the assumption of the economic growth slowing down in the second half of the year and the consequential lower amount of wage payments at the end of the year on the basis of business results. It is also necessary to take into account the very strong growth of real wage in the last quarter of 2000, as growth in real gross wage per employee in the final quarter of 2001 is estimated to be relatively high compared to the third quarter (4.5%). On the basis of trends assessed in this way, **in 2001 the gross wage per employee in the private sector will grow by 1.5% in real terms.**

The trends of the gross wage per employee in the **public sector** depend on the increase in wages due to their adjustment, and even more on the increase in the benefits from the collective agreements and decrees and, which is especially characteristic of the state administration, on the increase in wages due to new recruitment and exceptional promotions. In the first quarter of 2001, compared to the first quarter of 2000, the real gross wage in the public sector rose by 8.2%. January saw a 3.6% adjustment of the basic wage in line with the Agreement on Wage Adjustment Mechanism in the Public Sector in 2001; the wages in the public administration grew by 2.3% according to the amendment of the Government decree; and in the same month wages in education went up by 3.5% in line with the amendments to the collective agreement of this activity. In the second quarter the growth in the real gross wage was slightly less intensive, however, it was still high, achieving 5.2% year-on-year growth. The high year-on-year increases in the real gross wage in the first two quarters of 2001 were mostly the consequence of the wage growth dynamics in 2000 (moderate growth in the first half of the year and extreme growth in the second half of 2000). Therefore, the trend of moderation at the year-on-year level continued in the third quarter, when the real gross wage per employee rose by an estimated 3.3% (September's wage growth was estimated). August saw a 2.6% increase in wages, as stipulated in the Agreement on Wage Adjustment Mechanism in the Public Sector in 2001. The adjustment was made by means of coefficients and not percent, and the use of corrective coefficients led to a 2.6% increase in wages by activities. In the collective agreements for individual branches the corrective coefficient was diversified, the most in the activities of health care and social protection, while in the decree covering public administration the coefficient was a single one (the same level of coefficient for all employees). The adjustment, made by annexes to branch collective agreements and decrees in the area of state administration and justice, thus corrected the largest deviations between wages in individual activities. In the last quarter, the estimate of the year-on-year growth in the real gross wage is relatively low (1.5%), however, mainly due to the high benchmark. The December gross wage per employee in the public sector is estimated to be nominally around 3% higher than in September because of the 6.5% increase of wages in education (supplements in November and December) and 2.3% growth in wages in the public administration (supplements in December). **With such trends, in 2001 the real gross wage per employee in the public sector will be 4.4% higher** and will thus considerably exceed the growth in the labour productivity of the national economy (3%).

The estimate of wage trends in **2002** assumes slightly faster growth in real gross wage in the **private sector** than in 2001. The negotiations between the employers and employees on the wages policy in the private sector additionally hinder the discussions on the system of wages in the private sector. The social partners would like to abandon the system of wage rates and introduce the system of basic wage, but an agreement has not yet been reached. Regardless of the adjustment mechanism adopted, we expect the wage trends in the private sector to follow the improvement envisaged in the economic growth in the second half of the year. Besides, the year 2002 has more working days than 2001, which will also influence the monthly wage growth. We estimate the gross wage per employee in the private sector to increase by **around 2%** in real terms.

The negotiations on the new wages policy in the **public sector** have just been concluded with the Annex to the Collective Agreement for the Public Sector. It was agreed that the adjustment mechanism takes into account 88% of the anticipated consumer price rises in **2002** and 90% of the anticipated consumer price rises in **2003**. Wages are to be adjusted in two phases (in January and August) in total by 4.9% in 2002 and 4.4% in 2003. The adjustment mechanism has the "safety valve" built in case the inflation exceeds the anticipated consumer price rises for 2002 and 2003. In November 2001, the Government also adopted measures to restrict different forms of unjustified promotions in the public sector that will also contribute to a stable wages policy. Wage growth is set to be more dependent on the work efficiency of those employed in the public sector. This will be enforced by the new wage system in the public sector, which is to take effect at the beginning of 2003.

On the basis of the assumptions above, the gross wage per employee in the public sector in 2002 will rise less than in 2001 in real terms, that is by **around 3.3%.** Such a high result in calculating the average annual wage is also the consequence of the high wage increase envisaged for the end of 2001 - when comparing December 2002 to December 2001, the same assumptions only mean a real wage increase of 0.5%.

Taking into account the estimated wage trends in 2002 in both sectors, the **real gross wage per employee in 2002** will grow by 2.5% and will lag behind labour productivity growth by around half a percentage point.

5.4. LABOUR MARKET POLICY – Initial steps taken to implement the new employment strategy

The National Employment Action Plan for 2000 and 2001 and the Strategic Goals of Labour Market Development up until 2006 have brought about changes in the approach towards employment policy. However, the programmes of active employment policy of the past few years had also reflected the modern four-pillar employment policy introduced by the European Commission in 1997. The table gives an overview of the **estimated funds involved in financing the individual pillars of the employment policy and passive employment policy measures** of the past few years. **The funds for passive employment policy in 1999 and 2000 decreased** due to amendments to the Employment and Insurance against Unemployment Act of 1998.

Table 5.4: Estimated funds involved in financing employment policy programmes by individual pillars (as % of gross domestic product)

	1996	1997	1998	1999	2000
I. improving employability	0.22	0.23	0.28	0.40	0.30
II. promoting entrepreneurship	0.06	0.05	0.05	0.05	0.09
III. encouraging the flexibility of businesses and employees	0.15	0.03	0.05	0.02	0.01
IV. equal employment opportunities	0.03	0.04	0.03	0.05	0.04
1. Total (I-IV)	0.47	0.35	0.41	0.52	0.44
2. Funds for passive employment policy	0.72	0.88	0.89	0.79	0.58
3. Total funds for employment policy (1+2)	1.19	1.23	1.31	1.31	1.02

Source of data: Ministry of Labour, Family and Social Affairs, 2001.

The most important active employment policy programmes continue to be **the programmes for improving employability** and, despite the new concept, the main role in their implementation is still played by the Employment Service. Mention should be made here of the different programmes of education, training and motivation of the unemployed (programmes of information and motivation of job-seekers, workshops on how to find a job, workshops on how to discover one's professional goals, personality development programmes, job-seekers' clubs, training programmes, programmes for co-financing work tests, programmes of introduction to work, "Programme 5000" – an education programme for the unemployed), public works programmes, labour funds, regional employment or development initiatives and other programmes.

Under the second pillar - **promoting entrepreneurship** – the **leading role** in programme implementation is gradually being **taken over by the Small Business Development Centre** which carries out, among others, programmes and activities regarding the promotion of entrepreneurship and the distribution of knowledge about the possibilities and risks of entrepreneurship. Programmes promoting the self-employment of the unemployed, including information and motivation, various forms of consulting and financial assistance for self-employment, have already been known for some years. In 2000 and 2001, the Employment Service and the Small Business

Development Centre continued to carry out the projects of: a) development and implementation of the system of consulting subsidies based on vouchers; b) training of fast-growing companies; c) refundable financial assistance to entrepreneur-beginners; d) promotion of the professional assertion of women; and e) introduction of home work and telework. Two development projects are also taking place: Entrepreneurship Creativity of Young People and Self-employment in Rural Areas (Employment Service, 2001, pp. 63-64).

To a relatively **lesser extent**, like in most EU member-states, Slovenia is implementing the guidelines under the third pillar where **measures are directed at encouraging the flexibility of businesses and employees**. Measures include programmes of restructuring the textile and shoemaking industries and footwear manufacturing, as well as programmes to restructure commercial companies in order to preserve jobs where the Employment Service mostly promotes retraining programmes that prevent the transition of any surplus labour into obvious unemployment. Certain projects have included part-time jobs which enable workers to combine work and training. Since public finances do not allow for any reduced taxation of labour, employers are reimbursed the social security contributions for the purpose of cutting labour taxes and promoting employment. As a consequence, the number of people employed increased considerably in 1999 and 2000.[34]

The long-running debates on drawing up a new Employment Relationship Act have caused concern and led to the situation where changes in the socio-economic system as well as harmonisation of the law with the relevant legislation in the EU and with the numerous signed international labour conventions call for a new labour law. Due to employers' needs for a more flexible employment relationship, the use of fixed-term employment relationships has been common – most new employment contracts with registered unemployed persons are concluded on a fixed-term basis. At the same time, there are new atypical forms of employment (such as temporary work) where the existing labour law does not envisage such a situation and employment relationship in the labour market. The social partners have concluded negotiations on the Employment Relationship Act, allowing its second reading in the Parliament. The trade unions' and employers' views mostly focused on the conditions for using the fixed-term employment relationship, notice and redundancy payments as well as the definition of supplements to the Act, instead of focusing on collective agreements. The draft act selectively (depending on the number of years of work for a certain employer) reduces the time limits of notice and the amounts of redundancy

[34] In the period 1994-1998, about 2,300 people took part in this programme on average every year, 6,223 people took part in it in 1999 and 8,073 in 2000 (Employment Service, 2001, p. 52, table 22).

payments and legally defines certain supplements that have previously been defined only in collective agreements. It provides the conditions in which fixed-term employment contracts may be applied and prohibits the conclusion of consecutive contracts with the same employee.

Under the **equal employment opportunity programmes**, emphasis should be placed on programmes to employ people with disabilities and to subsidise sheltered workshops as well as on the programmes promoting entrepreneurship among women already mentioned under the second pillar programmes. The share of people with disabilities among the unemployed amounted to 16.5% at the end of 2000. The problem of unemployment in this social group has been addressed through education and training programmes involving 1232 people with disabilities in 2000, and public works (involving 900 people with disabilities in 2000). In order to provide equal opportunities for disabled people in the labour market, additional special programmes have been drawn up (vocational rehabilitation, adaptation of posts to the needs of people with disabilities, encouraging the employment of disabled persons by co-financing wages, partial reimbursement of expenses to sheltered workshops for each person with disabilities employed by them, and remuneration for creating new jobs for disabled people in the amount of ten consecutive guaranteed wages; for more information see Employment Service, 2001, pp. 67-69).

Current and potential problems of the labour market resulting from the challenges of globalisation, the desired gradual transition to a service society, EU integration and old persisting problems require an active and co-ordinated employment strategy and policy. It is still too early to assess the effectiveness or ineffectiveness of the new approach because Slovenia is still only beginning to implement the new integrated approach. In order to be able to assess the (in)effectiveness, an efficient system of monitoring the implementation of programmes and their impacts on the labour market will have to be introduced.

5.5. STATE AID POLICY – From rehabilitation of ailing companies to development priorities

In 2000, state aid in Slovenia accounted for 2.07% of gross domestic product (2.44% in 1999 and 2.53% in 1998). Similar downward trends are also recorded by the indicators: state aid per employee (in 2000 it went down by 7.3% in nominal terms compared to 1999, and by 1.7% compared to 1998) and the share of state aid in government expenditure (4.68% of government expenditure in 2000, 5.52% in 1999 and 5.79% in 1998). The reduction of state aid is the result of the envisaged policy of the gradual adjustment of Slovenia's state aid to the EU levels. The reduction recorded in the last two years has made it possible for Slovenia to reach the level of comparable EU member-states.

The reduction of state aid in individual sectors has not been uniform. In agriculture and fisheries, for example, state aid increased considerably; in fact, 20.9% of all state aid was allocated to these two sectors in 1998 and it further increased to 45.9% in 2000. State aid to agriculture and fisheries, already accounting for 32.9% of value added in agriculture in 2000 (only 13.7% in 1998) are not only part of the economic policy but also of other policies (such as demographic, social, spatial and similar policies). In transport (13.8% of all state aid in 2000), state aid in 1999 was considerably lower compared to 1998, it slightly increased in 2000 yet it did not reach the 1998 level (4.9% of value added in transport in 2000, 5.8% in 1998). State aid to the coal industry is modest if compared to the whole amount of state aid (2.8% of all state aid in 2000) but represents 6.5% of value added in the coal industry, and in 2000 it was lower than in previous years (10.7% of value added in the coal industry in 1998 and 13.2% in 1999). State aid to other sectors shows rapid downward trends. It accounted for only 37.5% of all state aid in 2000 (58.5% in 1998 and 51.9% in 1999). In terms of value added in manufacturing, it went down from 5.57% to only 3.04%.

In the last three years, the instruments of state aid have also changed. In 1998, tax instruments (tax exemptions, tax and contribution deferrals etc.) accounted for only 7.6% of all state aid, while in 2000 they accounted for almost a quarter (24.2%). Among the budgetary instruments, the share of grants is decreasing rapidly (78.1% in 1998, only 66.1% in 2000) similar to the share of capital transactions and, in 2000, of guarantees. The share of

Table 5.5: Structure of state aid instruments (in %)

INSTRUMENTS	1998	1999	2000
A1 - grants	78.1	70.7	66.1
A2 - tax exemptions	7.6	12.0	15.1
B1 - capital transactions	5.5	2.9	2.2
C1 - loans	4.3	5.0	5.1
C2 - other tax concessions	0.0	4.4	9.1
D - guarantees	4.5	5.0	2.4
Budgetary instruments (A1+B1+C1+D)	92.4	83.6	75.8
Tax instruments (A2+C2)	7.6	16.4	24.2

Source of data: Third report on state aid in Slovenia (for 1998, 1999, 2000), 2001, MF; calculations by IMAD.

soft loans shows a slightly upward trend. Among tax sources, both groups of instruments - tax exemptions and relief and other tax concessions - are increasing.

