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Autumn Report 2002

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Autumn Report 2002 is an analytical explication of Autumn Economic Forecast (October 2002). The Report is based on data available up to and including October 11, 2002.

Acronyms in the text have the following meanings:

AP Agency of the Republic of Slovenia for Payments,
BS Bank of Slovenia,
ELES Electro Slovenia,
IMAD Institute of Macroeconomic Analysis and Development,
MF Ministry of Finance,
SORS Statistical Office of the Republic of Slovenia,
Ur.l. RS Uradni list Republike Slovenije (Official Journal of the Republic of Slovenia).

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Main findings of the Autumn Report 2002

The main findings of the Autumn Report 2002 are: (a) the slow recovery of economic growth in the main trading partners will lead to gross domestic product growth being weaker in 2003 than anticipated in spring; (b) the analysis of factors fuelling inflation point to the urgency of co-ordinated action and greater restrictiveness of monetary, prices and fiscal policy measures; (c) growth in all domestic demand components is strengthening gradually; a faster revival is expected in investment consumption; and (d) after recording positive trends in the last three years, employment growth has slowed down slightly this year.

Following last year's slowdown, economic growth has remained at a roughly the same level this year. However, there have been some structural shifts resulting from international and domestic factors. While in 2001 the main lever of economic growth was international trade, in 2002 the contribution of domestic demand has strengthened significantly, especially that of investment and private consumption. **Further growth in domestic demand aggregates and their improved contribution to economic growth** are expected to continue in 2003, while foreign demand should increase gradually, according to international institutions' forecasts. **Economic growth in the international environment is picking up more slowly than anticipated in spring**, which mainly led to a lower forecast of real export growth in 2003, whereas domestic demand aggregates should be much less affected by this slowdown. Domestic demand aggregates are by no means insensitive to developments in the international environment (business investment is most susceptible to the international environment), but their growth in 2003 will largely be fuelled by the strong internal structural and cyclical factors.

The **alternative scenario** is based on similar assumptions about the intensity of the impact of the international environment on domestic consumption. This scenario anticipates a weaker recovery of export market growth than September's forecasts, which served as a basis for the original scenario. Uncertainty about global economic growth is also revealed by forecasts published by the European Commission and the OECD in November, i.e. after the IMAD's autumn forecasts had already been made. That uncertainty stems from the risk of a marked fall in international financial and capital markets, the deepening of global imbalances, and slower recovery of investment activity in advanced industrialised countries. If these assumptions are realised, Slovenia would achieve lower real export growth than projected in the original scenario, while a minor impact would also be felt in investment consumption, especially in the private sector. Dampened export orders would slow down manufacturing's production activity and imports of intermediate goods, so imports would be equally hit by the slow recovery of international economic activity. Import growth would therefore be lower than forecast in the original scenario. If these factors are taken into account, economic growth in Slovenia's main trading partners could decelerate by 0.5 of a percentage point, reducing Slovenia's real gross domestic product growth by a quarter of a percentage point in 2003 (economic growth would be around 3.4% instead of the projected 3.7%).

As in the previous two years, export performance 2002 is under the strong influence

of **high real export growth to the countries of former Yugoslavia, CEFTA and the former Soviet Union**, also resulting from Slovenian companies' strong investment activity abroad, and a marked increase in real exports of services. The relative contribution of exports to these markets to the overall export performance should gradually weaken in the upcoming years, while exports of services are not expected to maintain this year's strong growth due to insufficient competitiveness. However, both factors should bolster export trends in 2002 and somewhat less in 2003. The key factor of keeping real exports robust in 2003 will be the expected economic pick-up in the main trading partners. Given that **Slovenian companies managed to increase their market shares this year** not only in most Central, Eastern and South-eastern European countries, **but also in the main trading partners from the EU** in spite of fierce economic conditions, we estimate that their position in these markets is stable. This will be an important factor of accelerating sales in foreign markets, especially since economic growth in the EU is expected to strengthen in 2003.

With economic trends gradually reviving, some negative developments from 2001 have been arrested in 2002, also thanks to steps taken by economic policy-makers. One important measure was **keeping a lid on wage growth in the public sector**. This year, public-sector wages will rise more slowly than private-sector wages, helping to restore a sustainable macroeconomic balance between wage and productivity growth, which was undermined last year. According to investment figures for the first six months of 2002, the fall in domestic investment activity seen in 2001 came to a halt, while figures on construction suggest this was largely due to stronger investment in road infrastructure.

However, areas that revealed no negative tendencies in 2001 deteriorated in 2002 as a result of the delayed global economic recovery. The **labour market is suffering the strong impact of last year's sagging economic growth**: after three years of favourable trends, employment growth and the reduction of unemployment have lost momentum in 2002, especially in manufacturing, which is most exposed to economic changes in foreign trading partners because of its close integration with the international environment.

The **key macroeconomic imbalance**, which should be at the centre of economic policy efforts, **remains the persistence of inflation at high levels**. What is more, no significant improvement has been noticed over the last three years. The analysis of factors fuelling inflation point to the urgency of co-ordinated action and greater restrictiveness of monetary, exchange rate, prices and fiscal policy measures. The government has already adopted a decision on administered prices growth in 2003 – administered prices should not rise by more than 5.1% – and a decision on more restrictive policy of tax changes that influence inflation. This more restrictive policy should also hold back inflationary expectations of economic entities that shape free prices and interest rates, it should reduce demands to directly or indirectly raise regulated prices, and influence demands made during negotiations on collective agreements. The easing of inflationary expectations and reduction of inflation in 2003 should bring inflation down to 4%-4.5% in 2004, provided that macroeconomic policies remain restrictive and structural reforms are further pursued primarily in

infrastructural sectors, financial services (mainly as regards the use of indexation mechanisms and functioning of the financial market) and the labour market (greater flexibility). This is also the year when Slovenia is expected to become an EU member and integrate into the related exchange rate mechanism.

The relatively favourable export trends and low import growth, the latter also being due to favourable trends in import prices this year, led to a **rise in the current account surplus**. Despite the anticipated import growth fuelled by stronger domestic consumption, a surplus should be maintained in 2003 primarily due to the positive effect of revived economic growth in the international environment. The structure of inflows in the capital and financial account is also improving thanks to significant increases in foreign direct investment inflows. As a result, the indicators of potential sustainability of the current account deficit are improving. The **changed structure of inflows in the capital and financial account** is, firstly, due to increased inflows of foreign direct investment related to privatisation, take-overs and other capital investment and, secondly, due to the relatively modest external borrowing of domestic enterprises and banks. **Demand for domestic loans is also low** despite the high liquidity of domestic banks. The biggest increase was seen in foreign currency loans, resulting from high foreign exchange inflows in banks. The weak lending activity of banks, which are directing growing amounts towards investment in government securities and securities of the Bank of Slovenia, suggests that the existing mechanisms of the financial sector remain underdeveloped in terms of being able to channel funds into productive investment. Further, the relatively high returns yielded by these securities hamper the entry of other financial services suppliers.

In conditions of relatively high foreign exchange inflows, the tolar's gradually depreciating nominal exchange rate and its indirectly managed real effective exchange rate (the Bank of Slovenia's main concerns) have led to strong growth in money supply aggregates. This, in turn, does not contribute to reducing inflation, the goal announced by monetary policy. With financial inflows remaining relatively strong, the BS could somewhat reduce pressure on the exchange rate and monetary aggregate growth by expanding the range of instruments used to sterilise foreign exchange inflows. However, growth rates in monetary aggregates will still largely depend on the scope of interventions taken to maintain the targeted level of the exchange rate. A more restrictive exchange rate policy aiming for a slower rise in the nominal exchange rate is therefore a crucial element of a co-ordinated set of economic policies oriented to a faster reduction of inflation. Such a policy would also keep growth in the money supply aggregates down and indirectly narrow the gap between foreign and domestic interest rates, with the latter being largely dependent on the anticipated inflation.

Part I

Autumn Economic Forecasts for 2002–2007

Autumn economic forecasts for 2002-2007

1. Assumptions behind the autumn forecasts

Global economic developments – The recovery of economic growth in the main industrialised trading partners, which began towards the end of 2001, began to lose pace in the period before the autumn forecasts of 2002. The IMAD's autumn forecasts for Slovenia are based on September's forecasts of the Consensus and autumn forecasts of the International Monetary Fund, according to which **relatively low growth rates are expected in advanced industrialised countries in 2002 and a strengthening is anticipated in 2003** (see Chapter 1.). Forecasts, which are fairly consistent, were revised downwards in autumn. The corrections for 2003 were particularly strong, while those for 2002 were smaller. After seeing relatively strong growth in the first quarter, most advanced countries recorded lower economic growth in the second quarter than expected. What deteriorated markedly compared to the spring forecasts was the prospect of further recovery, which is in part due to the euro rising against the dollar (affecting EU exports), and structural factors in some EU member states which hamper faster investment growth. Similarly, the European Commission's quarterly model based on short-term economic indicators shows that this year's pick-up in economic activity in the EU is weaker on average than anticipated in spring. The Consensus and IMF estimate that economic growth in most industrialised trading partners in 2002 will be lower than in 2001 (except the USA), however, this year's trend of quarterly growth rates is positive, unlike in 2001. Downward revisions in EU member states compared to the spring forecasts range at around half of a percentage point. Forecasts for 2003 are also below the spring expectations because of the slower economic growth recovery in the EU in 2002, the delayed pick-up in economic activity, and increased uncertainty. In the main trading partners, the differences range between 0.6 and 0.7 of a percentage point. According to international institutions' current forecasts, economic growth in the main trading partners is expected to stabilise at the level of the medium-term period preceding the slowdown of 2001 towards the end of 2003 and especially in 2004.

The international institutions' economic growth forecasts for countries in transition for 2002 and 2003 are also lower than in spring, however, the downward revisions were much smaller. The rates of gross domestic product growth expected in these countries in this period are significantly higher than in advanced economies, which is favourable from the point of view of Slovenia's exports to these areas.

Commodity prices – Given its movement in the first nine months, the average **oil price** should reach about USD 26 per barrel (the spring forecast's assumption was USD 24 per barrel). Assuming that conditions in the Middle East stabilise, a slightly lower average price may be expected in 2003; we have taken a price of USD 25 per barrel. The prices of **other primary commodities**, which reached their lowest levels in early 2002 according to international institutions, should gradually rise in 2003

in line with the strengthening of global economic activity.

Exchange rates – The assumption behind the euro's **exchange rate** movements in 2003 and 2004 is that despite expectations of an over-supply of foreign exchange (fuelled by increased foreign exchange inflows), the exchange rate should slide moderately and gradually, i.e. the gap between the rises in consumer prices and exchange rates should increase (the Bank of Slovenia's intervention). Since there is great uncertainty about the US dollar's exchange rate movements in international money markets, we have opted for the so-called technical assumption of an unchanged euro/dollar exchange rate for the entire period covered by the forecasts instead of projecting the dollar's exchange rate. The same procedure is used by most international institutions and was also used in the Spring Report 2002. Estimated movements in the tolar's real effective exchange rate (the value of 1 tolar against the basket of currencies of the main trading partners) will therefore depend on the USD/EUR exchange rate (the assumed rate is USD 0.98 for EUR 1): if the dollar strengthens, the tolar's appreciation against the basket of currencies will be lower.

2. Inflation forecasts

After gradual declining in the second half of 2001, with the year-on-year rise in consumer prices decelerating to 7.0% and the average rise to 8.4% up until December, inflation began to climb again in the first quarter of 2002. Assuming there will be no major changes in economic policy orientations in the last quarter of this year, and that prices will mainly be affected by possible changes in oil prices and seasonal factors, prices should continue to rise moderately and the annual and average inflation rates should reach 7.5% and 7.6% at the **end of 2002**. Even though average price rises are slowing down, these rates nevertheless indicate that inflation continues to persist at a relatively high level. Any faster reduction in inflation in 2003, a goal that corresponds to the Budget Memorandum, can only be achieved by co-ordinated efforts aimed at enhancing the restrictiveness of all main economic policies. Unless inflation is reduced rapidly next year, it can hardly be expected that inflationary expectations of businesses will ease off, thus contributing to lower market prices and keeping a lid on demands for raising prices under direct or indirect regulation. It is absolutely vital to abate inflationary expectations and reduce current inflation in 2003 in order to bring the inflation rate down to 4%-4.5% in 2004, when Slovenia plans to join the European Union and integrate into its exchange rate mechanism.

In the first quarter of this year, inflation was largely pushed up by tax changes, accounting for about 44% of the total price increase. The biggest upward pressure came from higher value-added tax rates (the general rate was raised from 19.0% to 20.0% and the reduced rate from 8.0% to 8.5%). This led to an about 0.6 of a percentage point higher rise in consumer prices in January. Higher rates of excise duties on alcoholic beverages, tobacco and liquid fuels added another 0.3 of a percentage point to inflation, and the environmental taxes on local utility services an additional 0.3 of a percentage point. The latter was part of the general adjustment of local utility prices which, along with telephone service prices, added the most to rises in administered prices in the first quarter of this year (up by a total of 6.5%). Additional upward pressure on prices came from food prices, which persisted at

relatively higher levels, keeping their contribution to annual inflation at a level of over 30%. In the second quarter, prices were largely affected by leaps in oil prices (from USD 21 per barrel at the end of March to USD 26 per barrel at the end of April) and, consequently, higher liquid fuel prices (adding 0.5 of a percentage to inflation in April alone). In addition to direct effects on prices, the rising liquid fuel prices had some indirect impact mainly on products and services in the transport and housing groups. With the pressure of oil prices easing in the second and third quarters, the gap between rises in goods and services prices again became more evident. The gap came in at 3.4 percentage points at the end of 2001 and increased by 1.4 percentage points before the end of the third quarter. The relatively fast rise in services prices was partly due to the Balassa-Samuelson effect, while the first nine months saw particularly strong increases in the administered prices of services, mainly local utility services and telecommunications. Administered prices climbed by 22.0% year on year in September, as against the 7.7% rise in other services prices. The prices of services held a 26.8% share in the price index in the first nine months, but accounted for 36.8% of the total increase in consumer prices.

Favourable external effects on prices are expected to continue in 2003. As generally anticipated, the average level of oil prices in 2003 should be lower than in 2002 (USD 25 per barrel), while price rises in EU member states should be lower. Domestic price rises will therefore primarily depend on internal factors, chiefly the measures of economic policy. A faster reduction in inflation, thus drawing closer to the Maastricht price criteria, which is the goal of both the Bank of Slovenia and the Government, can only be achieved by more restrictive administered prices policy, tax policy, and monetary and exchange rate policies. This means that rises in administered prices should not exceed the targeted level of inflation, while prices governed by independent regulators should also accommodate the slow rise in administered prices. As far as tax policy is concerned, any change in fiscal burdens (excise duties and taxes) should be subject to their impact on inflation, which should only equal about one-third of this year's fiscal contribution to inflation. In the field of exchange rate policy, an important factor of keeping inflation down is to decelerate rises in the exchange rate (about 50% slower nominal rise in the exchange rate is estimated to cut the inflation rate by 0.4 to 0.6 of a percentage point in 12 months). This would in turn help monetary aggregates to rise more slowly, or bring their growth closer to the rates proposed by the Bank of Slovenia as being necessary for reducing inflation. **Provided these measures are co-ordinated** and the external price factors are favourable, the **annual inflation should drop to close to 5% before the end of 2003**. This drop would also help the inflation rate slow down faster in 2004 provided that macroeconomic policies remain restrictive and structural reforms are pursued further primarily in infrastructural sectors, financial services (mainly as regards indexation mechanisms and financial market operations) and labour market flexibility.

If the current **orientations of monetary, exchange rate, fiscal and administered prices policies remain the same, the annual and average inflation rates should reach about 5.9% at the end of 2003**. The unchanged fiscal policy would mean that excise duties on alcoholic beverages, tobacco and liquid fuels should continue to be adjusted in 2003, while their total contribution to inflation should be lower than in 2002, ranging between an estimated 0.8 and 1.0 percentage points. An

additional 0.1 of a percentage point should come from the higher value-added tax rates on wine that will be introduced in early 2003. Provided that the policy of adjusting administered prices remains unchanged, both in terms of their restrictiveness and method of regulation, administered prices should rise by 8.0% in 2003 and account for 0.9 of a percentage point of the total price rise (of which 0.2 of a percentage point should come from the aforementioned raising of excise duties), according to the current plan of price adjustments. The implications for incomes policy are that real wage growth should not exceed productivity growth in 2003, while other remuneration should rise at similar rates. Incomes policy that fits within such a macroeconomic framework has no impact on inflation. The unchanged orientations of monetary and exchange rate policies mean that the Bank of Slovenia's main tasks will be to manage the exchange rate, and the tolar's nominal depreciation should be 2.8% on average in 2003. In such conditions, and assuming that the relatively high financial inflows from abroad will continue, movements in monetary aggregates and interest rates will depend on exchange rate targeting rather than efforts to keep a lid on price rises.

3. Economic growth and the main macroeconomic aggregates up to the end of 2002 and forecasts for 2003 and 2004

Economic growth in 2002

Gross domestic product increased by 2.7% in real terms in the first six months against the same period last year, according to the SORS' preliminary figures. A breakdown by quarters shows that economic growth strengthened in the second quarter, with GDP growing by 3.2% year on year, one percentage point more than in the first quarter (2.2%). In the second quarter, there were some changes in the GDP growth structure, as the contribution of international trade to economic growth increased. While in the first quarter economic growth was entirely fuelled by domestic demand and the contribution of the international trade balance was negative (-0.6 of a percentage point), growth in the second quarter was more balanced: domestic consumption accounted for about 60% and net exports around 40% of GDP growth. The relatively strong domestic demand growth seen in the first quarter (up 2.8% year on year) slowed down in the second quarter (up 1.8%) mainly as a result of weaker household consumption growth (up 2.6% in the first and 1.2% in the second quarter) and the negative contribution of changes in inventories and valuables to economic growth (-0.3 of a percentage point). Real growth in gross fixed capital formation was about 3% for the third consecutive quarter. Growth in exports of goods and services strengthened substantially year on year in the second quarter (up from first quarter's 2.4% to 7.1%) primarily as a result of the significant export growth to former Yugoslavia and the Soviet Union, and CEFTA. This led to a more substantial contribution of the international trade balance to economic growth despite the stronger import growth (up from 3.2% in the first to 4.9% in the second quarter year on year). The higher real import growth seen in the second quarter was largely underpinned by falls in import prices, leading to better terms of trade. The gradual recovery of economic activity in the second quarter is also revealed by the seasonally

adjusted data: quarterly growth strengthened from 0.8% in the first to 1.2% in the second quarter.

Accordingly, statistical figures on six-month GDP growth largely support the projections of the Spring Report 2002. The **autumn forecasts of economic growth in 2002** are roughly in line with the spring ones, and project 3.2% growth as against spring's 3.3%. The forecast of goods and services export growth (4.9%) has been revised upwards by 0.2 of a percentage point compared to the spring forecast despite the slow economic recovery in EU members. This was mainly due to the continuing dynamic export growth to the markets of former Yugoslavia, CEFTA and the former Soviet Union, and the substantial growth in exports of services, which was slightly above the spring forecasts. Downward corrections were made to private consumption growth (from 2.3% to 2.1%) because of slower employment growth and a weaker rise in the gross wage per employee than anticipated in spring. Government consumption was also corrected downwards (by 0.4 of a percentage point to 2.5%), following the revision of the national budget for 2002. The forecast of real growth in gross fixed capital formation remained unchanged (2.9%) in view of the level of investment activity achieved in the first half of the year. The forecast of this year's growth in imports of goods and services was revised upwards by 0.1 of a percentage point to 3.9% despite the slightly subdued anticipations of domestic consumption growth. This was the result of somewhat higher levels of imports than expected and the favourable import prices. The implications of these corrections for the GDP growth structure are that the contribution of international trade should increase and that of domestic consumption should decline compared to the spring forecasts.

Forecasts for 2003

In view of the expected gradual pick-up in economic activity in the main trading partners and a further strengthening of domestic consumption, economic growth in 2003 should be about half of a percentage point higher than in 2002. The **autumn forecast of real gross domestic product growth** is 3.7%, 0.6 of a percentage point below the spring forecast. This revision was the result of the delayed revival of economic activity in the EU, directly leading to a downward correction of real growth in exports of goods and services (from 6.5% to 5.7%). Hence, exports should only increase by nearly 1 percentage point compared to 2002. The changed economic conditions compared to the spring assumptions are reflected in a lower forecast of manufacturing's value-added growth (revised from 5.5% to 4.9%, however, growth should still be over 1 percentage point higher than in 2002) and lower imports of intermediate goods. Having started in 2001, private consumption growth should continue to intensify in 2003 as a result of further growth in household available income and additional disburdening of income from loans. Private consumption is forecast to rise by 2.7% in real terms, slightly lower than anticipated in spring (3%) mainly due to the less vigorous dynamics of employment growth. Real investment growth, which underwent no revision relative to the spring forecast (4.8%), should exceed gross domestic product growth principally because of public-sector investment, residential building construction will also revive gradually, and private investment growth will accelerate. Real government consumption growth based on revisions proposed to the 2003 budget was revised downwards by 0.5 of a percentage point (from 3.3% to 2.8%). The forecast of import growth (goods and services) was

also corrected downwards by 0.5 of a percentage point (from 5.2% to 4.7%) following the corrections made to the forecasts of foreign demand and some domestic demand components.

Labour market and wages – In 2002, **employment** growth and the reduction of **unemployment** have lost momentum more than anticipated in spring, which reflects the subdued economic growth in 2001 and the slow improvement of economic conditions in 2002. This led to an upward correction of 0.4 of a percentage point to the registered unemployment rate and 0.1 of a percentage point to the survey unemployment rate compared to the spring forecasts. Growth in economic activity, which is expected in the next two years, should step up employment growth and ease unemployment so the rate of registered unemployment should be around 10.5% in 2004.