State aid policy **in 2001** has not changed compared to last year, however control over the allocation of state aid has improved considerably. In 2000, only 32.6% of state aid was notified in advance (Special explanation to the Third report on state aid in Slovenia, 2001) due to the introduction of state aid regulations into practice and the fragmentation of state aid in Slovenia (numerous aid providers and different schemes). In 2001, the percentage of state aid notified in advance is expected to increase considerably, and the notifications so far received indicate that different purposes of state aid are being integrated, meaning that the number of aid providers and schemes is falling. The amount of state aid will only be known in May 2002 yet, according to the estimates, their volume will stay at the 2000 level. The sectoral structure is not expected to change considerably. Most state aid will still be allocated to agriculture, and slightly more to transport (mostly due to the assumption of the debt of Slovenian Railways). The completion of state aid allocation to the steel industry and the possible assumption of the heavy debt of Slovenian Steelworks remain an outstanding issue. Among state aid allocation instruments, the share of grants (mostly subsidies) will decrease slightly, whereas soft loans will increase. The movements of other instruments (all tax expenses, capital transactions and guarantees) cannot be assessed yet.

2002 is the last year for undertaking tasks defined in the negotiating positions between Slovenia and the European Union. When the allocation of state aid to Slovenian Steelworks terminates, there will no longer be special sectoral aid to the steel industry in Slovenia. By reorganising the Slovenian Development Corporation and accelerating the privatisation of enterprises taken over by the Corporation after the completion of ownership transformation, the volume of state aid for restructuring big enterprises will drop (13.9% of all state aid in 2000). The available state aid instruments, disposable in the same amount as in 2000 and 2001, will be redirected from the steel industry and restructuring to other horizontal objectives. State aid allocation policy will be oriented towards development priorities defined particularly in 2001. Regional criteria will still not be sufficiently applied; only 2% of all state aid is allocated according to regional criteria in Slovenia (in 2000) compared to 13.5% of all state aid on average in the EU (in 1999)[35]. For the implementation of European regulations, a system of assessing the impacts of state aid on structural changes, economic growth and competition will be introduced.

[35] Ninth Survey, 2001.

5.6. REGIONAL DEVELOPMENT AND REGIONAL POLICY – Special regional policy measures necessary to reduce regional disparities

A comparison between the 12 statistical regions in Slovenia indicates that in the period 1995-97 the highest values of gross domestic product per capita were recorded in Central Slovenia (SIT 1,704,000 per capita), accounting for about 87% of the EU average. At the bottom of the list is the Pomurska region with SIT 999,000 per capita, or 51% of the EU average. Gross domestic product per capita is slightly above the national average also in the Littoral-Kras region while other regions range between 82% and 99% of the national average. Interregional disparities between the least and most developed regions are 1: 1.7.

Despite the absolute reduction of the registered unemployment rate in all statistical regions in the first half of 2001, the relative ratios between them have not changed. On average, in the first six months of 2001 the highest rate of registered unemployment was recorded in the Podravska region (18.1%, which is 12.3 percentage points higher than in the Goriška region which has had the lowest registered unemployment rate for years). Registered unemployment rates above the average were recorded by the Podravska, Pomurska, Zasavska, Spodnjeposavska and Savinjska regions. However, the structure of unemployed per region is a far more pressing problem than the high unemployment rate itself. Normally, regions with high registered unemployment rates also record a share of the long-term unemployed which is above the average (the Podravska, Zasavska, Savinjska regions). Such a share is also large in certain regions whose unemployment rate is below the average. The most obvious case is Southeast Slovenia, simultaneously recording a share of the unemployed with a low level of education which is above the average and still growing (60.4%). A low educational structure of the unemployed which is above the average is also characteristic of the Zasavska (51.4%), Spodnjeposavska (50%) and Pomurska (55.5%) regions. The latter also records the largest share of young people among the unemployed, accounting for almost 30% of all job-seekers in the region. Other regions with large and above-average shares of young job-seekers include the Zasavska, Notranjsko-kraška, Savinjska, Littoral-Kras, Goriška and Spodnjeposavska regions. The worst age structure of the unemployed is found in the Gorenjska region where more than 60% of the unemployed is more than 40 years old. Above-average shares of the unemployed over 40, who are usually also the long-term unemployed, are typical of regions that normally have an unemployment rate below the average (Central Slovenia, the Gorenjska region, Southeast Slovenia).

Table 5.6: Indicators per statistical regions

Statistical regions	GDP per capita, 1997 (SLO = 100)	Registered unemploy. rate I-VI 2001, in %	Employment rate I-VI 2001, in %	Ageing index[1], 30. June 2001	Net migration between regions, 2000 (per 1000 inhab.)	Life expectancy at birth, total 1997
Central Slovenia	132	8.5	58.6	88.9	-0.4	74.5
Littoral-Kras	102	9.2	55.6	116.1	1.7	75.5
Gorenjska	93	9.3	55.8	83.4	0.3	73.9
Goriška	99	5.8	57.5	108.1	-0.4	74.4
Savinjska	94	13.3	54.9	83.2	-0.5	72.5
Southeast Slovenia	93	10.0	58.1	78.3	0.8	71.9
Pomurska	78	17.0	52.9	100.4	-0.4	72.1
Notranjsko-kraška	85	9.9	57.3	102.8	2.6	74.1
Podravska	82	18.1	50.2	99.2	0.1	72.1
Koroška	86	10.1	54.7	78.3	-1.1	72.7
Spodnjeposavska	89	14.6	54.1	96.9	-0.3	71.4
Zasavska	84	14.8	53.0	104.5	0.0	71.9
Slovenia	**100**	**11.7**	**55.4**	**91.9**	**0.0**	**71.0**

Source of data: SORS, calculations by the IMAD.
Note: [1] The ratio between the old (over 64) and young (between 0 and 14 years) population.

In 2000, the net migration, taking into account interregional and international migration increments, was biggest in Central Slovenia, Littoral-Kras and the Podravska region. Considering interregional migration alone, the greatest migrations per 1000 inhabitants are recorded in the Koroška and Savinjska regions, in Central Slovenia as well as in the Goriška, Pomurska and Spodnjeposavska regions. The process of suburbanisation within regions is continuing and is particularly notable in Central Slovenia. People emigrate from larger regional centres (Ljubljana, Maribor, Velenje, Celje, Murska Sobota, Kranj, Jesenice) and immigrate to nearby municipalities. The density of settlement is also affected by the natural increase which varies substantially between individual regions. In 2000, the greatest natural increase was recorded in Central Slovenia and was positive only in the Gorenjska, Southeast Slovenia and Koroška regions. The lowest value per 1000 inhabitants, namely a demographic decline, was recorded in the Zasavska region (-3.2), and was also very low in the Pomurska (-2.6) and Notranjsko-kraška regions (-2.3). Such demographic movements result in a growing ageing index of the population that increased from 53.3 in 1991 to 87.8 in June 2001 on the national average. The highest index is recorded in the Littoral-Kras, Goriška, Zasavska and Pomurska regions. Intensive ageing of the population also depends on the increased life expectancy at birth. There are considerable disparities between western and eastern regions.

Interregional disparities cannot be reduced without the necessary regional policy measures. In 2000 and 2001, such measures have been directed towards: (i) promoting the development of demographically endangered areas and areas with special development problems through the promotion of local and regional economic infrastructural development; (ii) promoting the development of agriculture, tourism and small business mostly through the Fund for Regional Development and Preservation of Rural Areas (hereinafter: the Fund); and (iii) institution-building (establishment of the Regional Development Agencies - RDAs) and drawing up of regional development programmes.

In terms of regional development, the activities carried out in 2001 are particularly directed at the continuation of the **regional policy reform**, namely implementation of the Promotion of Balanced Regional Development Act adopted in 1999 and the implementing regulations adopted in 2000. **Implementation takes place at two levels**. On one hand, institutional structures for implementing regional structural policy are strengthening (in summer 2001, the Regional Development Strategy was adopted) while, on the other, there are efforts to achieve more balanced regional development through regional policy measures.

Budgetary funds for regional development, including funds from the Ministry of the Economy - the Agency for Regional Development - amounted to about 0.28% of gross domestic product in 2000, according to the IMAD's estimates. If we add the EU PHARE funds for cross-border co-operation and economic and social cohesion, they totalled about 0.29% of gross domestic product, which is the highest amount since 1991. Considering the estimated realisation in 2001[36], the amount of these funds is expected to go down to 0.18% of gross domestic product. According to the current draft budget for 2002 and 2003, the share of budgetary funds intended for regional development within the Ministry of the Economy, the Agency for Regional Development and the Fund will increase to about 0.23% of gross domestic product in 2002 and will again fall to 0.19% of gross domestic product in 2003. Funds received under EU pre-accession structural assistance (SIT 3.9 and 3.3 billion, respectively) have also been taken into account. The institutional reform of regional policy will not be successful unless it is supported by budgetary funds to finance its implementation. The majority of funding for regional development is provided by various ministries through budgetary funds earmarked for development projects of a regional nature.

[36] Draft budget for 2002 and 2003, Poročevalec No. 81

STATISTICAL APPENDIX

LIST OF TABLES

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998
GROSS DOMESTIC PRODUCT	4.1	3.5	4.6	3.8
Structure in value added in % [1]				
Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.2
Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.5
- Industry (C+D+E)	33.4	32.8	32.5	32.8
- Construction F	5.1	5.7	5.7	5.7
Services (G...O)	59.2	59.5	59.8	59.7
FISIM	-2.3	-2.5	-2.3	-2.4
GDP in mil. SIT (current prices)	2,221,459	2,555,369	2,907,277	3,253,751
GDP in mil. EUR	14,508	15,075	16,116	17,468
GDP in mil. US$	18,745	18,878	18,206	19,585
GDP per capita in US$	9,431	9,481	9,163	9,878
GDP per capita purchasing power in US$	12,500	13,200	14,100	14,800
GDP per capita (PPS)	11,300	12,200	13,200	13,900
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS				
Exports of goods and services- real [2]	1.1	3.6	11.6	6.7
- Exports of goods		2.4	13.3	9.2
- Exports of services		8.7	4.9	-3.6
Imports of goods and services- real [2]	11.3	2.1	11.9	10.4
- Imports of goods		1.8	13.3	10.9
- Imports of services		3.6	3.1	7.0
Exports of goods and serv. in mil. US$	10,378	10,488	10,455	11,118
As a % of GDP	55.4	55.6	57.4	56.8
Imports of goods and serv. in mil. US$	10,753	10,679	10,601	11,415
As a % of GDP	57.4	56.6	58.2	58.3
Trade balance in mil. US$ [2]	-953	-825	-776	-789
As a % of GDP	-5.1	-4.4	-4.3	-4.0
Current account balance in mil. US$	-99	31	11	-147
As a % of GDP	-0.5	0.2	0.1	-0.8
Foreign exchange reserves in mil. US$	3,426	4,124	4,377	4,781
External debt in mil. US$	2,970	3,981	4,123	4,915
As a % of GDP	15.8	21.1	22.6	25.1

Continued on next page.

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	1999	2000	2001	2002
			Forecast	
GROSS DOMESTIC PRODUCT	5.2	4.6	3.7	3.6
Structure in value added in % [1]				
Agriculture, forestry, fishing (A+B)	3.7	3.3	3.2	3.2
Industry and construction (C+D+E+F)	38.3	38.3	37.4	36.7
- Industry (C+D+E)	32.0	32.1	31.7	31.1
- Construction F	6.3	6.2	5.7	5.6
Services (G...O)	60.3	60.6	61.7	62.4
FISIM	-2.2	-2.2	-2.2	-2.2
GDP in mil. SIT (current prices)	3,648,401	4,035,518	4,540,500	5,005,000
GDP in mil. EUR	18,843	19,682	20,905	22,205
GDP in mil. US$	20,071	18,122	18,840	20,412
GDP per capita in US$	10,109	9,105	9,458	10,257
GDP per capita purchasing power in US$				
GDP per capita (PPS)	15,000	16,100		
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS				
Exports of goods and services- real [2]	1.7	12.7	7.2	4.8
- Exports of goods	2.7	12.8	8.0	5.1
- Exports of services	-2.7	11.8	3.5	3.3
Imports of goods and services- real [2]	8.2	6.1	3.3	4.7
- Imports of goods	8.8	6.1	3.2	4.8
- Imports of services	3.6	6.0	4.1	4.3
Exports of goods and serv. in mil. US$	10,522	10,694	11,265	11,951
As a % of GDP	52.4	59.0	59.8	58.5
Imports of goods and serv. in mil. US$	11,403	11,397	11,490	12,204
As a % of GDP	56.8	62.9	61.0	59.8
Trade balance in mil. US$ [2]	-1,245	-1,139	-690	-707
As a % of GDP	-6.2	-6.3	-3.7	-3.5
Current account balance in mil. US$	-783	-611	-215	-253
As a % of GDP	-3.9	-3.4	-1.1	-1.2
Foreign exchange reserves in mil. US$	4,115	4,376	4,940[3]	
External debt in mil. US$	5,400	6,217	6,718[4]	
As a % of GDP	26.9	34.3	35.7	

Continued on next page.