Wages policy agreed for 2002 and 2003 pursues the goal of the real gross wage per employee rising below the rate of labour productivity growth in both the private and public sectors. In the private sector, wages policy has been laid down in the Wages Policy Agreement for 2002-2004, a supplement to the Social Agreement, which has as yet not been concluded. In the public sector, the wages policy has been formulated in the Annex to the Collective Agreement for the Public Sector. Wage trends in 2002 suggest subdued wage growth in both sectors: in the first seven months, the gross wage per employee rose by 1.9% in real terms over the same period last year, up 2.0% in the private and 1.3% in the public sector. The anticipated real rise of 2.0% in the gross wage per employee in 2002 is lower than as forecast in spring, with private-sector wages climbing by about 2.2% (including performance-related pay at the end of the year) and public-sector wages by around 1.3%. The latter is over 1 percentage point lower than expected in spring owing to moderate wage growth in health services and social work, and faster price rises than assumed. Real wage growth in 2003 is also forecast to be about 2.0% (roughly equal rates are expected in the private and public sectors), while in 2004 wages should climb by around 2.5% (2.7% in the private and 2% in the public sector). In 2003 and 2004, the real gross wage per employee should lag behind labour productivity growth by around 1 percentage point.

Alternative economic growth forecasts for 2003 made under the assumption of a slower revival of economic activity in the main trading partners – The IMF's and Consensus' forecasts, which served as a basis for the autumn forecasts of the international economic environment, call attention to some risks that might further hold back economic recovery in 2002 and 2003. They are the downward trends in international financial and capital markets, the persistence of global imbalances, and the revival of investment activity in advanced countries. Forecasts subsequently published by some other institutions (OECD, LINK) and October's Consensus forecasts suggest that there is some risk of an even slower economic recovery.

As a result of these uncertainties, we have prepared an **alternative scenario for 2003**, which is based on the assumption that economic growth in the 12 main OECD trading partners, representing about three-quarters of Slovenia's exports, will be lower by an average of 0.5 of a percentage point than in the original scenario, but still 0.5 to 1 percentage point higher than in 2002. If these assumptions turn out to

be true, foreign demand will be lower than originally anticipated in the autumn forecasts, primarily affecting real export growth rates as well as investment demand. Weaker growth in export orders would slow manufacturing's production activity down and, consequently, imports of intermediate goods. Imports would be equally affected by the slow recovery of international economic activity, and import growth would be lower than projected in the original scenario. Given that the negative impact of the international environment on domestic consumption growth would only be limited in 2003, these factors would have a relatively minor impact on economic growth. Domestic demand aggregates are not insensitive to developments in the international economic environment (with business investment being the most sensitive), however, their growth in 2003 will be more under the influence of internal and cyclical factors. If the assumption of slower economic growth in the main trading partners is realised, Slovenia's real gross domestic product growth would be 0.2 to 0.3 of a percentage point lower than originally forecast.

Economic growth forecasts for 2004

Provided that economic growth in the international environment stabilises, Slovenia's gross domestic product should again increase at an average rate of the previous medium-term period (growth is forecast to achieve 4.3%). This is close to the level of long-term economic growth capacity, which has been estimated on the basis of potential growth in gross domestic product calculated by use of the European Commission's statistical method.

Growth in exports of goods and services, which should start gaining momentum in the course of 2003, should again exceed 6% after three years. Export growth to the countries of former Yugoslavia and countries in transition, where rates are significantly higher than in advanced countries, should slow down slightly, while the EU share in the regional composition of trade should stop declining. Exports of services should strengthen gradually, but are expected to lag behind the real growth in exports of goods. Taking into account factors such as the cyclical movement of domestic demand aggregates, the release of funds from the first national housing savings scheme, and expectations of stronger investment activity in infrastructure and residential building construction, all components of domestic consumption should continue to rise further. Real growth in investment activity, with private-sector investment rising along with infrastructural investment, should exceed 6%, which should increase the share of gross fixed capital formation in gross domestic product to above 25%. Private consumption is expected to increase significantly and should be fuelled by a new cycle of purchasing durable goods (a cycle is about five years long according to some empirical estimates) and new purchases financed by funds released from the savings scheme. Some of these savings should turn into consumption through the purchase of dwellings and furnishings, while some are estimated to be spent directly. With domestic demand and import component strengthening, real growth in imports of goods and services should intensify and even exceed export growth.

Inflation is expected to be cut further, but should still be higher than prescribed by the Maastricht criteria when Slovenia joins the EU (1.5 percentage points above the average level of the three member states with the lowest inflation). This will be due

to faster productivity growth in Slovenia than in the EU average ('real convergence,' whose effect is estimated to be around 1 to 2 percentage points).

4. Scenario for the period after 2004

The dynamics of economic growth's recovery after 2004 will depend on changes in the structure of gross domestic product growth, which were particularly evident in 2001 and 2002, and pointed out in the Spring Report 2002 (a lower share of investment in GDP, changes in the structure of spending available income), as well as by the delay in economic growth recovery in 2003 and a more pronounced cyclical movement of some domestic consumption components in the upcoming years. The main reason for a discrepancy from the medium-term macroeconomic scenario of the Strategy for the Economic Development of Slovenia (SEDS), according to which real gross domestic product growth should be 5.3% to 5.7% in 2005 and 2006, is the pending structural reforms and their slow implementation. These shortcomings were pointed out in the Development Report (IMAD, 2002). Exports will continue to be an important lever of economic growth, however, the average export growth rates expected after 2004 should be slightly lower than those projected in the SEDS. This reflects the slower strengthening of competitiveness caused by the structural problems mentioned above and the relatively lower volume of commercial investment, one of the key factors stimulating competitiveness. Economic trends envisaged by the Strategy should continue in the next few years, however, the development shortcomings and qualitative changes in the economic growth structure should result in a slightly delayed raising of economic growth to a higher level in the next medium-term period.

5. Other institutions' macroeconomic forecasts for 2002 and 2003

The autumn forecasts were presented to other domestic forecasting institutions (Bank of Slovenia's Analysis and Research Centre, Department of Economic Analysis and Economic Policy of the Chamber of Commerce and Industry) and compared to results of the quarterly model developed by the Economic Institute of the Faculty of Law and the model of leading indicators developed by the School of Business and Economics of the University of Maribor. Forecasts were assessed as realistic, especially as regards the expectations of stronger domestic consumption in 2003, while the estimated growth in gross fixed capital formation was considered conservative. The main threat to realising the autumn forecasts was thought to be uncertainty about the pick-up of economic growth in the international environment. However, this is taken into account in the alternative scenario.

The forecast of Slovenia's economic growth in 2002 and 2003 published by the IMF in September differs substantially from the autumn forecasts: economic growth should be 2.5% in 2002 and 3.2% in 2003. Differences primarily result from projections of export and import growth. Figures for each year are much lower than the actual importing and exporting trends seen in the first half of 2002, and we

consider these figures to be underestimated. The IMF's low forecasts were due to the fact that they were made only on the basis of economic growth figures for the first quarter of 2002, moreover, the trend of maintaining high export growth rates with the countries of former Yugoslavia, Central and Eastern Europe were insufficiently taken into account. Even though there are also some discrepancies in other consumption aggregates, the IMF's lower economic growth forecast was primarily due to its conservative projection of international trade.

IMAD's Autumn Forecast

	2001	2002		2003		2004	2005	2006	2007
	SORS	SR 2002	AR 2002	SR 2002	AR 2002	AR 2002	AR 2002	AR 2002	AR 2002
		Forecast							
GDP - real growth rates %	3.0	3.3	3.2	4.3	3.7	4.3	4.5	4.7	4.7
INFLATION (average)*, %	8.4	6.9	7.6	5.1	5.5	4.3	4.2	3.7	3.5
INFLATION (end-year)*, %	7.0	6.3	7.5	5.2	5.1	4.3	4.0	3.8	3.3
USD exchange rate - average (BS)	242.7	257.1	241.0	263.1	234.9	236.3	236.6	236.6	236.6
EUR exchange rate - average (BS)	217.2	225.7	226.2	231.3	231.3	232.7	233.0	233.0	233.0
Average exchange rate EUR/USD**	0.89	0.88	0.94	0.88	0.98	0.98	0.98	0.98	0.98
Employment (SNA)	0.6	0.6	0.2	1.1	0.7	0.9	1.0	1.0	1.0
Rate of registered unemployment, %	11.6	11.3	11.7	10.9	11.0	10.5	9.8	9.0	8.1
Rate of unemployment by ILO, %	6.4	6.4	6.5	6.2	6.2	5.9	5.5	5.0	4.5
Productivity (value added per employee), %	2.5	2.8	3.2	3.2	3.2	3.4	3.5	3.7	3.7
Real gross wage -per employee, growth in %	3.2	2.5	2.0	2.0	2.0	2.5	2.5	2.5	2.5
EXPORTS OF GOODS AND SERVICES - real growth rates, %	6.2	4.7	4.9	6.5	5.7	6.3	6.6	6.8	6.9
- exports of goods - real growth rates, %	6.6	4.8	4.5	6.9	5.8	6.5	6.8	7.0	7.1
- exports of services - real growth rates, %	4.1	4.2	6.9	4.5	5.0	5.4	5.6	5.8	5.9
IMPORTS OF GOODS AND SERVICES - real growth rates, %	2.1	3.8	3.9	5.2	4.7	6.9	6.5	6.7	6.8
- imports of goods - real growth rates, %	2.2	3.9	3.1	5.3	4.7	7.0	6.5	6.7	6.8
- imports of services - real growth rates, %	1.1	3.5	9.0	4.7	4.4	6.2	6.5	6.8	6.9
CURRENT ACCOUNT BALANCE, USD million	31	-14	58	5	86	-9	-49	-91	-143
- as a % of GDP	0.2	-0.1	0.3	0.0	0.4	0.0	-0.2	-0.3	-0.4
Balance of goods and services, USD million	-117	-24	48	20	106	-14	-54	-86	-123
- as a % of GDP	-0.6	-0.1	0.2	0.1	0.5	-0.1	-0.2	-0.3	-0.4
GROSS FIXED CAPITAL FORMATION - real growth rates, %	-1.9	2.9	2.9	4.8	4.8	6.3	6.3	6.5	6.5
- as a % of GDP	24.9	24.7	24.8	24.9	24.9	25.4	25.6	25.8	26.1
PRIVATE CONSUMPTION - real growth rates, %	1.7	2.3	2.1	3.0	2.7	3.9	3.7	3.7	3.7
- as a % of GDP	53.6	53.3	53.1	53.0	52.8	53.1	52.9	52.7	52.7
GOVERNMENT CONSUMPTION - real growth rates, %	3.2	2.9	2.5	3.3	2.8	4.1	3.6	4.1	3.5
- as a % of GDP	21.3	21.5	21.3	21.5	21.1	21.0	20.8	20.7	20.4

Source of data: SORS, forecasts by IMAD.
Notes: * an estimate made for the environment of more restricitive economic policies (see text). If economic policy orientations remained unchanged, the average inflation would be 5.9% in 2003 and 4.9% in 2004. ** technical assumption, unchanged EUR/USD rate (as per 1 October 2002).

Part II

Analytical Explication of Autumn Report

1. International economic environment - Economic growth in the main trading partners to strengthen in 2003

Global economic growth in 2002 and 2003 is expected to be somewhat weaker than anticipated by several international institutions in the spring of 2002. Different economies are moreover not expected to recover as evenly as when they went into recession in 2001. Expectations of a fast economic recovery were largely fuelled by the GDP growth rates exceeding the forecasts in North America and some Asian countries in the first quarter of 2002. While this trend was expected to seize other parts of the world in the second half of 2002, doubts about its sustainability first came from falling stock market indices in a number of advanced industrialised countries. On top of that, oil prices went up again due to an anticipated US attack on Iraq and, despite different expectations, investment continued to decrease, particularly in the United States of America and the European Union. While the IMF did not change its autumn forecast (IMF, 2002a) for the world's economic growth in 2002 (2.8%; see also Table 1.1.1), it did revise downwards its forecast for 2003 by 0.3 of a percentage point to 3.7%. Anticipating a 2.1% global GDP growth in real terms in 2002, LINK[1] was slightly less optimistic in its autumn forecast than the IMF. Its forecast was downgraded by 0.5 of a percentage point from spring, while its 2003 figure stands at 3.2%, down 0.4 of a percentage point from its spring forecast.

Downgraded to a greater extent were the forecasts for EU member states for 2002 and 2003, where domestic demand is not expected to improve much, particularly in 2002, and an upturn largely depends on foreign demand, chiefly that in the USA, a country whose forecasts for 2003 were considerably downgraded; the IMF, for instance, lowered its forecast by 0.8 of a percentage point. As in previous years, the former Soviet republics are expected to reach higher growth rates in 2002 and 2003 than advanced countries, ranging from 4.6% to 4.9%. The forecast for Russia in 2002 is 4.4% and around 4.9% a year later. EU candidate countries' average GDP growth rate in 2002 is expected to go up by 3%, and by an additional percentage point in 2003. The Baltic States will be, on average, the fastest growing group of economies from among EU candidates, posting around 4.6% in 2002 and some 5.2% in 2003. With at least three of its economies experiencing heavy recession in 2002, Latin America suffered most in 2002. Argentina was the worst-hit area, as the IMF forecast as much as a 16% decline in economic activity. This was followed by Uruguay and Venezuela with 11.1% and 6.2% falls, respectively. Japan's economy is expected to shrink a bit more in 2002 (-0.5%) than it did in 2001 (-0.3%). However, a brighter future is ahead for this Asian country in 2003, when, as the IMF forecast, it would grow at a 1.1% rate. The "Asian tigers"[2] are expected to grow in 2002 at a much faster rate than in 2001 and exceed the spring forecasts as well. The average growth rate is therefore expected to stand at 4.7%, with the forecast for 2003 at 4.9%. Four ASEAN countries[3] were forecast in the IMF's autumn report to grow faster than in 2001 and than projected in spring, namely at 3.6% in 2002 and 4.2%

[1] Non-governmental international research consortium

[2] Hong Kong, Korea, Singapore, Taiwan

[3] Indonesia, Malaysia, Philippines, Thailand

in 2003. Its spring forecast was also corrected. Yet, a recent terror attack in Bali made this forecast less plausible. Thanks to its strong domestic demand, China is forecast to post over 7% growth rates in 2002 and 2003. Somewhat slower growth is anticipated for India, namely that of 5% in 2002 and 5.7% in 2003.

An increase in the global economic growth rate in 2003 will largely depend on a recovery of investment in advanced industrialised countries where not all the production potential has been used in a number of sectors, most of all in the computer and telecommunications sectors. As figures of the UNCTAD[4] (World Investment Report, 2002) indicate, the global economic recession resulted in a fall in foreign direct investment in 2001 for the first time in ten years, which is at the same time the sharpest decline in 30 years (see also Chapter 3.3). Uncertainty also comes from the current volatility of stock market indices and the possibility of further stock price falls, and that could in turn affect private and investment spending. If average oil prices remain at the relatively high September 2002 level (some USD 28 per barrel) for a long period of time, they could somehow put in question the original scenario of economic recovery as envisaged by the international institutions.

In January and February 2002, **oil prices** on the world market ranged mostly under OPEC's lowest target limit, or from USD 22 to USD 28 per barrel. After a price hike in March, the oil price stabilised at over USD 24 per barrel until the end of August. The price jumped over the upper target limit in September, when US threats against Iraq began to escalate. Contrary to the IMF's spring forecast that oil would be cheaper by 5.3% in 2002 from 2001, these price trends suggest that it will be in fact somewhat more expensive[5]. The IMF anticipated the price to drop to USD 24.4 per barrel[6]. Moreover, its forecast for 2003 sees oil prices drop to USD 24.2 per barrel, whereas LINK forecasted an average rise of one dollar from 2002 to USD 26 per barrel of Brent oil. After hitting the bottom line at the outset of 2002, **prices of other commodities** are expected to gradually go up, all in line with an economic upturn.

Table 1.1: **Forecasts of global economic trends**

	2000	2001	2002		2003	
			Sept. 2002	April 2002	Sept. 2002	April 2002
Economic growth - world (real growth, %)	4.7	2.2	2.8	2.8	3.7	4.0
Volume of world trade (real growth, %)	12.6	-0.1	2.1	2.5	6.1	6.6
World oil prices (growth, %)	57.0	-14.0	0.5	-5.3	-0.8	-4.4
World prices of raw materials* (growth, %)	1.8	-5.4	4.2	-0.1	5.7	7.2
6-month LIBOR** interest rate on dollar deposits, %	6.6	3.7	2.1	2.8	3.2	4.5
6-month LIBOR* interest rate on euro deposits, %	4.6	4.1	3.4	3.7	3.8	4.5

Source of data: IMF World Economic Outlook, April, September 2002.
Notes: *Weighted average relative to shares of world exports. ** LIBOR - London interbank offered rate.

[4] United Nations Conference on Trade and Development

[5] IMAD's autumn forecast anticipates that the average oil price would reach some 26 USD per barrel in 2002 and around 25 USD in 2003

[6] The average of Brent, Dubai and West Texas International Oil

Table 1.2: **Economic growth in Slovenia's major trade partners (%)**

	Share of exports, in %	Real growth of gross domestic product, %								
	2001	2001	2002				2003			
			IMF Sept	IMF April	Cons Sept	Cons Mar	IMF Sept	IMF April	Cons Sept	Cons Mar
EU-15	62.2	1.5	1.1	1.5	1.1	1.3	2.3	2.9	2.3	2.7
Germany	26.2	0.6	0.5	0.9	0.5	0.8	2.0	2.7	1.9	2.5
Italy	12.5	1.8	0.7	1.4	0.7	1.3	2.3	2.9	2.3	2.8
Croatia [1]	8.6	3.8	3.5	3.5	3.5	3.0	4.0	4.5	4.0	4.0
Austria	7.5	1.0	0.9	1.3	0.9	1.2	2.3	2.9	2.4	2.7
France	6.8	1.8	1.2	1.4	1.2	1.4	2.3	3.0	2.4	2.8
BIH [1]	4.3	2.3	2.3	5.1	n.p.	5.0	4.1	6.0	N/A	N/A
Russia [1]	3.0	5.0	4.4	4.4	3.9	3.0	4.9	4.9	4.4	4.0
G. Britain	2.8	1.9	1.7	2.0	1.6	2.0	2.4	2.8	2.6	2.9
USA	2.6	0.3	2.2	2.3	2.4	2.1	2.6	3.4	3.1	3.5
Poland [1]	2.6	1.1	1.0	1.4	0.8	0	3.0	3.2	1.3	2.0
FR Yugoslavia [1]	2.6	6.2	N/A	4.0	4.0	4.0	N/A	5.0	4.0	4.0

Source of data: Consensus Economics Inc., March, September 2002, IMF World Economic Outlook, April, September 2002, WIIW Research Reports, February 2002, Monthly Report, October 2002.
Notes: [1] Consensus forecast instead of WIIW, N/A - not available.

Contrary to expectations, the US central bank and the European Central Bank (ECB) did not tighten their monetary policies upon the US and EU economic upturns in 2002. Quite the opposite, the US Federal Reserve even cut the basic interest rate by an additional 0.5 of a percentage point at the beginning of November in order to stimulate business investment. So in mid-November, the USA had a lower basic interest rate (1.25%) than at the end of 2001. In the euro zone, the interest rate was left unchanged at 3.25%, as was in the UK at 4% since November 2001. In line with an expected economic upturn, a gradual rise in interest rates can be expected only in the second half of 2003.

The euro gained against the US dollar in 2002. In July 2002, the euro hit its highest level and gained parity with the dollar for the first time since January 2000. Its average monthly value then reached 0.99 USD per 1 euro. Moreover, the 2002 average euro rate in relation to the dollar is expected to be slightly above the 2001 average rate (0.896 USD per 1 euro). Further gains are also expected in 2003.

After being hit by recession in the first three quarters of 2001, the **USA** saw an upturn in the last quarter of the year. Surprisingly, its gross domestic product also increased in the first quarter of 2002, positing a 5% growth from the first quarter of 2001. This made non-state institutions (banks, insurance companies, economic institutes) considerably upgrade their forecasts (which are published monthly by Consensus Economics Inc.) in the period from January to July 2002; the forecast of 0.9% for 2002 was raised to 2.8% and that for 2003 from 3.5% to 3.6%. Doubts about the anticipated pace of economic growth were first cast after gross domestic product statistics for 2000 and 2001 were downgraded in July – from 4.1% to 3.8% and from 1.2% to 0.3% – and when the figures on second-quarter GDP growth were

released (1.3% quarterly growth rate). At the same time, falling stock prices, which were partly the result of financial wrongdoing in some major US corporations, further fuelled insecurity about private consumption forecasts. In addition to the replenishment of stocks, private consumption fuelled economic growth in the first half of 2002, which was also stimulated by fiscal and monetary measures (favourable mortgage loans resulting from low interest rates). An upturn in business investment is also a big question mark, because negative wealth effects could well outdo the positive effects of low interest rates on investment, according to the IMF. These trends primarily brought about the downgrading of economic growth rate forecasts for 2003 which still differ a great deal: the IMF anticipating 2.4% and Consensus 3.1%. Forecasts for 2002, on the other hand, stabilised at around 2.2% to 2.4%. The OECD also maintains that US economic growth in 2003 will not reach its average from the end of the 1990s. It should nevertheless reach nearly 3%.

Economic growth in the **European Union** is expected to average some 0.5 of a percentage point lower in 2002 than in 2001. Spring forecasts of international institutions and the European Commission anticipated gross domestic product to increase by some 1.5%, mainly through the strong recovery expected in the second half of the year. These forecasts were based on expectations of improved business tendency and consumer confidence indicators, as well as on the anticipated growth of global trade and gradual replenishment of stocks. Yet, results of the European Commission's indicator-based quarterly model[7] indicate that the GDP growth rates in the third and last quarters would be similar to those in the first and second quarters, namely 0.3% and 0.4% (relative to the preceding quarter), meaning that the average EU growth rate in 2002 should be 1.1%. The main reason for the bad autumn forecasts for 2002 and 2003 is primarily a consequence of an unmet expectation of a stronger domestic demand, which in turn makes many EU states dependent on export demand. While private consumption rose slightly in the second over the first quarter (when it stagnated from a quarter earlier), uncertainty about its further growth increased because inflationary expectations were higher than the actual price rises. Further, falls in stock prices were even stronger in the EU than in the USA. Nevertheless, both the IMF and the European Commission estimated that the EU's gross domestic product was less affected by falling stock prices than the USA's, chiefly due to a lower market capitalisation and a smaller households' tendency to consume. Like the USA, the EU did not yet witness an upturn in investment in the first two quarters. Despite a gloomier outlook for 2003 as compared to spring expectations, the 15 nations should achieve an economic growth rate higher than in 2002 by at least one percentage point, driven by domestic growth factors.