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998
EMPLOYMENT, WAGES AND PRODUCTIVITY				
Employment (according to SNA)	1.0	-1.0	-0.5	0.0
Registered unemployed (annual average in thousand)	121.5	119.8	125.2	126.1
Rate of registered unemployment in %	13.9	13.9	14.4	14.5
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9
Gross wage per employee	5.1	5.1	2.4	1.6
Labour productivity	3.1	4.5	5.1	3.8
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS				
Final consumption	7.4	2.3	3.2	3.9
As a % of GDP	78.7	77.6	76.7	75.9
in which:				
Private consumption	9.1	2.0	2.8	3.3
As a % of GDP	58.5	57.5	56.4	55.7
Government consumption	2.5	3.4	4.3	5.8
As a % of GDP	20.1	20.1	20.4	20.3
Gross fixed capital formation	16.8	8.9	11.6	11.3
As a % of GDP	21.4	22.5	23.4	24.6
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY				
General government revenue (per cent share relative to GDP)	43.1	42.7	42.0	43.0
General government expenditure (per cent share relative to GDP)	43.1	42.4	43.2	43.8
Surplus/deficit (per cent share relative to GDP)	0.0	0.3	-1.2	-0.8
EXCHANGE RATE AND PRICES				
Average exchange rate SIT/US$	118.5	135.4	159.7	166.1
Average exchange rate SIT/EUR	153.1	169.5	180.4	186.3
Effective exchange rate [5]	10.3	-2.8	0.7	3.9
Inflation (annual average) [6]	12.6	9.7	9.1	7.9

Continued on next page.

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	1999	2000	2001	2002
			Forecast	
EMPLOYMENT, WAGES AND PRODUCTIVITY				
Employment (according to SNA)	1.2	1.1	0.7	0.6
Registered unemployed (annual average in thousand)	119.0	106.6	101.3	98.8
Rate of registered unemployment in %	13.6	12.2	11.5	11.2
Rate of unemployment by ILO in %	7.6	7.0	6.3	6.1
Gross wage per employee	3.3	1.6	2.5	2.5
Labour productivity	4.0	3.5	3.0	3.0
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS				
Final consumption	5.6	1.4	2.3	3.2
As a % of GDP	76.0	75.8	75.0	75.0
in which:				
Private consumption	6.0	0.8	1.9	3.0
As a % of GDP	55.8	54.9	53.9	53.7
Government consumption	4.6	3.1	3.7	3.7
As a % of GDP	20.2	20.8	21.0	21.3
Gross fixed capital formation	19.1	0.2	-1.4	4.6
As a % of GDP	27.4	26.7	25.1	25.1
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY				
General government revenue (per cent share relative to GDP)	43.6	42.8	43.2 [5]	
General government expenditure (per cent share relative to GDP)	44.2	44.2	44.5 [5]	
Surplus/deficit (per cent share relative to GDP)	-0.6	-1.4	-1.4 [5]	
EXCHANGE RATE AND PRICES				
Average exchange rate SIT/US$	181.8	222.7	241.0	245.2
Average exchange rate SIT/EUR	193.6	205.0	217.2	225.6
Effective exchange rate [5]	-0.7	-2.1	-0.2	1.0
Inflation (annual average) [6]	6.1	8.9	8.5	6.4

Source of data: SORS, BS, Ministry of Finance, Eurostat, IMAD's forecasts.
Notes: [1] Letters in brackets refer to NACE Rev. 1, Classification of Economic Activities, [2] Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets, [3] September 2001, [4] April 2001, [5] MF - Budget Memorandum, the Budget Memorandum for 2002 and 2003, Poročevalec nr. 81, 8. Octorber 2001 [6] Growth in index denotes appreciation of tolar and vice versa, [7] Retail prices as a measure of inflation until 1998, after 1998 consumer price index.

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

- current prices, SIT million

		1995	1996	1997	1998
A.	Agriculture, hunting, forestry	87,072	98,260	107,700	116,215
B.	Fishing	386	439	484	519
C.	Mining and quarrying	26,006	30,683	33,908	36,023
D.	Manufacturing	545,730	616,410	706,266	782,651
E.	Electricity, gas and water supply	56,693	65,032	73,492	96,503
F.	Construction	96,588	123,827	143,158	159,312
G.	Wholesale, retail, trade, repair	232,286	257,269	294,293	326,778
H.	Hotels and restaurants	57,164	68,467	77,314	84,124
I.	Transport, storage, communications	148,746	169,275	204,827	233,079
J.	Financial intermediation	77,067	93,185	108,916	119,023
K.	Real estate, renting and business activities	224,830	263,568	291,572	334,244
L.	Public administration and com. soc. sec.	102,937	121,447	149,612	161,704
M.	Education	108,002	123,881	146,687	157,735
N.	Health and social work	101,172	118,454	134,589	148,882
O.	Other community and personal activities	63,580	77,431	88,243	100,449
	FISIM	-43,947	-55,127	-58,554	-66,343
1. TOTAL VALUE ADDED (basic prices)		1,884,312	2,172,501	2,502,509	2,790,898
2. CORRECTIONS [1]		337,147	382,868	404,768	462,853
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**
TOTAL VALUE ADDED (basic prices)		1,884,312	2,172,501	2,502,509	2,790,898
in which:					
1. Agriculture, forestry, fishing (A+B)		87,458	98,699	108,184	116,734
2. Industry and construction (C+D+E+F)		725,017	835,952	956,824	1,074,489
- Industry (C+D+E)		628,429	712,125	813,666	915,177
- Construction F		96,588	123,827	143,158	159,312
3. Services (G...O)		1,115,784	1,292,977	1,496,055	1,666,018
4. FISIM		-43,947	-55,127	-58,554	-66,343

Continued on next page.

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

- current prices, SIT million

		1999	2000	2001	2002
				Forecast	
A.	Agriculture, hunting, forestry	114,552	115,101	123,698	135,498
B.	Fishing	520	534	580	629
C.	Mining and quarrying	36,825	36,763	37,171	37,882
D.	Manufacturing	859,603	970,014	1,078,802	1,170,892
E.	Electricity, gas and water supply	98,108	112,768	124,815	131,206
F.	Construction	195,879	214,935	223,035	241,371
G.	Wholesale, retail, trade, repair	365,101	403,227	456,638	506,323
H.	Hotels and restaurants	94,979	111,721	128,361	144,391
I.	Transport, storage, communications	259,090	282,646	324,744	361,818
J.	Financial intermediation	134,177	156,326	183,045	207,867
K.	Real estate, renting and business activities	380,744	421,884	480,084	532,320
L.	Public administration and com. soc. sec.	178,540	203,034	235,506	263,654
M.	Education	177,098	205,041	231,074	253,739
N.	Health and social work	169,420	195,243	223,251	247,542
O.	Other community and personal activities	115,126	133,145	152,977	171,261
	FISIM	-69,351	-77,324	-85,782	-93,828
1. TOTAL VALUE ADDED (basic prices)		3,110,409	3,485,059	3,917,998	4,312,565
2. CORRECTIONS [1]		537,993	550,460	622,501	692,437
3. GROSS DOMESTIC PRODUCT (3=1+2)		**3,648,401**	**4,035,518**	**4,540,500**	**5,005,000**
TOTAL VALUE ADDED (basic prices)		3,110,409	3,485,059	3,917,998	4,312,565
in which:					
1. Agriculture, forestry, fishing (A+B)		115,072	115,635	124,278	136,126
2. Industry and construction (C+D+E+F)		1,190,415	1,334,480	1,463,823	1,581,352
- Industry (C+D+E)		994,536	1,119,545	1,240,788	1,339,981
- Construction F		195,879	214,935	223,035	241,371
3. Services (G...O)		1,874,273	2,112,268	2,415,679	2,688,915
4. FISIM		-69,351	-77,324	-85,782	-93,828

Source of data: SORS, IMAD's forecasts.
Note: [1] Taxes on goods and services less subsidies for goods and serivces..

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

- Shares in GDP in %, current prices

		1995	1996	1997	1998
A.	Agriculture, hunting, forestry	3.9	3.8	3.7	3.6
B.	Fishing	0.0	0.0	0.0	0.0
C.	Mining and quarrying	1.2	1.2	1.2	1.1
D.	Manufacturing	24.6	24.1	24.3	24.1
E.	Electricity, gas and water supply	2.6	2.5	2.5	3.0
F.	Construction	4.3	4.8	4.9	4.9
G.	Wholesale, retail, trade, repair	10.5	10.1	10.1	10.0
H.	Hotels and restaurants	2.6	2.7	2.7	2.6
I.	Transport, storage, communications	6.7	6.6	7.0	7.2
J.	Financial intermediation	3.5	3.6	3.7	3.7
K.	Real estate, renting and business activities	10.1	10.3	10.0	10.3
L.	Public administration and com. soc. sec.	4.6	4.8	5.1	5.0
M.	Education	4.9	4.8	5.0	4.8
N.	Health and social work	4.6	4.6	4.6	4.6
O.	Other community and personal activities	2.9	3.0	3.0	3.1
	FISIM	-2.0	-2.2	-2.0	-2.0
1. TOTAL VALUE ADDED (basic prices)		84.8	85.0	86.1	85.8
2. CORRECTIONS [1]		15.2	15.0	13.9	14.2
3. GROSS DOMESTIC PRODUCT (3=1+2)		100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT		**100.0**	**100.0**	**100.0**	**100.0**
in which:					
1. Agriculture, forestry, fishing (A+B)		3.9	3.9	3.7	3.6
2. Industry and construction (C+D+E+F)		32.6	32.7	32.9	33.0
- Industry (C+D+E)		28.3	27.9	28.0	28.1
- Construction F		4.3	4.8	4.9	4.9
3. Services (G...O)		50.2	50.6	51.5	51.2
4. FISIM		-2.0	-2.2	-2.0	-2.0
5. Corrections [1]		15.2	15.0	13.9	14.2
		Shares in value added in %			
TOTAL VALUE ADDED		100.0	100.0	100.0	100.0
in which:					
1. Agriculture, forestry, fishing (A+B)		4.6	4.5	4.3	4.2
2. Industry and construction (C+D+E+F)		38.5	38.5	38.2	38.5
- Industry (C+D+E)		33.4	32.8	32.5	32.8
- Construction F		5.1	5.7	5.7	5.7
3. Services (G...O)		59.2	59.5	59.8	59.7
4. FISIM		-2.3	-2.5	-2.3	-2.4

Continued on next page.

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

- Shares in GDP in %, current prices

		1999	2000	2001	2002
				Forecast	
A.	Agriculture, hunting, forestry	3.1	2.9	2.7	2.7
B.	Fishing	0.0	0.0	0.0	0.0
C.	Mining and quarrying	1.0	0.9	0.8	0.8
D.	Manufacturing	23.6	24.0	23.8	23.4
E.	Electricity, gas and water supply	2.7	2.8	2.7	2.6
F.	Construction	5.4	5.3	4.9	4.8
G.	Wholesale, retail, trade, repair	10.0	10.0	10.1	10.1
H.	Hotels and restaurants	2.6	2.8	2.8	2.9
I.	Transport, storage, communications	7.1	7.0	7.2	7.2
J.	Financial intermediation	3.7	3.9	4.0	4.2
K.	Real estate, renting and business activities	10.4	10.5	10.6	10.6
L.	Public administration and com. soc. sec.	4.9	5.0	5.2	5.3
M.	Education	4.9	5.1	5.1	5.1
N.	Health and social work	4.6	4.8	4.9	4.9
O.	Other community and personal activities	3.2	3.3	3.4	3.4
	FISIM	-1.9	-1.9	-1.9	-1.9
1. TOTAL VALUE ADDED (basic prices)		85.3	86.4	86.3	86.2
2. CORRECTIONS [1]		14.7	13.6	13.7	13.8
3. GROSS DOMESTIC PRODUCT (3=1+2)		100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT		**100.0**	**100.0**	**100.0**	**100.0**
in which:					
1. Agriculture, forestry, fishing (A+B)		3.2	2.9	2.7	2.7
2. Industry and construction (C+D+E+F)		32.6	33.1	32.2	31.6
- Industry (C+D+E)		27.3	27.7	27.3	26.8
- Construction F		5.4	5.3	4.9	4.8
3. Services (G...O)		51.4	52.3	53.2	53.7
4. FISIM		-1.9	-1.9	-1.9	-1.9
5. Corrections [1]		14.7	13.6	13.7	13.8
Shares in value added in %					
TOTAL VALUE ADDED		100.0	100.0	100.0	100.0
in which:					
1. Agriculture, forestry, fishing (A+B)		3.7	3.3	3.2	3.2
2. Industry and construction (C+D+E+F)		38.3	38.3	37.4	36.7
- Industry (C+D+E)		32.0	32.1	31.7	31.1
- Construction F		6.3	6.2	5.7	5.6
3. Services (G...O)		60.3	60.6	61.7	62.4
4. FISIM		-2.2	-2.2	-2.2	-2.2

Source of data: SORS, IMAD's forecasts.
Note: [1] Taxes on goods and services less subsidies for goods and serivces.

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

- Prices 1995, SIT million

		1995	1996	1997	1998
A.	Agriculture, hunting, forestry	87,072	87,956	85,362	88,028
B.	Fishing	386	423	430	411
C.	Mining and quarrying	26,006	26,495	27,328	27,348
D.	Manufacturing	545,730	554,260	590,671	618,131
E.	Electricity, gas and water supply	56,693	57,365	59,750	60,303
F.	Construction	96,588	109,382	117,792	123,199
G.	Wholesale, retail, trade, repair	232,286	239,175	245,870	252,793
H.	Hotels and restaurants	57,164	59,680	61,826	62,404
I.	Transport, storage, communications	148,746	152,612	159,052	167,272
J.	Financial intermediation	77,067	85,509	85,555	89,445
K.	Real estate, renting and business activities	224,830	234,121	240,033	245,682
L.	Public administration and com. soc. sec.	102,937	108,438	119,592	125,568
M.	Education	108,002	109,175	114,476	118,048
N.	Health and social work	101,172	107,685	111,035	112,901
O.	Other community and personal activities	63,580	66,671	69,372	73,376
	FISIM	-43,947	-50,253	-48,924	-51,043
1. TOTAL VALUE ADDED (basic prices)		1,884,312	1,948,694	2,039,221	2,113,866
2. CORRECTIONS [1]		337,147	351,206	365,543	382,090
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,221,459**	**2,299,900**	**2,404,764**	**2,495,956**
TOTAL VALUE ADDED (basic prices)		1,884,312	1,948,694	2,039,221	2,113,866
in which:					
1. Agriculture, forestry, fishing (A+B)		87,458	88,379	85,792	88,439
2. Industry and construction (C+D+E+F)		725,017	747,502	795,541	828,981
- Industry (C+D+E)		628,429	638,120	677,749	705,782
- Construction F		96,588	109,382	117,792	123,199
3. Services (G...O)		1,115,784	1,163,066	1,206,812	1,247,489
4. FISIM		-43,947	-50,253	-48,924	-51,043

Continued on next page.