The autumn forecasts for 2002 were most strongly downgraded, or more precisely halved, for Germany and Italy. **Germany**'s GDP growth rate, which is anticipated at some 0.5%, is to be hindered mainly by a decrease in gross capital investment (-4.8%). An unfavourable business climate was also pointed out by IFO's indicator of business trends, which worsened in October for the fifth month in a row due to downgraded expectations. Private consumption is also expected to shrink by 0.3%

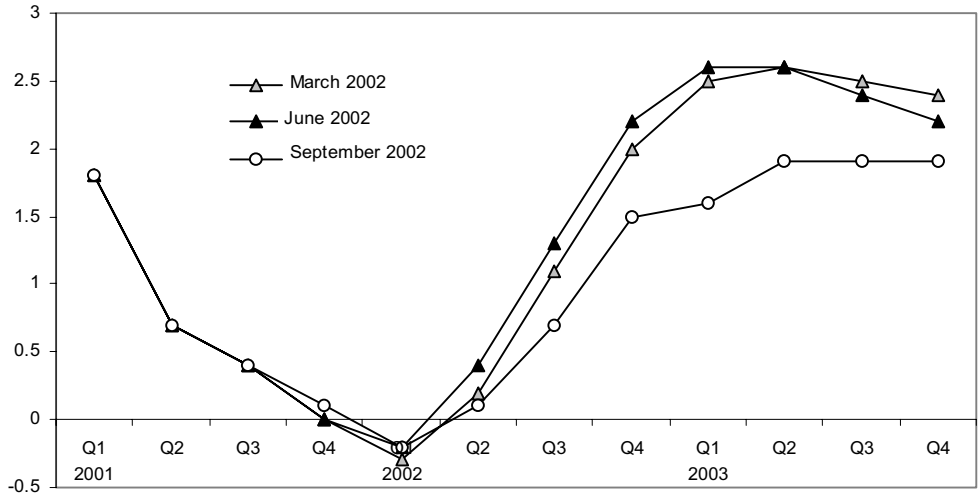
[7] The model is based on the number of cars sold in the eurozone, a survey on current business trends in retail, the indicator of confidence in the construction industry, the real effective exchange rate and on financial variables which reflect the monetary situation in the eurozone and its international financial links.

in 2002 from the 1.5% rise in 2001. Moreover, its general government deficit is to increase beyond the anticipated 3% GDP growth threshold, a prerequisite set for EU members in the stability and growth pact. The new German government coalition has therefore already taken the decision to raise taxes for both companies and individuals, and to cut public spending. Designed to bring about balanced public finance in 2006, these measures will also have an impact on the structure and volume of economic growth as early as 2003. By then, as the latest available forecasts anticipate, domestic demand is expected to assume the leading role in boosting economic growth, which however would still not exceed 2%.

While **Italy** had an economic growth rate above the EU average in 2001 (1.8%), it was forecast to post a rate below the EU average in 2002, namely 0.7%. Practically all expenditure components of its gross domestic product are expected to be weaker than in 2001. This is particularly true for private consumption and gross fixed capital formation, whose growth rate for instance stood at 2.4% back in 2001. General government deficit is expected to rise to 2.6% of the gross domestic product in 2002, with a further rise expected in 2003 despite the planned cuts on expenditure and the suspension of anticipated tax relief for companies. Italy's budget deficit in 2003 is therefore expected to amount to 2.8%. The forecast of the country's economic growth rate in 2003 is 2.3%.

Unlike Italy and Germany, **Austria** was not affected by shrinking private consumption in 2002, yet it could not avoid a fall in investment activity. The growth of Austria's gross domestic product in 2002 is not expected to substantially differ from its growth in 2001 (1%), but is to be lower by around 0.4 of a percentage point from its spring forecast. This latest forecast, which was issued by the IMF, is also in line with the autumn forecasts made by WIFO, Austrian Institute for Economic Research. WIFO based its prediction on an anticipated 2.8% decrease in gross

Picture 1: **Revised forecasts of economic growth in Germany, growth rates in %, compared with the same quarter of 2001**



Source: Consensus Economics Inc. (March, June, and September 2002)

investment in real terms (the sharpest fall is expected in investments in machinery and equipment) and a subsequent decrease in imports of goods (3% in real terms). Besides this, private consumption will also increase more slowly in 2002 than in 2001 (1% in real terms). An upward trend is expected in 2003 when economic growth is anticipated to achieve 2.3%, mainly resulting from export demand – which is expected to be the driving force behind economic growth in 2002 – and the growing contribution of domestic consumption.

Investment in motorway infrastructure, private consumption and tourism continue to drive **Croatia**'s economic growth, which, as analysts of the bank Zagrebačka Banka suggest, should exceed the spring forecast of 2.5%, reaching 3.7% in 2002 (the IMF forecast 3.5%). The Croatian analysts based their forecast on data on year-on-year real growth of gross domestic product in the first two quarters of 2002, which reached 4.3% and 4% respectively. Investment impetus is expected to continue also in 2003, when a greater role is to be played by private sector investment. A slight slowdown is expected in private consumption, which was financed also from loans and undeclared sources of income in the first half of 2002. Positive trends are expected to continue in tourism also in 2003. With an anticipated upturn in the country's major export markets, Croatian exports will be additionally boosted in 2003 by CEFTA membership, scheduled for 1 March 2003. With the contribution of international trade being slightly negative and that of government consumption positive (after having declined for four years), economic growth could reach 3.8% in 2003, according to Zagrebačka Banka. The IMF anticipates 4%. Inflation is expected to drop to an average of 2.4% in 2002, but to rise to 3% in 2003, after standing at 4.9% in 2001.

Approving a stand-by agreement worth USD 89 million for **Bosnia and Herzegovina** in August 2002, the IMF backed an economic programme for the period from August 2002 to November 2003. Its basic goal is to consolidate public finance. The achievement of this goal should be facilitated by the demobilisation of some 10,000 soldiers from the Bosnia-Herzegovina Federation in 2002. In addition to the demobilisation, both governments pledged to align the tax systems of both entities and to improve tax collection. In order to achieve higher economic growth and reduce poverty, a number of structural reforms will be needed to strengthen the private sector (further privatisation, simplification of procedures to set up new companies). Yet, the division of the country into two parts will continue to obstruct the functioning and development of a common market. With an anticipated stagnation in the Republic Srpska, Bosnia and Herzegovina's economic growth in 2002 is expected to reach 2.3%. In 2003, when Bosnia and Herzegovina is expected to join the WTO, an average 4.1% growth could be reached, according to the IMF, if the economic programme is implemented. While the Federation's growth could post 5.6%, the Republic Srpska could reach 0.5% in 2003. Inflation in the Federation has been low for several years, and is expected to be 1.5% in 2002 and 2003. The same applies to the Republic Srpska, where it averaged at 4.4% in 2002 and is anticipated to drop to 2.5% in 2003. Major economic problems in Bosnia and Herzegovina are reflected in the rather high general government deficit, which is to exceed 5% of the GDP in 2002, and its trade in goods with foreign partners, where the import-export coverage stood at a mere 26% in the first half of 2002.

Table 1.3: **Economic growth, inflation, and external imbalances in EU candidate countries (in %)**

	Real gross domestic product growth					Inflation					Current account of the balance of payments relative to GDP				
	2001	2002		2003		2001	2002		2003		2001	2002		2003	
		IMF Sept.	IMF April	IMF Sept.	IMF April		IMF Sept.	IMF April	IMF Sept.	IMF April		IMF Sept.	IMF April	IMF Sept.	IMF April
Slovenia	3.0	2.5	2.6	3.2	3.6	8.4	7.7	6.5	5.5	5.5	0.2	-0.8	-0.3	-0.6	-0.4
Bulgaria	4.0	4.0	4.0	5.0	5.0	7.5	6.4	4.5	4.3	3.5	-6.1	-5.6	-5.9	-5.5	-5.8
Czech Rep.	3.3	2.7	3.3	3.2	3.7	4.7	2.7	4.0	3.0	3.7	-4.6	-5.2	-4.8	-4.6	-5.0
Hungary	3.8	3.5	3.5	4.0	4.0	9.2	5.5	5.4	5.2	4.0	-2.2	-3.8	-2.9	-3.7	-3.5
Poland	1.0	1.0	1.4	3.0	3.2	5.5	2.1	3.2	2.3	3.2	-4.0	-3.6	-4.2	-4.2	-4.5
Romania	5.3	4.3	4.5	4.9	5.0	34.5	24.2	25.2	19.1	17.5	-5.9	-5.1	-5.3	-4.9	-5.1
Slovakia	3.3	4.0	3.7	3.7	3.9	7.3	4.2	4.3	7.1	7.0	-8.6	-8.5	-8.8	-7.2	-7.9
Estonia	5.0	4.5	3.7	5.0	5.5	5.8	3.7	3.5	3.0	3.5	-6.1	-6.9	-6.8	-7.4	-6.5
Latvia	7.6	5.0	4.5	6.0	6.0	2.5	3.0	3.0	3.0	3.0	-10.0	-8.5	-7.0	-7.5	-6.4
Lithuania	5.9	4.4	4.0	4.8	4.8	1.3	1.1	2.8	2.5	3.0	-4.8	-5.9	-5.8	-5.7	-5.5
Cyprus	4.0	2.5	3.0	4.0	4.2	2.0	2.5	1.8	2.2	2.2	-4.4	-5.5	-3.9	-3.6	-3.7
Malta	-1.0	2.0	4.4	4.9	4.9	2.9	2.0	2.0	2.0	2.0	-5.0	-5.7	-5.7	-4.4	-4.4
Turkey	-7.4	3.9	3.6	5.0	4.7	54.4	47.1	49.1	28.6	26.9	2.3	-0.8	-1.2	-1.0	-1.2

Source of data: IMF, World Economic Outlook, April, and September 2002.

The **FR Yugoslavia** also has a stand-by agreement with the IMF. This binds it to continue to pursue a number of economic reforms, which have been successfully implemented since the end of 2000. Fiscal policy reforms, including the introduction of value-added tax and improvement in revenue collection, will be at the forefront of the reforms, together with a further stabilisation of prices as well as privatisation and liberalisation, which should stimulate economic growth and reduce dependence on foreign loans and donations. Economic growth in 2002 is expected to be 4%, and so somewhat lower than in 2001 when it reached 6.2%, chiefly due to above-average growth in agriculture. Growth could be enhanced to reach 5% in real terms as early as 2003 to 2005 if the planned reforms are carried out. After last year's 91% average inflation, consumer prices should rise by 20% in 2002, and a further reduction in inflation is expected in 2003. Industrial production has recorded less favourable trends this year, falling by 2.8% in the first seven months from the average of 2001 (when it stagnated relative to the year before). Exports of goods expressed in US dollars climbed by 12.9% year on year in the first seven months of this year, while imports were up by 12.3%. Foreign direct investment inflows totalled USD 250 million, already overshooting last year's total inflows of USD 165 million (in 1997-2000, they amounted to USD 250 million). If some further investment projects are realised by the end of the year, FDI inflows could reach USD 400 million before the end of the year, according to the Economic Institute of Belgrade.

Economic growth in **ten candidate countries for EU membership** (Cyprus, Malta and Turkey excluded) is expected to be some 0.5 of a percentage point lower in 2002 than it was in 2001 (3%). Nevertheless, figures from the first two quarters indicate that these countries will reach growth about 1.5 percentage points above

the EU average. A similar situation was noted in 2001. According to WIIW estimates, CEFTA members will reach in 2002 an average 2.3% growth, which is then expected to strengthen to 2.7 percent in 2003. In most of the candidates, domestic demand continues to be the driving force of economic growth. Unlike EU member states, where companies are still hesitant to invest, the only candidate country which is expected to see a fall in investment is Poland (down some 6%, WIIW). An upturn is expected in 2003. In addition to the negative investment activity, the general economic situation in Poland is to be the worst of all candidate countries (the expected growth is 0.8%, IMF, WIIW).

2. Economic growth in 2002-2004

2.1. Gross domestic product - A growing contribution of domestic consumption to economic growth

2.1.1. Expenditure structure of gross domestic product

According to the SORS' preliminary figures, real gross domestic product growth was 2.7% in the first half of 2002 compared to the same period last year. Economic growth strengthened in the second quarter, when year-on-year gross domestic product growth was 3.2%, one percentage point higher than in the first quarter (2.2%). The contribution of international trade to economic growth was negative in the first quarter (-0.6 of a percentage point), but increased in the second quarter, when gross domestic product growth was more balanced in terms of domestic consumption and net exports (the former added around 60% and the latter around 40%). The relatively strong domestic consumption growth seen in the first quarter (2.8%) slowed down to 1.8% in the second quarter (measured year on year in real terms) mainly because of lower private consumption growth (2.6% in the first and 1.2% in the second quarter) and the negative contribution of changes in inventories and valuables to economic growth (-0.3 of a percentage point). Real capital formation growth was around 3% in the second quarter, the same as in the previous two quarters. Export growth accelerated considerably from the first to the second quarter (up from 2.4% to 7.1% year on year in real terms), chiefly as a result of the high growth rates of exports to the countries of former Yugoslavia, the former Soviet Union, and CEFTA. This strengthened international trade's contribution to economic growth in spite of the increased growth of imports (3.2% year on year in the first quarter, 4.9% in the second quarter in real terms). The strong second-quarter import growth was largely due to a fall in import prices, which also helped improve the terms of trade. The gradual pick-up of economic activity in the second quarter is additionally confirmed by the seasonally adjusted data which show quarterly growth rising from 0.8% in the first quarter to 1.2% in the second quarter.

Table 2.1.1.1: **Growth in demand components**

	Real growth in %				
	2000	2001	2002	2003	2004
Total aggregate demand	5.2	3.0	3.4	4.1	4.9
Foreign demand (export)	12.7	6.2	4.9	5.7	6.3
Domestic demand	3.2	2.2	3.0	3.6	4.5
- intermediate consumption	5.1	3.1	3.4	3.9	4.3
- private consumption	0.8	1.7	2.1	2.7	3.9
- government consumption	3.1	3.2	2.5	2.8	4.1
- gross fixed capital formation	0.2	-1.9	2.9	4.8	6.3

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

The trends of individual consumption aggregates in the first half of 2002 largely corresponded with the spring forecast, and the subdued improvement of domestic and foreign economic activity continues in the second half of the year. Therefore, the autumn forecast of economic growth for 2002 does not differ essentially from the spring forecast: gross domestic product is expected to rise by 3.2% this year, 0.1 of a percentage point less than predicted in spring. Compared to the spring forecast, changes will occur to the growth structure in the sense of a slight increase in international trade's contribution to economic growth and the correspondingly lower contribution of domestic consumption. Nevertheless, the latter will be considerably higher than last year (2.5 percentage points this year against 0.5 last year). The exports of goods and services will rise at a slower pace than last year because of the slowing imports in Slovenia's main trading partners, but the forecast for 2002 has been corrected slightly upward (from 4.7% to 4.9%; see Chapter 2.2.1) as a result of accelerated exports to the countries of Central, East and South-eastern Europe from spring onwards. Large discrepancies from the spring forecast are expected in government and private consumption. Taking into account the revised national budget for 2002, the estimated growth of government consumption has been reduced from 2.9% to 2.5% (see Chapter 2.2.4). Available data on real private consumption growth and estimates for the rest of the year – in particular data indicating the slower growth of wages and employment than estimated in spring – show that real private consumption growth will be slightly lower this year (2.1%) than expected in spring (2.3%; see Chapter 2.2.2). Nevertheless, its contribution to economic growth will be 0.2 of a percentage point higher than in 2001. In view of the expected continuation of higher gross capital formation growth than last year (see Chapter 2.2.3), the estimate of real growth in gross fixed capital formation for 2002 remains unchanged at around 2.9%. This means that investment demand is likely to be the fastest growing component of domestic consumption. In spite of the slightly lower estimate of average domestic consumption growth compared to the spring forecast, this year's growth of imports of goods and services has been adjusted upwards by 0.1 of a percentage point to 3.9%. This adjustment is based on two reasons: the current level of imports is slightly higher than expected, and import prices have been moving favourably.

Table 2.1.1.2: **Expenditure structure of gross domestic product**

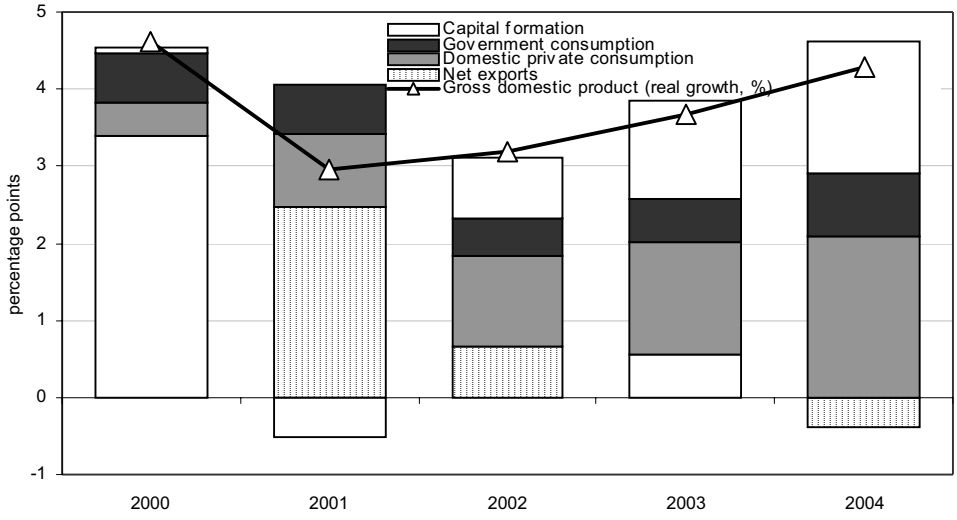
	Contribution to GDP growth in percentage points				
	2000	2001	2002	2003	2004
			Forecast		
GROSS DOMESTIC PRODUCT, real growth in %	4.6	3.0	3.2	3.7	4.3
Foreign goods and services balance (export-import)	3.4	2.5	0.7	0.6	-0.4
Total domestic consumption	1.2	0.5	2.5	3.1	4.7
- Private consumption	0.4	1.0	1.2	1.5	2.1
- Government consumption	0.6	0.6	0.5	0.6	0.8
- Gross fixed capital formation	0.1	-0.5	0.8	1.3	1.7
- Changes in inventories and valuables	0.1	-0.6	0.1	-0.2	0.1

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

In **2003**, the contributions of all domestic consumption aggregates to gross domestic product growth will increase, while that of net exports will be slightly lower. The pick-up of economic growth in the USA and, consequently, in the EU predicted for 2003 in the spring forecast will be less pronounced than expected, according to the latest estimates published by international institutions. Next year, exports to the markets of former Yugoslavia, the former Soviet Union, and to some other countries in transition are expected to continue to rise relatively faster than exports to the EU markets. However, because of the already achieved high level, growth rates will not be as high as in recent years (see Chapter 2.2.1). Export growth estimated for next year (5.7%) is thus higher than this year, but below the spring estimate (6.5%). Given the slowdown of exports, intermediate consumption (3.9%) will be below the spring forecast (4.4%). In accordance with the proposed amendments to the national budget, government consumption growth (2.8%) is expected to be slower than estimated in spring (3.3%). Following three years of relatively low growth rates, private consumption will slightly increase and reach around 2.7% (see Chapter 2.2.2). The fastest growing component of domestic demand will again be gross fixed capital formation (4.8% growth in real terms), stimulated by the faster growth of investment in the private sector and increased investment in infrastructure and residential building construction (see Chapter 2.2.3)

Assuming stable growth in the international economic environment, export growth will exceed 6% in **2004**, and the strengthening of all domestic consumption aggregates will continue. The markedly stronger growth of private consumption (3.9%; see Chapter 2.2.2) will result from the release of funds from the first National Housing Savings Scheme; these are expected to boost consumption, either directly or through purchases of movable household goods and other durable and semi-durable goods for new residential facilities. Investment activity is expected to rise markedly (6.3%) and the funds from the first Housing Savings Scheme will also be used to finance investment.

Picture 2: **GDP components and their contributions to real growth**



Source: SORS; the IMADis forecast

Table 2.1.1.3: **Expenditure structure of gross national product**

	Structure in %, current prices				
	2000	2001	2002	2003	2004
			Forecast		
GROSS DOMESTIC PRODUCT, real growth in %	100.0	100.0	100.0	100.0	100.0
Foreign goods and services balance (export-import)	-3.6	-0.4	0.2	0.5	-0.1
Total domestic consumption	103.6	100.4	99.8	99.5	100.1
- Private consumption	54.9	53.6	53.1	52.8	53.1
- Government consumption	20.8	21.3	21.3	21.1	21.0
- Gross fixed capital formation	26.7	24.9	24.8	24.9	25.4
- Changes in inventories and valuables	1.1	0.5	0.6	0.7	0.6

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

Last year's lower household consumption, higher household savings, and reduced capital formation caused the investment-savings gap to narrow to -0.1% of GDP (-3.2% in 2000). In spite of the relatively stronger growth of private consumption in 2002 compared to 2001, a further decline of private consumption's share in gross domestic product is expected. It should shrink by 0.5 of a percentage point in 2002 and a further 0.3 of a percentage point in 2003. In 2004, however, its share is expected to again exceed 53% of gross domestic product. The share of gross fixed capital formation in gross domestic product will drop slightly this year (by 0.1 of a percentage point), but less than in 2001 (-1.8 percentage point). In line with the expected strengthening of investment activity in 2003 and 2004, its share will again grow gradually (in 2003 by 0.1 of a percentage point, in 2004 by 0.5 of a percentage

Table 2.1.1.4: **Supply and use of gross national disposable income**

	Structure in %, current prices				
	2000	2001	2002	2003	2004
			Forecast		
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
Net primary income from the rest of the world	-0.4	-0.4	-0.6	-0.7	-0.6
GROSS NATIONAL INCOME	99.6	99.6	99.4	99.3	99.4
Net current transfers from the rest of the world	0.7	0.7	0.6	0.6	0.7
GROSS NATIONAL DISPOSABLE INCOME	100.3	100.3	100.0	99.9	100.0
Final consumption	75.7	74.9	74.4	73.9	74.1
GROSS NATIONAL SAVINGS	24.6	25.4	25.7	26.0	25.9
Surplus of the nation on current transactions (investment-savings gap)	-3.2	-0.1	0.3	0.4	0.0
GROSS CAPITAL FORMATION	27.8	25.4	25.4	25.6	26.0
of which: gross fixed capital formation	26.7	24.9	24.8	24.9	25.4
NET CAPITAL FORMATION	10.3	8.2	8.1	8.1	8.2

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

Box 1: Alternative forecast of economic growth in 2003, assuming a slower upturn of economic growth in the main foreign trading partners

The autumn forecast's assumptions about future economic trends in the international environment are based on estimates published by the IMF and Consensus. These estimates indicate that some risks may further slow down the revival of economic growth this year, and especially next year. They refer to deteriorating trends in international financial and capital markets, continuing global imbalances, and the fragility of an upturn in investment activity in advanced industrialised countries. Estimates published later by other institutions (OECD, LINK) and Consensus' October forecast indicate that the expected revival may turn out to be even slower than estimated.