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

- Prices 1995, SIT million

		1999	2000	2001	2002
				Forecast	
A.	Agriculture, hunting, forestry	86,186	85,309	84,499	86,991
B.	Fishing	424	409	409	417
C.	Mining and quarrying	27,627	27,253	25,904	25,114
D.	Manufacturing	637,279	692,199	723,694	747,214
E.	Electricity, gas and water supply	59,799	61,513	64,004	64,004
F.	Construction	142,637	146,663	143,070	147,290
G.	Wholesale, retail, trade, repair	268,802	275,444	283,845	293,638
H.	Hotels and restaurants	64,336	70,635	73,849	77,504
I.	Transport, storage, communications	172,604	180,708	188,930	196,393
J.	Financial intermediation	92,358	97,833	104,241	110,443
K.	Real estate, renting and business activities	257,322	264,951	274,357	283,822
L.	Public administration and com. soc. sec.	132,332	139,909	147,674	154,245
M.	Education	122,096	126,659	129,889	133,071
N.	Health and social work	120,092	125,101	130,240	134,733
O.	Other community and personal activities	77,470	80,961	84,644	88,411
	FISIM	-50,289	-51,230	-51,717	-52,777
1. TOTAL VALUE ADDED (basic prices)		2,211,072	2,324,317	2,407,532	2,490,515
2. CORRECTIONS [1]		414,870	422,705	440,467	459,284
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,625,942**	**2,747,021**	**2,848,000**	**2,949,800**
TOTAL VALUE ADDED (basic prices)		2,211,072	2,324,317	2,407,532	2,490,515
in which:					
1. Agriculture, forestry, fishing (A+B)		86,610	85,718	84,908	87,408
2. Industry and construction (C+D+E+F)		867,342	927,628	956,672	983,623
- Industry (C+D+E)		724,705	780,965	813,602	836,332
- Construction F		142,637	146,663	143,070	147,290
3. Services (G...O)		1,307,409	1,362,201	1,417,669	1,472,261
4. FISIM		-50,289	-51,230	-51,717	-52,777

Vir podatkov:SORS, IMAD's forecasts.
Note: [1] Taxes on goods and services less subsidies for goods and serivces.

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

- Real growth rates in % (constant 1995 prices)

		1996	1997	1998	1999
A.	Agriculture, hunting, forestry	1.0	-2.9	3.1	-2.1
B.	Fishing	9.6	1.7	-4.4	3.1
C.	Mining and quarrying	1.9	3.1	0.1	1.0
D.	Manufacturing	1.6	6.6	4.6	3.1
E.	Electricity, gas and water supply	1.2	4.2	0.9	-0.8
F.	Construction	13.2	7.7	4.6	15.8
G.	Wholesale, retail, trade, repair	3.0	2.8	2.8	6.3
H.	Hotels and restaurants	4.4	3.6	0.9	3.1
I.	Transport, storage, communications	2.6	4.2	5.2	3.2
J.	Financial intermediation	11.0	0.1	4.5	3.3
K.	Real estate, renting and business activities	4.1	2.5	2.4	4.7
L.	Public administration and com. soc. sec.	5.3	10.3	5.0	5.4
M.	Education	1.1	4.9	3.1	3.4
N.	Health and social work	6.4	3.1	1.7	6.4
O.	Other community and personal activities	4.9	4.1	5.8	5.6
	FISIM	14.3	-2.6	4.3	-1.5
1. TOTAL VALUE ADDED (basic prices)		3.4	4.6	3.7	4.6
2. CORRECTIONS [1]		4.2	4.1	4.5	8.6
3. GROSS DOMESTIC PRODUCT (3=1+2)		**3.5**	**4.6**	**3.8**	**5.2**
TOTAL VALUE ADDED (basic prices)		3.4	4.6	3.7	4.6
in which:					
1. Agriculture, forestry, fishing (A+B)		1.1	-2.9	3.1	-2.1
2. Industry and construction (C+D+E+F)		3.1	6.4	4.2	4.6
- Industry (C+D+E)		1.5	6.2	4.1	2.7
- Construction F		13.2	7.7	4.6	15.8
3. Services (G...O)		4.2	3.8	3.4	4.8
4. FISIM		14.3	-2.6	4.3	-1.5

Continued on next page.

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

- Real growth rates in % (constant 1995 prices)

		2000	2001	2002
			Forecast	
A.	Agriculture, hunting, forestry	-1.0	-1.0	3.0
B.	Fishing	-3.5	0.0	2.0
C.	Mining and quarrying	-1.4	-5.0	-3.0
D.	Manufacturing	8.6	4.5	3.3
E.	Electricity, gas and water supply	2.9	4.0	0.0
F.	Construction	2.8	-2.5	3.0
G.	Wholesale, retail, trade, repair	2.5	3.0	3.5
H.	Hotels and restaurants	9.8	4.5	5.0
I.	Transport, storage, communications	4.7	4.5	4.0
J.	Financial intermediation	5.9	6.5	6.0
K.	Real estate, renting and business activities	3.0	3.5	3.5
L.	Public administration and com. soc. sec.	5.7	5.5	4.5
M.	Education	3.7	2.5	2.5
N.	Health and social work	4.2	4.0	3.5
O.	Other community and personal activities	4.5	4.5	4.5
	FISIM	1.9	1.0	2.0
1. TOTAL VALUE ADDED (basic prices)		5.1	3.6	3.4
2. CORRECTIONS [1]		1.9	4.2	4.3
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4.6**	**3.7**	**3.6**
TOTAL VALUE ADDED (basic prices)		5.1	3.6	3.4
in which:				
1. Agriculture, forestry, fishing (A+B)		-1.0	-1.0	3.0
2. Industry and construction (C+D+E+F)		7.0	3.1	2.8
- Industry (C+D+E)		7.8	4.2	2.8
- Construction F		2.8	-2.5	3.0
3. Services (G...O)		4.2	4.1	3.9
4. FISIM		1.9	1.0	2.0

Source of data: SORS, IMAD's forecasts.
Note: [1] Taxes on goods and services less subsidies for goods and serivces.

Table 4 : Gross domestic product and primary incomes

- Current prices, in SIT million

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1	**GROSS DOMESTIC PRODUCT (1=2+3-4+5)**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,540,500**	**5,005,000**
2	Compensation of employees	1,271,699	1,400,005	1,558,696	1,700,323	1,889,714	2,122,115	2,395,440	2,639,563
	Wages and salaries	1,070,010	1,213,825	1,363,936	1,482,608	1,646,253	1,847,245	2,085,166	2,294,037
	Employees' actual soc. cont.	201,689	186,180	194,760	217,716	243,462	274,869	310,274	345,526
3	Taxes on production and imports	377,964	444,708	493,398	572,126	668,115	697,701	792,136	881,858
	Taxes on products	368,834	418,577	444,275	511,757	591,242	602,030	677,723	752,495
	Other taxes on production	9,130	26,131	49,123	60,369	76,873	95,671	114,413	129,363
4	Subsidies	48,001	52,873	59,868	71,771	79,200	77,108	83,094	90,090
	Subsidies on products	31,686	35,709	39,507	48,904	53,250	51,570	55,222	60,060
	Other subsidies	16,315	17,164	20,361	22,867	25,950	25,538	27,872	30,030
5	Gross operating surplus and gross mixed income (5=6+7)	619,797	763,529	915,051	1,053,073	1,169,772	1,292,810	1,436,018	1,573,669
	in which:								
6	Gross operating surplus	380,932	488,300	614,485	717,938	810,600	905,932	1,010,543	1,110,790
	Consumption of fixed capital	352,315	417,938	468,585	521,930	571,139	637,742	715,350	786,570
	Net operating surplus	28,617	70,362	145,900	196,008	239,461	268,190	295,193	324,220
7	Gross mixed income	238,865	275,229	300,566	335,135	359,172	386,878	425,475	462,879
	Consumption of fixed capital	38,576	45,528	54,360	59,059	63,005	68,351	76,350	82,700
	Net mixed income	200,289	229,701	246,206	276,076	296,167	318,527	349,125	380,179

Continued on next page.

Table 4 : Gross domestic product and primary incomes

- As a share in GDP in % (current prices)

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1	**GROSS DOMESTIC PRODUCT (1=2+3-4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Compensation of employees	57.2	54.8	53.6	52.3	51.8	52.6	52.8	52.7
	Wages and salaries	48.2	47.5	46.9	45.6	45.1	45.8	45.9	45.8
	Employees' actual soc. cont.	9.1	7.3	6.7	6.7	6.7	6.8	6.8	6.9
3	Taxes on production and imports	17.0	17.4	17.0	17.6	18.3	17.3	17.4	17.6
	Taxes on products	16.6	16.4	15.3	15.7	16.2	14.9	14.9	15.0
	Other taxes on production	0.4	1.0	1.7	1.9	2.1	2.4	2.5	2.6
4	Subsidies	2.2	2.1	2.1	2.2	2.2	1.9	1.8	1.8
	Subsidies on products	1.4	1.4	1.4	1.5	1.5	1.3	1.2	1.2
	Other subsidies	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6
5	Gross operating surplus and gross mixed income (5=6+7)	27.9	29.9	31.5	32.4	32.1	32.0	31.6	31.4
	in which:								
6	Gross operating surplus	17.1	19.1	21.1	22.1	22.2	22.4	22.3	22.2
	Consumption of fixed capital	15.9	16.4	16.1	16.0	15.7	15.8	15.8	15.7
	Net operating surplus	1.3	2.8	5.0	6.0	6.6	6.6	6.5	6.5
7	Gross mixed income	10.8	10.8	10.3	10.3	9.8	9.6	9.4	9.2
	Consumption of fixed capital	1.7	1.8	1.9	1.8	1.7	1.7	1.7	1.7
	Net mixed income	9.0	9.0	8.5	8.5	8.1	7.9	7.7	7.6

Source of data: SORS, IMAD's forecasts.

Table 5a : Expenditure on gross domestic product

- Current prices, in SIT million

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,540,500**	**5,005,000**
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,424,628	1,669,985	1,842,906	1,916,217	2,386,009	2,714,865	2,930,385
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,451,273	1,693,895	1,892,614	2,077,530	2,529,423	2,769,090	2,992,421
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-26,645	-23,910	-49,708	-161,313	-143,414	-54,225	-62,036
5	TOTAL DOMESTIC DEMAND (5=6+9)	2,266,445	2,582,014	2,931,187	3,303,459	3,809,714	4,178,932	4,594,725	5,067,036
6	FINAL CONSUMPTION (6=7+8)	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,403,620	3,753,702
7	PRIVATE CONSUMPTION	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,449,033	2,685,339
	- households	1,275,971	1,443,649	1,609,667	1,780,915	2,000,581	2,179,351	2,408,341	2,640,765
	- non-profit institutions	24,353	25,493	29,015	30,815	33,434	36,823	40,692	44,574
8	GOVERNMENT CONSUMPTION	447,519	514,518	592,535	658,989	738,388	841,108	954,587	1,068,363
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,191,105	1,313,335
10	GROSS FIXED CAPITAL FORMATION	474,626	574,631	679,465	800,629	999,183	1,076,840	1,140,637	1,256,014
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	23,722	20,505	32,111	38,128	44,810	50,468	57,321

Continued on next page.

Table 5a: Expenditure on gross domestic product

- As a share in GDP in % (current prices)

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	EXPORTS OF GOODS AND SERVICES	55.2	55.8	57.4	56.6	52.5	59.1	59.8	58.5
3	IMPORT OF GOODS AND SERVICES	57.2	56.8	58.3	58.2	56.9	62.7	61.0	59.8
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-2.0	-1.0	-0.8	-1.5	-4.4	-3.6	-1.2	-1.2
5	TOTAL DOMESTIC DEMAND (5=6+9)	102.0	101.0	100.8	101.5	104.4	103.6	101.2	101.2
6	FINAL CONSUMPTION (6=7+8)	78.7	77.6	76.7	75.9	76.0	75.8	75.0	75.0
7	PRIVATE CONSUMPTION	58.5	57.5	56.4	55.7	55.8	54.9	53.9	53.7
	- households	57.4	56.5	55.4	54.7	54.8	54.0	53.0	52.8
	- non-profit institutions	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9
8	GOVERNMENT CONSUMPTION	20.1	20.1	20.4	20.3	20.2	20.8	21.0	21.3
9	GROSS CAPITAL FORMATION (9=10+11)	23.3	23.4	24.1	25.6	28.4	27.8	26.2	26.2
10	GROSS FIXED CAPITAL FORMATION	21.4	22.5	23.4	24.6	27.4	26.7	25.1	25.1
11	CHANGES IN INVENTORIES & VALUABL.	2.0	0.9	0.7	1.0	1.0	1.1	1.1	1.1

Source of data: SORS, BS, IMAD's forecasts.

Table 5b: Expenditure on gross domestic product

- Prices 1995, in SIT million

		1995	1996	1997	1998	1999	2000	2001 Forecast	2002 Forecast
1	GROSS DOMESTIC PRODUCT (1=4+5)	2,221,459	2,299,900	2,404,764	2,495,956	2,625,942	2,747,021	2,848,000	2,949,800
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,270,085	1,416,863	1,512,395	1,538,789	1,733,512	1,857,458	1,945,689
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,297,490	1,451,977	1,602,804	1,733,995	1,839,624	1,901,251	1,989,659
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-27,405	-35,114	-90,409	-195,206	-106,112	-43,793	-43,970
5	TOTAL DOMESTIC DEMAND (5=6+9)	2,266,446	2,327,305	2,439,879	2,586,364	2,821,148	2,853,133	2,891,793	2,993,770
6	FINAL CONSUMPTION (6=7+8)	1,747,844	1,788,413	1,845,160	1,917,730	2,025,866	2,054,222	2,102,141	2,168,437
7	PRIVATE CONSUMPTION	1,300,324	1,325,902	1,362,595	1,407,115	1,491,768	1,503,349	1,531,161	1,576,330
	- households	1,275,971	1,302,942	1,338,965	1,383,268	1,467,679	1,478,792	1,506,150	1,550,581
	- non-profit institutions	24,353	22,960	23,630	23,847	24,089	24,557	25,011	25,749
8	GOVERNMENT CONSUMPTION	447,519	462,511	482,565	510,615	534,098	550,873	570,980	592,107
9	GROSS CAPITAL FORMATION	518,602	538,892	594,719	668,635	795,282	798,911	789,652	825,334
	in which:								
	GROSS FIXED CAPITAL FORMATION	474,626	516,828	576,673	642,087	764,422	766,172	755,668	790,051
	CHANGES IN INVENTORIES AND VALUABLES	43,976	22,064	18,046	26,548	30,860	32,739	33,984	35,283

Continued on next page.

Table 5b: Expenditure on gross domestic product

- Real growth rates in % (prices 1995)

		1996	1997	1998	1999	2000	2001	2002
							Forecast	
1	GROSS DOMESTIC PRODUCT (1=4+5)	3.5	4.6	3.8	5.2	4.6	3.7	3.6
2	EXPORTS OF GOODS AND SERVICES	3.6	11.6	6.7	1.7	12.7	7.2	4.8
3	IMPORT OF GOODS AND SERVICES	2.1	11.9	10.4	8.2	6.1	3.3	4.7
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)							
5	TOTAL DOMESTIC DEMAND (5=6+9)	2.7	4.8	6.0	9.1	1.1	1.4	3.5
6	FINAL CONSUMPTION (6=7+8)	2.3	3.2	3.9	5.6	1.4	2.3	3.2
7	PRIVATE CONSUMPTION	2.0	2.8	3.3	6.0	0.8	1.9	3.0
	- households	2.1	2.8	3.3	6.1	0.8	1.9	3.0
	- non-profit institutions	-5.7	2.9	0.9	1.0	1.9	1.9	3.0
8	GOVERNMENT CONSUMPTION	3.3	4.3	5.8	4.6	3.1	3.7	3.7
9	GROSS CAPITAL FORMATION	3.9	10.4	12.4	18.9	0.5	-1.2	4.5
	in which:							
	GROSS FIXED CAPITAL FORMATION	8.9	11.6	11.3	19.1	0.2	-1.4	4.6

Source of data: SORS, BS, IMAD's forecasts.

Table 6: Main aggregates of national accounts

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1	**GROSS DOMESTIC PRODUCT**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,540,500**	**5,005,000**
2	Net primary income from the rest of the world	21,023	17,528	5,680	5,048	-6,250	-14,941	-31,330	-35,554
3	GROSS NATIONAL INCOME (3=1+2)	2,242,482	2,572,897	2,912,957	3,258,799	3,642,151	4,020,577	4,509,170	4,969,446
4	Net current transf. from the rest of the world	11,273	11,625	19,472	20,701	22,890	27,809	33,740	35,554
5	GROSS NATIO. DISPOS. INCOME (5=3+4)	2,253,754	2,584,522	2,932,429	3,279,500	3,665,041	4,048,386	4,542,910	5,005,000
6	FINAL CONSUMPTION EXPENDITURE	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,403,620	3,753,702
	- private consumption	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,449,033	2,685,339
	- government consumption	447,519	514,518	592,535	658,989	738,388	841,108	954,587	1,068,363
7	GROSS SAVING (7=5-6)	505,911	600,861	701,212	808,781	892,638	991,104	1,139,290	1,251,298
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-12,691	2,508	1,242	-23,959	-144,673	-130,546	-51,815	-62,036
9	GROSS CAPITAL FORMATION (9=7-8)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,191,105	1,313,334
	- gross fixed capital formation	474,626	574,631	679,465	800,629	999,183	1,076,840	1,140,637	1,256,014
	- changes in inventories and valuables	43,976	23,722	20,505	32,111	38,128	44,810	50,468	57,321
10	CONSUMPTION OF FIXED CAPITAL	390,891	463,466	522,945	580,989	634,144	706,093	791,700	869,270
11	NET CAPITAL FORMATION (11=9-10)	127,711	134,887	177,025	251,751	403,167	415,557	399,405	444,065

Continued on next page.

Table 6: Main aggregates of national accounts

- As a share in GDP in % current prices

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1	**GROSS DOMESTIC PRODUCT**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Net primary income from the rest of the world	0.9	0.7	0.2	0.2	-0.2	-0.4	-0.7	-0.7
3	GROSS NATIONAL INCOME (3=1+2)	100.9	100.7	100.2	100.2	99.8	99.6	99.3	99.3
4	Net current transf. from the rest of the world	0.5	0.5	0.7	0.6	0.6	0.7	0.7	0.7
5	GROSS NATIO. DISPOS. INCOME (5=3+4)	101.5	101.1	100.9	100.8	100.5	100.3	100.1	100.0
6	FINAL CONSUMPTION EXPENDITURE	78.7	77.6	76.7	75.9	76.0	75.8	75.0	75.0
	- private consumption	58.5	57.5	56.4	55.7	55.8	54.9	53.9	53.7
	- government consumption	20.1	20.1	20.4	20.3	20.2	20.8	21.0	21.3
7	GROSS SAVING (7=5-6)	22.8	23.5	24.1	24.9	24.5	24.6	25.1	25.0
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-0.6	0.1	0.0	-0.7	-4.0	-3.2	-1.1	-1.2
9	GROSS CAPITAL FORMATION (9=7-8)	23.3	23.4	24.1	25.6	28.4	27.8	26.2	26.2
	- gross fixed capital formation	21.4	22.5	23.4	24.6	27.4	26.7	25.1	25.1
	- changes in inventories and valuables	2.0	0.9	0.7	1.0	1.0	1.1	1.1	1.1
10	CONSUMPTION OF FIXED CAPITAL	17.6	18.1	18.0	17.9	17.4	17.5	17.4	17.4
11	NET CAPITAL FORMATION (11=9-10)	5.7	5.3	6.1	7.7	11.1	10.3	8.8	8.9

Source of data: SORS, IMAD's forecasts.

Table 7: Balance of payments

- US$ million

	1995	1996	1997	1998	1999	2000	2001	2002
							Forecast	
I. CURRENT ACCOUNT	-99	31	11	-147	-783	-611	-215	-253
1. TRADE BALANCE	-953	-825	-776	-789	-1,245	-1,139	-690	-707
1.1. Exports fob	8,350	8,353	8,408	9,091	8,623	8,808	9,360	10,015
1.2. Imports fob	9,303	9,178	9,184	9,880	9,868	9,947	10,050	10,722
2. SERVICES	578	633	630	493	364	436	465	454
2.1. Receipts	2,028	2,135	2,048	2,028	1,899	1,886	1,905	1,936
- Transport	505	481	465	540	521	492	475	479
- Travel	1,084	1,240	1,187	1,088	954	961	980	993
- Other	439	414	396	400	424	433	450	464
2.2. Expenditure	1,449	1,502	1,417	1,535	1,535	1,450	1,440	1,482
- Transport	436	408	367	409	378	354	330	334
- Travel	573	602	518	558	539	521	510	518
- Other	440	493	532	568	618	575	600	630
1.2. GOODS AND SERVICES	-375	-191	-146	-297	-881	-702	-225	-253
Exports	10,378	10,488	10,455	11,118	10,522	10,694	11,265	11,951
Imports	10,753	10,679	10,601	11,415	11,403	11,397	11,490	12,204
3. FACTOR SERVICES	179	132	39	28	-25	-25	-130	-145
3.1. Receipts	411	413	397	417	410	422	505	520
- Labour income	216	234	206	206	199	186	185	190
- Investment income	195	179	191	211	211	235	320	330
3.2. Expenditure	231	280	357	389	435	446	635	665
- Profits from direct investment	25	24	26	27	25	27	25	25
- Interest	206	256	331	362	410	419	610	640
4. UNREQUITED TRANSFERS	96	91	118	122	123	116	140	145
4.1. Receipts	248	251	260	300	334	341	395	415
4.2. Expenditure	152	160	142	178	211	225	255	270

Continued on next page.

Table 7: Balance of payments

- US$ million

	1995	1996	1997	1998	1999	2000
II. CAPITAL AND FINANCIAL ACCOUNT	294	-26	-89	85	755	569
A. CAPITAL ACCOUNT	-7	-2	1	-2	-1	4
1. Capital transfers	-5	1	2	0	0	1
2. Non-produced non-financial assets	-2	-3	-1	-1	-1	3
B. FINANCIAL ACCOUNT	301	-24	-90	86	756	565
1. Direct investment	183	188	340	250	144	110
- Foreign in Slovenia	177	194	375	248	181	176
- Domestic abroad	5	-6	-36	2	-38	-66
2. Portfolio investment	-14	637	236	90	354	189
3. Other investment	369	-261	622	-95	178	445
3.1. Assets	-240	-432	261	-459	-575	-501
3.2. Liabilities	609	171	361	364	753	947
4. . International reserves	-237	-588	-1,287	-158	81	-178
III. STATISTICAL ERRORS	-195	-5	78	62	28	43

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

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

- US$ million; current exchange rates

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1.	Exports of goods	8,350	8,353	8,408	9,091	8,623	8,808	9,360	10,015
	investment goods	944	1,002	1,069	1,174	1,089	1,127	1,292	1,403
	intermediate goods	3,941	3,767	3,825	4,123	4,052	4,316	4,614	4,947
	consumer goods	3,465	3,584	3,514	3,794	3,482	3,365	3,454	3,665
2.	Exports of services	2,028	2,135	2,048	2,028	1,899	1,886	1,905	1,936
3.	EXPORTS TOTAL	10,378	10,488	10,455	11,118	10,522	10,694	11,265	11,951
4.	Imports of goods	9,303	9,178	9,184	9,880	9,868	9,947	10,050	10,722
	investment goods	1,572	1,478	1,480	1,764	1,895	1,790	1,735	1,919
	intermediate goods	5,627	5,259	5,354	5,643	5,427	5,938	6,000	6,369
	consumer goods	2,104	2,441	2,350	2,474	2,546	2,218	2,315	2,434
5.	Imports of services	1,449	1,502	1,417	1,535	1,535	1,450	1,440	1,482
6.	IMPORTS TOTAL	10,753	10,679	10,601	11,415	11,403	11,397	11,490	12,204
7.	BALANCE	-375	-191	-146	-297	-881	-702	-225	-253
	Services	578	633	630	493	364	436	465	454
	Goods	-953	-825	-776	-789	-1,245	-1,139	-690	-707
8.	Exports to imports ratio (in %)	90	91	92	92	87	89	93	93

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

- Percentage change at annual rate (in %)

		1995	1996	1997	1998	1999	2000	2001	2002
								Forecast	
1.	Exports of goods	22.2	0.0	0.7	8.1	-5.1	2.1	6.3	7.0
	investment goods	23.2	6.1	6.7	9.8	-7.2	3.5	14.6	8.6
	intermediate goods	29.0	-4.4	1.5	7.8	-1.7	6.5	6.9	7.2
	consumer goods	15.1	3.4	-1.9	8.0	-8.2	-3.4	2.7	6.1
2.	Exports of services	12.1	5.3	-4.1	-1.0	-6.3	-0.7	1.0	1.6
3.	EXPORTS TOTAL	20.1	1.1	-0.3	6.3	-5.4	1.6	5.3	6.1
4.	Imports of goods	29.8	-1.3	0.1	7.6	-0.1	0.8	1.0	6.7
	investment goods	37.4	-6.0	0.1	19.2	7.4	-5.5	-3.1	10.6
	intermediate goods	27.7	-6.5	1.8	5.4	-3.8	9.4	1.0	6.2
	consumer goods	30.0	16.0	-3.7	5.2	2.9	-12.9	4.4	5.1
5.	Imports of services	24.3	3.6	-5.6	8.3	0.0	-5.5	-0.7	2.9
6.	IMPORTS TOTAL	29.0	-0.7	-0.7	7.7	-0.1	-0.1	0.8	6.2

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

Table 9a: Foreing Trade by Geographical Area

- in US$ million

	EXPORTS (f.o.b.)							IMPORTS (c.i.f.)						
	1995	1996	1997	1998	1999	2000	1-8 2001	1995	1996	1997	1998	1999	2000	1-8 2001
TOTAL	8,316	8,310	8,369	9,051	8,546	8,732	6,148	9,492	9,421	9,366	10,111	10,083	10,116	6,729
DEVELOPED INDUSTRIAL COUNTRIES	6,086	5,842	5,796	6,453	6,199	6,176	4,244	7,423	7,325	7,205	7,963	8,043	7,918	5,197
EUROPEAN UNION	5,575	5,367	5,320	5,928	5,650	5,580	3,874	6,532	6,360	6,312	7,017	6,945	6,856	4,554
Germany	2,508	2,545	2,460	2,572	2,626	2,376	1,645	2,206	2,044	1,936	2,089	2,072	1,919	1,290
Italy	1,212	1,103	1,248	1,255	1,176	1,188	780	1,611	1,593	1,558	1,697	1,686	1,761	1,182
France	682	598	463	748	491	619	416	798	925	980	1,258	1,100	1,043	725
United Kingdom	229	162	150	161	170	186	173	190	208	241	233	307	310	179
Netherlands	117	125	123	142	144	150	106	207	194	200	225	208	211	131
Belgium	71	76	85	158	134	98	65	144	145	149	155	149	147	104
Spain	42	44	53	69	76	84	61	225	170	199	233	234	265	167
Denmark	42	47	54	75	79	81	59	46	42	46	55	53	52	37
Greece	32	23	24	23	24	24	17	11	13	15	19	24	22	25
Ireland	17	4	5	5	9	14	9	20	29	26	35	38	38	25
Portugal	9	13	14	12	12	16	10	5	5	11	14	11	12	11
Luxembourg	2	2	1	3	10	4	2	10	8	10	17	18	19	14
Austria	535	551	565	621	623	656	469	919	835	789	802	805	832	561

Continued on next page.