Considering these uncertainties the IMAD has elaborated an **alternative scenario of economic growth in 2003**. The scenario is based on the assumption that economic growth in the twelve main foreign trading partners, OECD members – together they represent about three-quarters of Slovenia's exports – will be around 0.5 of a percentage point lower than assumed in the original scenario, albeit still 0.5 to 1 percentage point higher than in 2002. If the assumption holds, export demand will increase less than estimated by the autumn report's original scenario. This would mainly affect the real growth of exports, but also capital formation. With orders being below the estimates, the production volume in manufacturing is expected to slow down slightly, consequently slowing down the imports of intermediate goods. This means that a slower pick-up of international trends would also affect import volumes, which would increase more slowly than projected in the original scenario. Given that faltering economic activity in the international environment would hamper the upturn of domestic consumption to a limited extent, this effect on economic growth would be relatively minor. Although domestic consumption aggregates are not invulnerable to developments in the international environment (corporate investment being the most vulnerable component), the strengthening of domestic consumption growth will be underpinned by relatively robust domestic and cyclical factors, which should not be significantly affected by the slower recovery of economic growth in the main trading partners. Assuming that the abovementioned upturn will indeed be slower, Slovenia's real gross domestic product growth will drop by 0.2 to 0.3 of a percentage point in 2003.

point), and again exceed 25% in 2004. The share of gross savings in gross domestic product is estimated to continue to slightly grow this year and in the following two years, and to draw close to 26% in 2004.

2.1.2 Production structure of gross domestic product

In the first half of 2002 value added rose by 3% in real terms over the same period last year (2001 saw 3.1% growth). In the first quarter, value-added growth continued to slow down from the last quarter of 2001 (rising by 2.4% and 2.8% year on year

in real terms), but value added again started to rise in the second quarter (up 3.5%). A pronounced upward trend was recorded by manufacturing, and transport, storage and communications, where value added rose by 3.7% and 3.4% year on year in real terms – after recording lower rates in the first quarter (1.6% and 1%, respectively) – mainly as a result of robust exports (see Chapter 2.1.1). In spite of this positive turn, the six-month growth of value added in both industries was still considerably below that of last year (see Chapter 2.3). After falling for five successive quarters, value added in construction recorded positive growth in the second quarter of 2002 (up 2.8% year on year in real terms), indicating a positive turn relative to the 2001 average. The main growth factor was the increased activities in civil engineering (primarily intensified motorway construction). Compared to 2001, stronger growth was also recorded in mining, and electricity, gas and water supply, the result of the changed structure of electricity production in favour of thermal power plants. After last year's slowdown, education is picking up, mainly because of accelerated growth in higher education related to the greater numbers of students who enrolled this academic year. In agriculture and other service sectors (wholesale and retail trade, business services, health and social work, and other social and personal services), this year's trends do not differ much from last year's. In the first half of the year compared to the same period last year, value-added growth slowed down in hotels and restaurants (from 5% to 2%), financial intermediation (from 5.1% to 4.1%), and in public administration, defence and social security (from 5.2% to 4.7%). The reduced growth in hotels and restaurants was mainly due to falling income in the catering sector, while the subdued growth in public administration, defence and social security was the result of the lower growth of employment and wages in this sector. Value-added growth in financial intermediation is hampered this year by lower interest income in the banking sector and lower gross insurance premiums.

In the second half of 2002, the real growth of value added is expected to slightly strengthen, stimulated by sustained favourable export trends and value-added growth in manufacturing, and transport, storage and communications. The Draft Annual Motorway Construction and Maintenance Plan indicates that the favourable trends in construction will continue in the second half of the year. Based on the available short-term indicators, no major discrepancies from the six-month trends are expected

Table 2.1.2: **Growth and structure of value added**

	Real growth in %, constant prices 1995				Structure in %, current prices			
	2001	2002	2003	2004	2001	2002	2003	2004
		Forecast				Forecast		
TOTAL ADDED VALUE	3.1	3.4	3.9	4.3	100.0	100.0	100.0	100.0
1. Agriculture, forestry, fishing (A+B)	-2.1	2.0	2.0	1.0	3.1	3.1	3.1	3.0
2. Industry and construction (C+D+E+F)	2.9	3.5	4.3	4.6	37.6	37.2	36.9	36.7
- industry (C+D+E)	4.1	3.7	4.3	4.4	31.6	31.4	31.1	30.9
3. Services (G…O)	3.6	3.4	3.7	4.2	61.3	61.7	62.0	62.2
FISIM	2.6	2.0	2.0	2.0	-2.0	-2.0	-1.9	-1.9

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

in other industries in the second half of 2002. Taking account of the abovementioned assumptions, **value added is estimated to rise by 3.4% in real terms in 2002.** Considering the forecasts of a gradual revival of the international economy, leading to increased export activities of domestic enterprises, industry (manufacturing) will help value added to rise in the next two years. Value-added growth will also be accelerated by construction; on one hand this will be the result of intensified construction of road infrastructure and, on the other, the revived residential building construction, which will also be stimulated by the first National Housing Savings Scheme (it ends in 2004). After a three-year slowdown, growth in the service sector as a whole is expected to pick up in 2003 and 2004 but will remain slightly below the value-added growth of the economy as a whole. Accelerated growth is primarily expected in market services, while non-market services (public administration, education, and health) should keep up their present growth dynamics. Given the abovementioned trends, **value added is estimated to increase by 3.9% in real terms in 2003 and by 4.3% in 2004.**

2.1.3 Cost structure of gross domestic product

In view of the expected lower rise in the gross wage per employee (up 2% in real terms instead of the 2.5% forecast in spring) and the slower growth of employment, this year's compensation of employees should rise by 2.6% in real terms, less than projected in the spring forecast (3.9%). Employers' social security contributions will rise by 3.2% in real terms and will exceed the growth of wages and salaries due to the higher rate of compulsory health insurance contributions. Given that the growth of total labour costs will be slower than economic growth, their share in gross domestic product is expected to fall by 0.3 of a percentage point. Taking into account the less favourable prospects of employment growth and the unchanged projections of the gross wage per employee (2% growth in 2003, 2.5% in 2004), the compensation of employees should rise by 2.9% in 2003 and 3.4% in 2004 in real terms instead of 3.1% and 3.6% estimated in the spring forecast. Since nominal labour costs are expected to lag behind economic growth, their share in gross domestic product should shrink in 2003 and 2004 by approximately half a percentage point.

Table 2.1.3: **Cost structure of gross domestic product**

	Structure in %, current prices				
	2000	2001	2002	2003	2004
			Forecast		
1. COMPENSATION OF EMPLOYEES	52.6	52.7	52.4	52.0	51.5
2. TAXES ON PRODUCTION AND IMPORTS	17.3	16.9	17.2	17.2	17.2
3. SUBSIDIES	1.9	1.8	1.8	1.8	1.8
4. GROSS OPERATING SURPLUS AND GROSS MIXED INCOME (4=5+6)	32.0	32.2	32.2	32.8	33.3
5. Consumption of fixed capital	17.5	17.3	17.3	17.6	17.7
6. Net operating surplus	14.5	14.9	14.9	15.1	15.4
7. GROSS DOMESTIC PRODUCT (7 = 1+2-3+4)	100.0	100.0	100.0	100.0	100.0

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

Taxes on production and imports, representing 16.9% of gross domestic product in 2001, will climb to 17.2% this year because of the slower growth of imports, increased private consumption, and higher VAT rates (see Chapter 6.1) and excise duties. The share of taxes on production and imports in gross domestic product will remain at the same level in the next two years, according to the projection of macroeconomic aggregates that influence their dynamics and range.

In 2003 and 2004, subsidies will remain at the 2002 level (1.8% of gross domestic product), but their structure will change. More subsidies will be granted to agriculture and for horizontal purposes (subsidies to production), and less to special sectors and restructuring, i.e. subsidies granted to products. Based on projections of the GDP cost structure, the share of the gross operating surplus in gross domestic product is expected to remain at approximately last year's level in 2002, but should gradually rise in the next two years.

2.2. Consumption aggregates - Investment and private consumption to rise faster, export growth to strengthen gradually in 2003 and 2004

2.2.1. Export-import flows

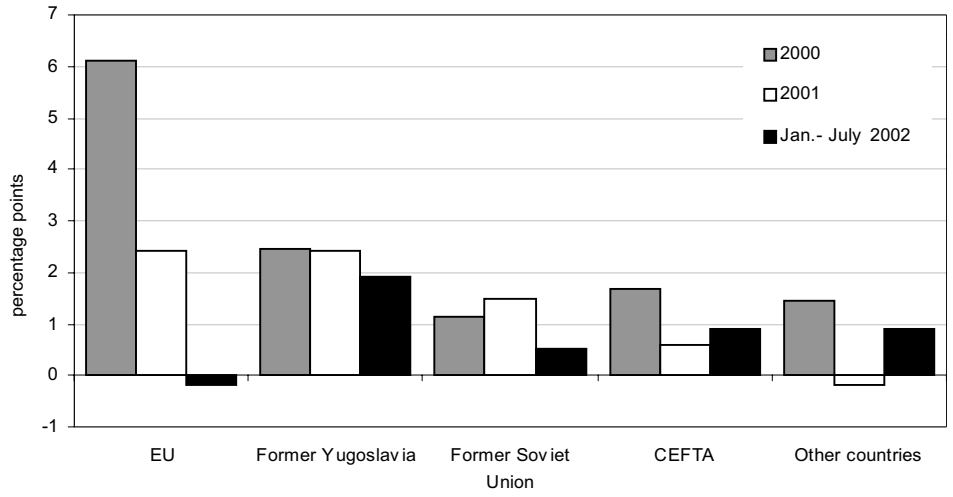
In the first half of 2002, foreign trade contributed 0.4 of a percentage point to the 2.7% economic growth. Its contribution was negative (-0.6 of a percentage point) in the first quarter, but it climbed to 1.3 percentage points or 40% of economic growth in the second quarter. While the second quarter was marked by an increase in foreign trade, the first half of the year as a whole was characterised by dynamic growth in services trade.

In the first half of the year, exports of goods and services went up by 4.8% year on year in real terms. The half-year data on the trend of export flows confirm the Spring Report's forecast of moderate growth at the beginning of the year and gradual strengthening towards the middle of the year. After a substantial slowdown in the final quarter of 2001 (1.2% year on year), exports of goods and services recorded only minor real growth in the first quarter of 2002 (2.4% year on year), but a stronger pick-up followed in the second quarter, when exports of goods and services saw a 7.1% year-on-year rise in real terms.

Export dynamics in the first half of this year were influenced on the one hand by the modest growth of economic activity in the EU countries (see Chapter 1); while on the other hand, export flows were maintained at a relatively high level by continuing increased exports to the countries of the former Yugoslavia, Cefta, the countries of the former Soviet Union, and by the lively growth of services exports .