Table 9a: Foreign Trade by Geographical Area

- in US$ million

	EXPORTS (f.o.b.)							IMPORTS (c.i.f.)						
	1995	1996	1997	1998	1999	2000	1-8 2001	1995	1996	1997	1998	1999	2000	1-8 2001
Finland	18	20	18	19	17	23	16	39	39	41	43	53	58	36
Sweden	58	54	56	65	61	61	46	101	111	110	143	185	167	66
EFTA	87	83	87	98	112	124	78	237	249	194	208	239	213	108
Switzerland	71	68	70	78	89	101	63	199	178	162	172	215	162	95
Norway	12	12	14	16	18	17	10	34	68	30	36	22	49	12
Liechtenstein	3	3	2	3	3	5	4	4	2	1	1	1	2	1
Island	0	0	0	1	2	1	1	0	1	1	0	0	0	0
OTHER OECD	361	340	340	382	387	404	248	549	585	546	737	717	681	443
of which:														
United States of America	261	245	243	252	258	270	169	291	325	287	296	293	299	203
Other countries	100	95	97	130	129	134	79	258	260	259	441	424	382	240
OTHER DEVELOPED COUNTRIES	64	53	50	45	50	67	44	105	132	153	135	142	168	92
DEVELOPING COUNTRIES	2,230	2,462	2,568	2,592	2,343	2,554	1,904	2,069	2,095	2,160	2,148	2,039	2,197	1,532
COUNTRIES OF EX-YUGOSLAVIA	1,209	1,385	1,387	1,397	1,296	1,363	1,013	671	709	594	593	572	594	354
Croatia	891	855	837	815	671	688	532	576	590	466	432	444	447	265

Continued on next page.

Table 9a: Foreign Trade by Geographical Area

- in US$ million

	EXPORTS (f.o.b.)							IMPORTS (c.i.f.)						
	1995	1996	1997	1998	1999	2000	1-8 2001	1995	1996	1997	1998	1999	2000	1-8 2001
Macedonia	189	170	149	161	177	158	83	86	72	56	47	37	48	17
Bosnia and Hercegovina	119	264	288	319	363	374	257	8	15	30	47	55	58	41
FR Yugoslavia	9	96	112	103	85	143	142	2	32	42	68	36	41	31
FORMER USSR COUNTRIES	375	390	432	330	213	281	248	275	236	284	216	201	263	219
of which:														
Russian Federation	305	298	326	235	129	191	169	241	209	250	178	159	231	189
OTHER EUROPE	445	495	525	614	628	699	491	707	664	723	779	854	922	651
of which:														
Czech Republic	132	147	147	150	159	151	110	247	237	234	264	281	252	171
Slovakia	52	57	56	73	62	69	52	82	92	103	90	91	132	97
Hungary	115	105	120	141	145	168	106	267	239	293	244	267	294	209
Poland	105	142	155	181	190	227	159	38	48	58	78	111	137	99
Other countries	42	44	45	69	73	84	64	73	48	35	103	105	107	75
OTHER COUNTRIES	201	193	225	251	207	211	151	416	485	559	423	411	417	307
Unclassified	0	6	4	6	4	2	0	0	1	1	0	1	1	0

Source of data: SORS.
Note: Exports by country of destination, imports by country by origin.

Table 9b: Foreing Trade by Geographical Area

- Structure in %

	EXPORTS (f.o.b.)							IMPORTS (c.i.f.)						
	1995	1996	1997	1998	1999	2000	1-8 2001	1995	1996	1997	1998	1999	2000	1-8 2001
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	73.2	70.3	69.3	71.3	72.5	70.7	69.0	78.2	77.8	76.9	78.8	79.8	78.3	78.3
EUROPEAN UNION	67.0	64.6	63.6	65.5	66.1	63.9	63.0	68.8	67.5	67.4	69.4	68.9	67.8	69.2
Germany	30.2	30.6	29.4	28.4	30.7	27.2	26.8	23.2	21.7	20.7	20.7	20.5	19.0	23.7
Italy	14.6	13.3	14.9	13.9	13.8	13.6	12.7	17.0	16.9	16.6	16.8	16.7	17.4	17.2
France	8.2	7.2	5.5	8.3	5.7	7.1	6.8	8.4	9.8	10.5	12.4	10.9	10.3	8.4
United Kingdom	2.8	1.9	1.8	1.8	2.0	2.1	2.8	2.0	2.2	2.6	2.3	3.0	3.1	1.8
Netherlands	1.4	1.5	1.5	1.6	1.7	1.7	1.7	2.2	2.1	2.1	2.2	2.1	2.1	2.3
Belgium	0.9	0.9	1.0	1.7	1.6	1.1	1.1	1.5	1.5	1.6	1.5	1.5	1.5	1.2
Spain	0.5	0.5	0.6	0.8	0.9	1.0	1.0	2.4	1.8	2.1	2.3	2.3	2.6	1.6
Denmark	0.5	0.6	0.7	0.8	0.9	0.9	1.0	0.5	0.4	0.5	0.5	0.5	0.5	0.4
Greece	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.1
Ireland	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.2
Portugal	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Luxembourg	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.1
Austria	6.4	6.6	6.8	6.9	7.3	7.5	7.6	9.7	8.9	8.4	7.9	8.0	8.2	10.4

Continued on next page.

Table 9b: Foreign Trade by Geographical Area

- Structure in %

	EXPORTS (f.o.b.)							IMPORTS (c.i.f.)						
	1995	1996	1997	1998	1999	2000	1-8 2001	1995	1996	1997	1998	1999	2000	1-8 2001
Finland	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.6
Sweden	0.7	0.7	0.7	0.7	0.7	0.7	0.7	1.1	1.2	1.2	1.4	1.8	1.7	1.2
EFTA	1.0	1.0	1.0	1.1	1.3	1.4	1.3	2.5	2.6	2.1	2.1	2.4	2.1	2.6
Switzerland	0.9	0.8	0.8	0.9	1.0	1.2	1.0	2.1	1.9	1.7	1.7	2.1	1.6	2.1
Norway	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.4	0.7	0.3	0.4	0.2	0.5	0.4
Liechtenstein	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER OECD	4.3	4.1	4.1	4.2	4.5	4.6	4.0	5.8	6.2	5.8	7.3	7.1	6.7	5.4
of which:														
United States of America	3.1	3.0	2.9	2.8	3.0	3.1	2.7	3.1	3.4	3.0	2.9	2.9	3.0	2.7
Other countries	1.2	1.1	1.2	1.4	1.5	1.5	1.3	2.7	2.8	2.8	4.4	4.2	3.8	2.7
OTHER DEVELOPED COUNTRIES	0.8	0.6	0.6	0.5	0.6	0.8	0.7	1.1	1.4	1.6	1.3	1.4	1.7	1.2
DEVELOPING COUNTRIES	26.8	29.6	30.7	28.6	27.4	29.3	31.0	21.8	22.2	23.1	21.2	20.2	21.7	21.7
COUNTRIES OF EX-YUGOSLAVIA	14.5	16.7	16.6	15.4	15.2	15.6	16.5	7.1	7.5	6.3	5.9	5.7	5.9	8.0
Croatia	10.7	10.3	10.0	9.0	7.9	7.9	8.7	6.1	6.3	5.0	4.3	4.4	4.4	6.8

Continued on next page.

Table 9b: Foreign Trade by Geographical Area

- Structure in %

	EXPORTS (f.o.b.)							IMPORTS (c.i.f.)						
	1995	1996	1997	1998	1999	2000	1-8 2001	1995	1996	1997	1998	1999	2000	1-8 2001
Macedonia	2.3	2.1	1.8	1.8	2.1	1.8	1.4	0.9	0.8	0.6	0.5	0.4	0.5	1.1
Bosnia and Hercegovina	1.4	3.2	3.4	3.5	4.2	4.3	4.2	0.1	0.2	0.3	0.5	0.5	0.6	0.1
FR Yugoslavia	0.1	1.2	1.3	1.1	1.0	1.6	2.3	0.0	0.3	0.4	0.7	0.4	0.4	0.0
FORMER USSR COUNTRIES	4.5	4.7	5.2	3.6	2.5	3.2	4.0	2.9	2.5	3.0	2.1	2.0	2.6	2.3
of which:														
Russian Federation	3.7	3.6	3.9	2.6	1.5	2.2	2.7	2.5	2.2	2.7	1.8	1.6	2.3	2.0
OTHER EUROPE	5.4	5.9	6.3	6.8	7.4	8.0	8.0	7.4	7.0	7.7	7.7	8.5	9.1	7.0
of which:														
Czech Republic	1.6	1.8	1.8	1.7	1.9	1.7	1.8	2.6	2.5	2.5	2.6	2.8	2.5	2.4
Slovakia	0.6	0.7	0.7	0.8	0.7	0.8	0.8	0.9	1.0	1.1	0.9	0.9	1.3	0.8
Hungary	1.4	1.3	1.4	1.6	1.7	1.9	1.7	2.8	2.5	3.1	2.4	2.6	2.9	2.6
Poland	1.3	1.7	1.9	2.0	2.2	2.6	2.6	0.4	0.5	0.6	0.8	1.1	1.4	0.3
Other countries	0.5	0.4	0.5	0.8	0.9	1.0	1.0	0.8	0.5	0.4	1.0	1.1	1.1	0.8
OTHER COUNTRIES	2.4	2.3	2.7	2.8	2.4	2.4	2.5	4.4	5.1	6.0	4.2	4.1	4.1	4.4
Unclassified	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source of data: SORS.
Note: Exports by country of destination, imports by country by origin.

Table 10a: Gross capital formation

- Current prices in SIT million

	1995	1996	1997	1998	1999	2000
Gross capital formation	**518,603**	**598,353**	**699,970**	**832,740**	**1,037,311**	**1,121,650**
Gross fixed capital formation	474,626	574,631	679,465	800,629	999,183	1,076,840
Tangible fixed assets	463,356	559,814	656,187	773,386	957,133	1,035,101
Buildings and construction works	208,261	282,443	342,592	389,695	488,853	522,311
Residental buildings	73,711	91,524	113,600	128,590	147,466	152,123
Other buildings and construction	134,550	190,919	228,992	261,105	341,387	370,188
Producer' durable goods	243,410	264,374	297,152	363,186	442,641	491,202
Transport equipment	66,787	67,394	67,328	85,565	97,893	109,863
Personal cars	34,407	35,709	34,321	39,422	46,649	50,210
Other motor vehicles and equipment	32,380	31,685	33,007	46,143	51,244	59,653
Other machinery and equipment	176,623	196,980	229,824	277,621	344,748	381,339
Breeding stock and orchard development	4,489	3,711	4,103	4,377	6,178	4,200
Costs of transactions of existing assets	7,196	9,286	12,340	16,128	19,460	17,387
Intangible fixed assets	10,794	14,273	22,476	25,410	39,046	38,924
Increase of the value of non-produced non-financial assets	476	544	802	1,833	3,004	2,815
Change in inventories	43,762	23,470	20,324	31,813	37,599	44,238
Finished goods	11,700	5,858	-7,020	9,059	1,670	9,428
Work in progress	4,714	8,583	3,892	8,458	8,029	11,770
Materials and supplies	1,562	-6,515	6,796	-372	11,527	2,456
Goods for resale	25,785	15,544	16,656	14,668	16,373	20,584
Acquisitions less disposals of valuables	215	252	181	298	529	572

Continued on next page.

Table 10a: Gross capital formation

- Structure in % (current prices)

	1995	1996	1997	1998	1999	2000
Gross capital formation	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Gross fixed capital formation	91.5	96.0	97.1	96.1	96.3	96.0
Tangible fixed assets	89.3	93.6	93.7	92.9	92.3	92.3
Buildings and construction works	40.2	47.2	48.9	46.8	47.1	46.6
Residental buildings	14.2	15.3	16.2	15.4	14.2	13.6
Other buildings and construction	25.9	31.9	32.7	31.4	32.9	33.0
Producer' durable goods	46.9	44.2	42.5	43.6	42.7	43.8
Transport equipment	12.9	11.3	9.6	10.3	9.4	9.8
Personal cars	6.6	6.0	4.9	4.7	4.5	4.5
Other motor vehicles and equipment	6.2	5.3	4.7	5.5	4.9	5.3
Other machinery and equipment	34.1	32.9	32.8	33.3	33.2	34.0
Breeding stock and orchard development	0.9	0.6	0.6	0.5	0.6	0.4
Costs of transactions of existing assets	1.4	1.6	1.8	1.9	1.9	1.6
Intangible fixed assets	2.1	2.4	3.2	3.1	3.8	3.5
Increase of the value of non-produced non-financial assets	0.1	0.1	0.1	0.2	0.3	0.3
Change in inventories	8.4	3.9	2.9	3.8	3.6	3.9
Finished goods	2.3	1.0	-1.0	1.1	0.2	0.8
Work in progress	0.9	1.4	0.6	1.0	0.8	1.0
Materials and supplies	0.3	-1.1	1.0	0.0	1.1	0.2
Goods for resale	5.0	2.6	2.4	1.8	1.6	1.8
Acquisitions less disposals of valuables	0.0	0.0	0.0	0.0	0.1	0.1

Source of data: SORS.

Table 10b: Gross capital formation

- Constant 1995 prices in SIT million

	1995	1996	1997	1998	1999	2000
Gross capital formation	**518,603**	**538,892**	**594,719**	**668,635**	**795,282**	**798,911**
Gross fixed capital formation	474,626	516,828	576,673	642,087	764,422	766,172
Tangible fixed assets	463,356	503,691	557,845	621,995	734,932	739,211
Buildings and construction works	208,261	249,226	277,181	289,371	340,734	335,649
Residental buildings	73,711	80,511	90,524	94,404	102,236	99,511
Other buildings and construction	134,550	168,715	186,657	194,967	238,498	236,138
Producer' durable goods	243,410	242,956	267,492	317,565	376,580	389,892
Transport equipment	66,787	63,455	60,653	75,802	83,027	87,367
Personal cars	34,407	32,111	29,835	33,623	37,985	38,657
Other motor vehicles and equipment	32,380	31,344	30,818	42,179	45,042	48,710
Other machinery and equipment	176,623	179,501	206,839	241,763	293,553	302,525
Breeding stock and orchard development	4,489	3,406	3,454	3,544	4,741	3,155
Costs of transactions of existing assets	7,196	8,103	9,718	11,515	12,877	10,515
Intangible fixed assets	10,794	12,661	18,191	18,780	27,497	25,278
Increase of the value of non-produced non-financial assets	476	476	637	1,311	1,992	1,683
Change in inventories	43,762	21,837	17,890	26,309	30,458	32,340
Finished goods	11,700	5,485	-6,194	7,523	1,358	7,003
Work in progress	4,714	7,888	3,352	6,817	6,275	8,414
Materials and supplies	1,562	-6,164	6,146	-326	9,537	1,757
Goods for resale	25,785	14,628	14,586	12,296	13,287	15,166
Acquisitions less disposals of valuables	215	227	156	239	402	399

Continued on next page.

Table 10b: Gross capital formation

- Annual change in volume in %, constant 1995 prices

	1996	1997	1998	1999	2000
Gross capital formation	**3.9**	**10.4**	**12.4**	**18.9**	**0.5**
Gross fixed capital formation	8.9	11.6	11.3	19.1	0.2
Tangible fixed assets	8.7	10.8	11.5	18.2	0.6
Buildings and construction works	19.7	11.2	4.4	17.8	-1.5
Residental buildings	9.2	12.4	4.3	8.3	-2.7
Other buildings and construction	25.4	10.6	4.5	22.3	-1.0
Producer' durable goods	-0.2	10.1	18.7	18.6	3.5
Transport equipment	-5.0	-4.4	25.0	9.5	5.2
Personal cars	-6.7	-7.1	12.7	13.0	1.8
Other motor vehicles and equipment	-3.2	-1.7	36.9	6.8	8.1
Other machinery and equipment	1.6	15.2	16.9	21.4	3.1
Breeding stock and orchard development	-24.1	1.4	2.6	33.8	-33.5
Costs of transactions of existing assets	12.6	19.9	18.5	11.8	-18.3
Intangible fixed assets	17.3	43.7	3.2	46.4	-8.1
Increase of the value of non-produced non-financial assets	0.0	33.8	105.9	51.9	-15.5
Change in inventories [1]	0.9	0.7	1.1	1.2	1.2
Finished goods	0.2	-0.3	0.3	0.1	0.3
Work in progress	0.3	0.1	0.3	0.2	0.3
Materials and supplies	-0.3	0.3	0.0	0.4	0.1
Goods for resale	0.6	0.6	0.5	0.5	0.6
Acquisitions less disposals of valuables	5.6	-31.3	52.9	68.5	-0.7

Source of data: SORS.
Note: [1] As contribution to real GDP growth (%).

Table 11: Consolidated general government revenues; GFS - IMF methodology

- Current prices, SIT million

		CONSOLIDATED GENERAL GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2001
			ACTUAL						Estimate
	I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	958,186	1,091,815	1,222,587	1,397,903	1,590,017	1,726,724	1,958,301
		CURRENT REVENUES (70+71)	955,790	1,089,017	1,217,023	1,390,982	1,579,255	1,695,040	1,935,794
70		TAX REVENUES	916,328	1,032,285	1,156,099	1,302,752	1,499,430	1,599,594	1,796,748
		TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	311,429	363,931
		Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634	295,378
		Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795	68,553
		SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	496,371	552,574	626,369
		Employees contributions	195,413	221,929	247,519	276,805	305,649	342,129	380,326
		Employer's contributions	151,504	134,112	127,472	142,649	157,206	172,980	192,008
		Self-employed contributions	13,096	17,167	20,657	25,492	30,626	33,875	36,789
		Other unallocable social security contributions	2,987	2,976	4,982	3,452	2,889	3,590	17,246
		TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071	84,524
		Payroll tax	809	14,943	33,994	42,058	51,454	63,849	80,140
		Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222	4,384
		TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513	31,062
		DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895	661,815
		TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089	29,023
		OTHER TAXES	451	241	208	787	100	23	24
71		NON-TAX REVENUES	39,462	56,732	60,924	88,230	79,825	95,447	139,046
		ENTERPRENEURIAL AND PROPERTY INCOME	6,628	8,301	9,792	24,186	23,522	27,619	64,289
		FEES AND CHARGES	8,291	8,813	10,452	11,903	13,624	19,964	22,015
		FINES AND FORFEITS	2,784	3,690	3,921	5,576	6,793	7,696	8,050
		SALES OF GOODS AND SERVICES	5,166	4,996	6,800	8,608	5,830	9,075	9,844
		OTHER NON-TAX REVENUES	16,592	30,932	29,959	37,956	30,055	31,093	34,848
72		CAPITAL REVENUES	1,824	1,738	3,805	4,471	6,430	5,897	10,782
73		VOLONTARY DONATIONS	470	940	1,760	2,449	4,332	7,421	11,725
74		GRANTS	102	119	0	0	0	0	0
		EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	58,026	66,804	81,069

Continued on next page.

Table 11: Consolidated general government revenues; GFS - IMF methodology

- Per cent share relative to GDP

		CONSOLIDATED GENERAL GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2001
			A C T U A L						Estimate
	I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	43.1	42.7	42.0	43.0	43.6	42.8	43.1
		CURRENT REVENUES (70+71)	43.0	42.6	41.9	42.8	43.3	42.0	42.6
70		TAX REVENUES	41.2	40.4	39.8	40.0	41.1	39.6	39.6
		TAXES ON INCOME AND PROFIT	7.2	7.7	7.8	7.8	7.5	7.7	8.0
		Personal income tax	6.6	6.8	6.7	6.6	6.3	6.4	6.5
		Corporate income tax	0.6	0.9	1.2	1.2	1.2	1.3	1.5
		SOCIAL SECURITY CONTRIBUTIONS	16.3	14.7	13.8	13.8	13.6	13.7	13.8
		Employees contributions	8.8	8.7	8.5	8.5	8.4	8.5	8.4
		Employer's contributions	6.8	5.2	4.4	4.4	4.3	4.3	4.2
		Self-employed contributions	0.6	0.7	0.7	0.8	0.8	0.8	0.8
		Other unallocable social security contributions	0.1	0.1	0.2	0.1	0.1	0.1	0.4
		TAXSES ON PAYROLL AND WORKFORCE	0.2	0.7	1.3	1.4	1.5	1.7	1.9
		Payroll tax	0.0	0.6	1.2	1.3	1.4	1.6	1.8
		Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1
		TAXES ON PROPERTY	0.6	0.6	0.7	0.9	0.7	0.7	0.7
		DOMESTIC TAXES ON GOODS AND SERVICES	13.4	13.7	14.2	14.7	16.5	14.9	14.6
		TAXES ON INTERN. TRADE AND TRANSACTIONS	3.5	3.0	2.0	1.5	1.3	0.9	0.6
		OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
71		NON-TAX REVENUES	1.8	2.2	2.1	2.7	2.2	2.4	3.1
		ENTERPRENEURIAL AND PROPERTY INCOME	0.3	0.3	0.3	0.7	0.6	0.7	1.4
		FEES AND CHARGES	0.4	0.3	0.4	0.4	0.4	0.5	0.5
		FINES AND FORFEITS	0.1	0.1	0.1	0.2	0.2	0.2	0.2
		SALES OF GOODS AND SERVICES	0.2	0.2	0.2	0.3	0.2	0.2	0.2
		OTHER NON-TAX REVENUES	0.7	1.2	1.0	1.2	0.8	0.8	0.8
72		CAPITAL REVENUES	0.1	0.1	0.1	0.1	0.2	0.1	0.2
73		VOLONTARY DONATIONS	0.0	0.0	0.1	0.1	0.1	0.2	0.3
74		GRANTS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6	1.7	1.8

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

Table 12: Consolidated general government expenditure; GFS - IMF methodology

- Current prices, SIT million

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE			1995	1996	1997	1998	1999	2000	2001
			A C T U A L						Estimate
40	II.	TOTAL EXPENDITURE (40+41+42+43)	957,273	1,083,586	1,256,668	1,423,494	1,613,314	1,781,444	2,022,298
		CURRENT EXPENDITURE	169,751	192,816	223,184	262,658	309,000	355,364	416,593
400		WAGES, SALARIES AND OTH. PERSON. EXPENDIT. IN GOVERN. AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	116,560	131,911	154,831
402		PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	149,900	180,076
403		INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	60,956	72,626
409		RESERVES	1,225	1,783	1,736	10,713	10,552	12,597	9,060
41		CURRENT TRANSFERS	694,218	783,390	912,303	1,020,473	1,136,544	1,255,135	1,416,724
410		SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951	64,578
411		CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077	817,510
		Transfers to unemployed	13,498	12,657	18,861	19,875	20,374	20,008	24,637
		Child allowances	32,322	41,100	49,487	53,151	61,314	73,653	82,061
		Social allowances	23,777	27,544	31,798	34,294	34,523	38,407	43,466
		War invalids, war veterans, war victims allowances	7,146	6,085	10,434	14,941	14,876	15,568	16,929
		Pensions	273,892	310,075	352,534	391,921	441,027	490,682	543,511
		Wage compensation	7,895	10,338	12,344	14,850	18,262	22,326	26,820
		Sick leave compensation	15,905	17,239	19,093	20,483	20,552	22,737	26,498
		Scholarship	9,549	10,884	14,066	13,926	15,038	16,338	18,616
		Other transfers to individuals	7,802	8,262	10,492	10,380	22,105	31,358	34,972
412		CURRENT TRANSFERS TO NON-PROFIT INSTITUT.	5,501	5,980	7,368	8,489	14,598	16,883	19,195
413		OTHER CURRENT DOMESTIC TRANSFERS	252,406	294,851	341,932	383,889	405,573	444,402	511,238
		Current transfers to extrabudgetary funds	809	719	775	4,569	6,648	2,757	1,977
		Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	398,925	441,645	509,261
		- Wages, salaries and other personnel expenditure	126,861	152,469	188,044	208,458	234,079	255,590	301,662
		- Purchases of goods and services	124,736	141,663	153,113	170,862	164,846	186,055	207,599
414		CURRENT TRANSFERS	2,780	3,829	3,934	5,035	5,214	3,822	4,203
42		CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	111,003	127,745
43		CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942	61,236
	III.	SURPLUS / DEFICIT (I.-II.)	913	8,230	-34,081	-25,591	-23,297	-54,720	-63,997
		EMPLOYER'S CONTRIBUT. FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	58,026	66,804	81,069

Continued on next page.

Table 12: Consolidated general government expenditure; GFS - IMF methodology

- Per cent share relative to GDP

		CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001
			A C T U A L						Estimate
40	II.	TOTAL EXPENDITURE (40+41+42+43)	43.1	42.4	43.2	43.8	44.2	44.2	44.5
		CURRENT EXPENDITURE	7.6	7.5	7.7	8.1	8.5	8.8	9.2
400		WAGES, SALARIES AND OTH. PERSON. EXPENDIT. IN GOVERN. AGENCIES AND LOCAL COMMUNITIES	3.0	3.2	3.3	3.2	3.2	3.3	3.4
402		PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.4	3.0	3.1	3.3	3.6	3.7	4.0
403		INTEREST PAYMENTS	1.2	1.2	1.2	1.3	1.4	1.5	1.6
409		RESERVES	0.1	0.1	0.1	0.3	0.3	0.3	0.2
41		CURRENT TRANSFERS	31.3	30.7	31.4	31.4	31.2	31.1	31.2
410		SUBSIDIES	1.9	1.4	1.4	1.5	1.7	1.5	1.4
411		CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.6	17.4	17.9	17.6	17.8	18.1	18.0
		Transfers to unemployed	0.6	0.5	0.6	0.6	0.6	0.5	0.5
		Child allowances	1.5	1.6	1.7	1.6	1.7	1.8	1.8
		Social allowances	1.1	1.1	1.1	1.1	0.9	1.0	1.0
		War invalids, war veterans, war victims allowances	0.3	0.2	0.4	0.5	0.4	0.4	0.4
		Pensions	12.3	12.1	12.1	12.0	12.1	12.2	12.0
		Wage compensation	0.4	0.4	0.4	0.5	0.5	0.6	0.6
		Sick leave compensation	0.7	0.7	0.7	0.6	0.6	0.6	0.6
		Scholarship	0.4	0.4	0.5	0.4	0.4	0.4	0.4
		Other transfers to individuals	0.4	0.3	0.4	0.3	0.6	0.8	0.8
412		CURRENT TRANSFERS TO NON-PROFIT INSTITUT.	0.2	0.2	0.3	0.3	0.4	0.4	0.4
413		OTHER CURRENT DOMESTIC TRANSFERS	11.4	11.5	11.8	11.8	11.1	11.0	11.3
		Current transfers to extrabudgetary funds	0.0	0.0	0.0	0.1	0.2	0.1	0.0
		Current transfers to public institutions and public utilities	11.3	11.5	11.7	11.7	10.9	10.9	11.2
		- Wages, salaries and other personnel expenditure	5.7	6.0	6.5	6.4	6.4	6.3	6.6
		- Purchases of goods and services	5.6	5.5	5.3	5.3	4.5	4.6	4.6
414		CURRENT TRANSFERS	0.1	0.1	0.1	0.2	0.1	0.1	0.1
42		CAPITAL EXPENDITURE	2.6	2.5	2.3	2.5	2.5	2.5	2.5
43		CAPITAL TRANSFERS	1.6	1.7	1.8	1.8	2.5	2.5	2.5
	III.	SURPLUS / DEFICIT (I.-II.)	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-1.4
		EMPLOYER'S CONTRIBUT. FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6	1.7	1.8

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

Table 13a: Population and Labour Force

- in thousand

	1995	1996	1997	1998	1999	2000	2001	2002
							Forecast	
POPULATION, as at 30 June	**1987.5**	**1991.2**	**1986.8**	**1982.6**	**1985.6**	**1990.3**	**1992.0**	**1990.1**
% of total:								
Aged 0 - 14	18.4	17.8	17.2	16.8	16.4	15.9	15.6	15.4
Aged 15 - 64	69.3	69.5	69.7	69.8	69.9	70.1	70.1	70.1
Aged 65 and over	12.3	12.7	13.0	13.4	13.7	14.0	14.3	14.4
Fertility rate*	1.29	1.28	1.25	1.23	1.21	1.22	1.24	1.25
Life expectancy *:								
Men	70.8	71.0	71.1	71.2	71.2	71.3	71.5	71.8
Women	78.3	78.6	78.7	79.0	79.0	78.9	79.1	79.3
Infant mortality (per 1000)*	5.5	4.7	5.2	5.2	4.5	5.5	5.2	4.9
LABOUR FORCE (by Labour Force Survey)	**952.0**	**946.0**	**978.0**	**978.0**	**959.0**	**968.0**	**971.5**	**972.7**
PERSONS IN EMPLOYMENT	882.0	878.0	906.0	901.0	886.0	901.0	910.5	913.2
Of whom (%):								
Agriculture	10.4	10.1	12.7	11.4	10.2	9.9	9.7	9.5
Industry and construction	43.3	42.6	40.5	39.7	38.6	38.7	38.1	37.5
Services	46.3	47.3	46.8	48.8	51.2	51.4	52.2	53.0
UNEMPLOYED JOB-SEEKERS (by ILO standards)	70.0	69.0	72.0	77.0	73.0	68.0	61.0	59.5
FORMAL LABOUR FORCE (by current statistics)	**873.0**	**864.1**	**868.6**	**871.2**	**877.4**	**874.8**	**878.5**	**882.1**
PERSONS IN FORMAL EMPLOYMENT	751.5	744.3	743.4	745.2	758.5	768.2	777.2	783.4
Persons in paid employment**	642.0	634.7	651.2	652.5	671.0	683.0	693.4	698.7
Self-employed persons (the main source of income)	109.6	109.6	92.2	92.7	87.5	85.1	83.7	84.7
REGISTERED UNEMPLOYED PERSONS	121.5	119.8	125.2	126.1	119.0	106.6	101.3	98.8
EMPLOYMENT in full-time equivalent	**824.7**	**816.7**	**812.5**	**812.6**	**822.6**	**831.8**	**837.7**	**842.5**
ANNUAL GROWTH RATES (%)								
Employment in full-time equivalent	**1.0**	**-1.0**	**-0.5**	**0.0**	**1.2**	**1.1**	**0.7**	**0.6**
Labour productivity	**3.1**	**4.5**	**5.1**	**3.8**	**4.0**	**3.5**	**3.0**	**3.0**
Persons in formal employment	-0.1	-1.0	-0.1	0.2	1.8	1.3	1.2	0.8
Persons in paid employment**	-0.8	-1.1	0.1	0.2	1.9	1.8	1.5	0.8
Persons in employment by survey	3.6	-0.5	3.2	-0.6	-1.7	1.7	1.1	0.3
Registered unemployed persons	-4.4	-1.4	4.5	0.7	-5.7	-10.4	-5.0	-2.5
Formal labour force	-0.7	-1.0	0.5	0.3	0.7	-0.3	0.4	0.4
Working age population	-0.1	0.5	0.1	-0.1	0.3	0.5	0.1	-0.1
Population	-0.1	0.2	-0.2	-0.2	0.1	0.2	0.1	-0.1

Source of data: SORS, IPDIS, IMAD's forecasts.
Opombe: * 1999 and 2000 estimates by IMAD*
** Up to and including 1996, excluding companies with 1-2 employees; since 1999: including unemployed working in public works.

Table 13b: Participation rates, employment rates and unemployment rates

- in thousand

	1995	1996	1997	1998	1999	2000	2001	2002
							Forecast	
WORKING AGE POPULATION (15-64 years old)	**1377.2**	**1383.9**	**1385.3**	**1384.0**	**1388.1**	**1395.1**	**1397.0**	**1395.7**
Of whom: Women	685.4	686.7	684.9	684.3	685.8	687.3	688.3	687.6
Paricipation rates (% of working age population)								
Survey participation rate	69.1	68.4	70.6	70.7	69.1	69.4	69.5	69.7
Men	74.0	72.3	75.0	75.3	73.8	73.7	74.3	74.5
Women	64.2	64.4	66.1	65.9	64.3	64.9	64.7	64.8
Formal participation rate	63.4	62.4	62.7	63.0	63.2	62.7	62.9	63.2
Men	66.0	64.9	67.2	67.4	67.6	66.9	67.5	67.9
Women	60.8	59.9	58.1	58.4	58.7	58.3	58.1	58.4
Employment rates (% of working age population)								
Survey employment rate	64.0	63.4	65.4	65.1	63.8	64.6	65.2	65.4
Men	68.4	67.1	69.7	69.6	68.3	68.8	69.8	70.1
Women	59.7	59.7	61.0	60.5	59.2	60.2	60.4	60.6
Agriculture	6.7	6.4	8.3	7.4	6.5	6.4	6.3	6.2
Industry and construction	27.7	26.7	26.2	25.5	24.3	24.4	24.9	24.6
Services	29.6	30.0	30.6	31.8	32.7	33.2	34.0	34.7
Formal employment rate	54.6	53.8	53.7	53.8	54.6	55.1	55.6	56.1
Informal employment rate (difference)	9.5	9.7	11.7	11.3	9.2	9.5	9.5	9.3
LFS unemployment rate (% of survey labour force)								
Total	7.4	7.3	7.4	7.9	7.6	7.0	6.3	6.1
Men	7.7	7.5	7.1	7.7	7.3	6.8	6.0	5.9
Women	7.0	7.0	7.6	8.1	7.9	7.3	6.6	6.4
Registered unemployment rate (% of formal labour force)								
Total	13.9	13.9	14.4	14.5	13.6	12.2	11.5	11.2
Men	14.1	13.7	13.6	13.4	12.4	11.1	10.4	10.2
Women	13.7	14.0	15.3	15.7	15.0	13.5	12.9	12.3
Registered unemployment rate, year end	14.5	14.4	14.8	14.6	13.0	12.0	11.5	11.1

Source of data: SORS, IPDIS, IMAD's forecasts.

Table 14: Labour force flows during the year

- in thousand

	1995	1996	1997	1998	1999	2000	2001	2002
							Forecast	
Inflows into formal labour force (net)	**1.7**	**-6.2**	**4.1**	**-2.8**	**12.2**	**-7.5**	**3.7**	**3.7**
New first-time job seekers *	25.7	25.6	25.4	22.0	26.3	26.3	26.5	25.8
- Low or no education	36.7	31.3	38.0	25.9	19.1	16.7	20.5	20.9
- Vocational education	23.4	24.2	21.8	21.3	20.4	23.4	21.0	20.0
- Finished secondary school	20.2	21.8	17.1	26.5	35.3	34.7	32.6	32.5
- Graduates	19.7	22.6	23.0	26.2	25.2	25.2	25.9	26.6
Change in number of work permits for foreigners	4.2	1.2	-0.2	-5.0	2.4	2.3	0.8	0.6
- as % of formal labour force	0.5	0.1	0.0	-0.6	0.3	0.3	0.1	0.1
Retirements (-) **	11.5	14.8	15.1	14.8	13.8	14.4	14.3	14.2
- as % of formal labour force	1.3	1.7	1.7	1.7	1.6	1.6	1.6	1.6
Deaths (-) *	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
- as % of formal labour force	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other net inflows into formal labour force *	-13.8	-15.6	-3.3	-2.3	0.0	-18.9	-6.5	-5.7
Change in regis. unemploy. (net)	**3.2**	**-2.3**	**4.1**	**-1.9**	**-12.3**	**-9.8**	**-4.0**	**-2.5**
Redundancies	57.5	65.4	60.6	58.4	61.1	61.8	63.6	64.1
- as % of formal employment	7.7	8.8	8.1	7.8	8.1	8.1	8.2	8.2
New unemployed first-time job seekers	22.1	21.1	17.9	18.6	19.6	20.5	18.6	16.7
- as % of the generation	86.3	82.4	70.4	84.5	74.7	77.9	70.2	65.0
Reg.unemployed who found employment (-)	60.0	54.6	56.1	55.4	62.4	60.2	53.6	54.8
- - as % of formal employment	8.0	7.3	7.5	7.4	8.2	7.8	6.9	7.0
Unemploy. struck off the register (-)	16.4	34.1	18.3	23.5	30.7	31.9	32.6	28.5
- as % of regist. unemployment	13.5	28.5	14.6	18.7	25.8	29.9	32.2	28.9
of whom: Deaths and retirements	4.3	5.3	5.4	5.3	5.3	7.3	6.0	5.9
Change in formal employm. (net)	**-1.5**	**-3.9**	**0.0**	**-0.8**	**24.5**	**2.3**	**7.9**	**6.2**
Net inflow from register. unemploy.	2.5	-10.7	-4.5	-3.0	1.2	-1.7	-10.0	-9.3
Net inflow of foreigners	4.2	1.2	-0.2	-5.0	2.4	2.3	0.8	0.6
Deaths and retirements (-) *	10.0	12.2	12.4	12.2	11.2	9.8	11.1	11.0
Others who found employ. (net) *	1.8	17.8	17.2	19.3	32.1	11.5	28.2	25.9
- as % of formal employment	0.2	2.4	2.3	2.6	4.2	1.5	3.6	3.3
FORMAL LABOUR FORCE, year-end	**873.1**	**867.0**	**871.1**	**868.3**	**880.5**	**873.1**	**876.7**	**880.5**
- Formal employment	746.4	742.5	742.5	741.7	766.2	768.5	776.4	782.6
- Registered unemployment	126.8	124.5	128.6	126.6	114.3	104.6	100.5	98.0

Source of data: SORS, IPDIS, ESS, IMAD's forecasts.
Notes: * IMAD's forecasts; ** 1999 in 2000: IMAD's forecasts.

Table 15: Indicators of International Competitiveness

- Annual growth in %

	1995	1996	1997	1998	1999	2000	2001	2002
							Estimate	
Effective exchange rate [1]								
Nominal	-0.5	-9.7	-5.4	-2.6	-5.5	-8.1	-5.7	-3.5
Real [2]	10.3	-2.8	0.7	3.9	-0.7	-2.1	-0.2	1.0
Unit labour cost in total economy								
In SIT nominal	13.7	6.4	6.4	5.1	5.6	7.4	8.7	6.3
In the basket of currencies - relative [5]	10.9	-5.1	0.3	2.1	-1.4	-1.4	1.1	1.4
Unit labour cost in manufacturing [3]								
In SIT nominal	9.8	6.9	7.3	5.9	7.3	4.0	8.8	6.3
In the basket of currencies [4]	9.3	-3.5	1.5	3.1	1.4	-4.4	2.5	2.6
In the basket of currencies - relative [5]	9.0	-4.9	4.0	5.5	1.2	-3.2	1.7	2.2
Components [4]								
Compensation of employees - real [6]	4.9	3.9	3.4	3.4	2.9	2.4	2.2	1.9
Net wages and other remunerations	6.8	7.7	4.3	3.1	2.5	1.9	1.5	1.8
Tax burden on wages [7]	-0.6	-2.6	-0.5	0.6	0.4	0.3	0.3	-0.2
Labour productivity	8.4	6.7	4.5	5.4	1.8	7.2	2.0	2.6
Prices / effective exchange rate	12.9	-0.8	2.5	5.1	0.3	0.1	2.3	2.8

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

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