Compared to the same period last year, Slovenia's total goods exports increased in the first half of 2002 by 4% (1.6% in the first quarter, 6.4% in the second quarter). Most of the growth (3.1 percentage points or 78%) was contributed by the increased exports of goods to the countries of the former Yugoslavia, the former Soviet Union,

Picture 3: **Contributions of groups of trading partners to the real growth of total exports in 2000-2002**



Source: SORS, IMAD calculations.

and Cefta; their contribution increased compared to the average figures of last year (the growth of exports to these countries contributed 68% to the total growth of goods exports). The highest rise in exports to the countries of former Yugoslavia was recorded by medicines, furniture and electric heating appliances; to the countries of the former Soviet Union by medical and pharmaceutical products and telecommunications equipment; and to the Cefta countries by medical and pharmaceutical products, electrical machinery, and road vehicles. Goods exports to EU countries on the other hand stagnated in the first half of 2002 compared to the same period last year. In this period, regarding exports to EU countries, road vehicles, electrical machinery and equipment, furniture, clothes, and non-ferrous metals prevailed; among these, exports of road vehicles and electrical machinery and equipment increased, while those of clothes, non-ferrous metals and furniture declined.

Since the last quarter of 2001, the share of services in the structure of total exports has been rising and services exports have grown faster than goods exports. In the first half of 2002, services exports increased, compared to the same period last year, by 9.4% in real terms (7.4% in the first quarter, 11% in the second quarter). This was chiefly the result of a significant increase of exports of business (especially intermediation) services and communication services. Considering the structure of services exports overall, this is a favourable development because it involves services with higher value added. Dynamic growth was also recorded by exports of transport services, which represent nearly one third of total services exports, while travel exports (with a share of around 50%) rose considerably slower than the other subgroups in the structure of services exports. In spite of these positive shifts in the structure of total exports and in the structure of services exports[8], the share of services

[8] The share of other services in services exports increased compared to the same period last year by around 2 percentage points, but it is still far below the average 47% of services exports in the EU.

in total exports remains modest in comparison to the other countries in transition.

In the first half of 2002, the year-on-year real growth of goods and services importswas 4.1%. In spite of the slowdown of real growth in domestic consumption in the second quarter (see Chapter 2.1.), the year-on-year real growth of total imports went up from 3.2% in the first quarter to 4.9% in the second quarter. On the one hand, this was the result of falling import prices which improved the terms of trade; but on the other hand the rise was also due to increased goods imports for export production. Unlike last year, services imports rose faster than goods imports in the first half of 2002.

Compared to the same period last year, the real growth of total goods imports in the first half of the year was 3.6%: 2.7% in the first quarter, and 4.5% in the second quarter. The structure of domestic consumption growth in the first half of the year, when household consumption increased at a relatively slower pace than investment consumption, is also reflected in the structure of goods imports by purpose: most of the increase of total goods imports was contributed by the growth of investment goods. Imports of consumer goods saw a slightly slower rise, while imports of intermediate goods were lower in the first half of the year than in the same period last year as a result of the slower growth of production volumes in manufacturing.

Compared to the same period last year, services imports rose in real terms by 8.1% in the first half of this year; as with exports, the major contribution was recorded by the high growth of imports of other services, among which the fastest rises were recorded by insurance, telecommunication and computer services. Among the other groups of services the slowest growth was recorded by imports of transport services, which are mainly connected with goods imports, and a strong rise was recorded by travel imports.

The **forecast of the real growth of exports of goods and services for 2002 (4.9%)** anticipates that real year-on-year growth in exports will be slower in the third quarter, mainly due to a modest recovery of export markets and also due to the effect of last year's comparatively high levels; faster real year-on-year growth is expected in the last quarter of 2002, because of the comparatively low levels last year (in the third quarter of 2001 real year-on-year growth of exports of goods and services was 6.6%, and 1.2% in the fourth quarter). Exports to the markets of the countries of the former Yugoslavia, the former Soviet Union[9], and Cefta are forecast to grow faster than exports to the markets of the European Union; compared to last year, export growth to Croatia and Russia will probably slow down because it is unlikely that the same high growth rates can be maintained. In the second half of the year, the year-on-year growth of services exports will slow down slightly for the same reason, especially in view of the still inadequate level of competitiveness of Slovenia's services in foreign markets. Nevertheless, growth in services exports is expected to continue to rise faster than growth in goods exports.

Taking account of the modest pick-up of domestic consumption in 2002 and the expected faster growth of imports of intermediate goods towards the end of the

[9] In particular exports to the Baltic countries, the Ukraine, and Kazakhstan are expected to rise, and also, but at a slower pace, to Russia.

year, which is in line with the anticipated strengthening of economic activity, the **real growth of imports of goods and services** will be faster this year than in 2001 (2.1%) and will reach around **3.9%.** With regard to the stronger growth of imports of goods and services, this year's relatively modest growth of exports will result in reducing the contribution of net exports to economic growth to around 0.7 of a percentage point or over 20% (2.5 percentage points or over 80% in 2001).

In 2003 a modest rise in the exports of goods and services is expected due to the slow pick-up of economic growth in the principal EU trading partners (see Chapter 1). The rise will be slower than expected in spring. Taking account of the expected growth of import demand in foreign markets (5.1%), which includes the markets of the European OECD countries, the USA, and Japan; and given a further approximate 10% growth of exports to the markets of the former Yugoslavia and Soviet Union, **exports of goods and services will increase next year by 5.7%** in real terms (6.5% according to the spring forecast). Compared to 2002, and in light of the expected recovery of domestic demand, **imports of goods and services will see a real growth of around 4.7%**. In absolute terms the contribution of foreign trade to economic growth will be about the same as in 2002; in relative terms, however, its contribution will drop slightly due to the higher growth of the components of domestic consumption.

In 2004 the volume of foreign trade will see a slight rise of around 1.4 percentage points (to 6.6%) in real terms compared to 2003, resulting from the expected further strengthening of exports and a stronger growth of imports. According to this estimate, **imports of goods and services (6.9%)** will grow faster than **exports of goods and services (6.3%)**, and the contribution of net exports to economic growth will again be negative (around 0.4 of a percentage point). The assumed real growth in export trends is based on a revival of economic growth in the principal developed trading partners to the level attained before 2001; the real growth of imports will be mainly influenced by the expected faster growth of private and investment consumption (see Chapters 2.2.2. and 2.2.3). In accordance with these developments, imports of consumer goods will increase and so will imports of capital goods (machinery and equipment), required for the technological modernisation of production.

2.2.2. Private consumption

In the first half of this year, household consumption was moderate, 1.9% higher year on year in real terms, and contributed over 36% to gross domestic product growth. Compared to the same period last year, consumption grew faster in the first than in the second quarter (up 2.6% and 1.2%, respectively). The short-term indicators that revealed no major year-on-year rise in household consumption in the domestic market in the first half of the year are the VAT charged to final consumers (which remained on the same level as last year in real terms), imports of consumer goods (which had not risen by the middle of the year and were 1.7% below the figures for the same period last year), and the number of new passenger car registrations (8.7% lower). On the other hand, the value of retail sales rose by no less than 8.5% (the fastest growth was recorded by the sale of food and beverages, the slowest in the sales of motor vehicles and fuels). The consumer confidence indicator, which suggests a low level of correlation with private consumption, has remained below the average

of the past six years, with the exception of January, but is gradually gaining strength.

This year, household borrowing has been very low so far: the year-on-year real growth of the volume of loans to households is at the lowest level of the past ten years (growth was recorded for the first time this year in June and reached 0.7% in July). Household savings may be more modest this year, but they still reached high year-on-year growth rates. In July, the year-on-year real growth of total household savings was 20.8%, and compared to December 2001 total savings were 2.5% higher in real terms (8.7% in real terms in the same period last year, see Chapter 7.2.).

According to data from the Agency for Payments, registered household income was 2.9% higher in the first half of the year than it was last year; the fastest growth was recorded by total social transfers to households (5.3% in real terms), while total net wages and salaries recorded a 2.8% growth, and other receipts from employment were slightly lower in real terms than in the same period last year (-1.1%).

The Bank of Slovenia's data on foreign currency inflows and outflows from travel suggest that the consumption of resident households was slightly higher abroad than on the domestic market, and also higher than the consumption of non-residents in Slovenia. Indeed, Slovenian households spent 8.7% more in nominal terms on travelling abroad in the first six months of the year than in the same period last year, while expenditure by non-residents in Slovenia was only 3.1% higher in nominal terms.

Last year, private consumption growth by half-year data was quite even, but this year the expected dynamic income trends and higher consumer confidence enable us to estimate that private consumption will see a slightly higher rise in the second half of the year than it did in the first half (by 2.3% in real terms). The rise is expected to be stronger in the third quarter, in line with the year-on-year growth of transfers, gross wage per employee, and persons in employment, factors which the estimate expects to slow down in the final quarter. The year-on-year dynamics of consumption growth for the last two years also indicate that growth should be faster in the third quarter and slower in the fourth. For 2002 as a whole this would mean a 2.1% growth of private consumption in real terms, i.e. stronger growth than last year (1.7%), though less than expected in spring (2.3%). The lower forecast is mainly due to slower trends in consumption and some other short-term indicators in the first half of the year than was expected in spring. The estimated growth of disposable household income was also lower (down from 2.9% to 2.5%), mainly because the real gross wage per employee increased less than expected in spring (2.0% instead of 2.5%), and because of the slower growth of employment.

The estimated **real private consumption growth in 2003 is 2.7%,** based on the growth of the disposable income, which is expected to be slightly above this year's (2.6%). A stronger cyclical influence on private consumption trends is expected next year, and after three years of relatively low growth, consumption is expected to again increase faster. The forecast of private consumption growth has been corrected downwards compared to the spring forecast (3.0%) because the growth of employment and persons in employment has been revised downward by nearly half

Box 2: Household disposable income

This year, household disposable income is estimated to rise by 2.5% in real terms, that is, only slightly more than in 2001. Total compensation of employees has seen slower growth this year, while total pensions and other social transfers have grown faster, but without causing any major changes to the structure of income sources. The real growth of gross wage per employee (2.0%) and that of the number of persons in employment (0.4%) are lower this year than last year (3.2% and 1.7%, respectively), and they are also below the spring forecast (2.5% and 0.9%, respectively). These trends will increase compensation of employees, the principal source of household disposable income (83%), by 2.6% in real terms. Social transfers to households will be 10.9% higher in nominal terms this year. Total pensions, the second most important income source (their share in income is 19%), are estimated to rise by 10.2% in nominal terms; the rise will mainly result from the higher average number of pensioners (this year the number of persons entitled to state pensions increased considerably) and the indexation of pensions. Family benefits and parental allowances are estimated to increase by 9.9% this year, and unemployment compensation will be lower for the fourth consecutive year (MF estimate: 16.4% in nominal terms). Amendments to the Social Security Act, on the contrary, will increase welfare allowances (aimed at covering the minimum cost of living costs and no longer indexed by the guaranteed wage) by no less than 32.6% in nominal terms. Due to savings, household income from interest and indemnities from non-life insurance will be slightly higher. Household expenditure on income taxes will increase slightly faster than last year (13% in nominal terms), and various current transfers and interest on loans are also expected to increase.

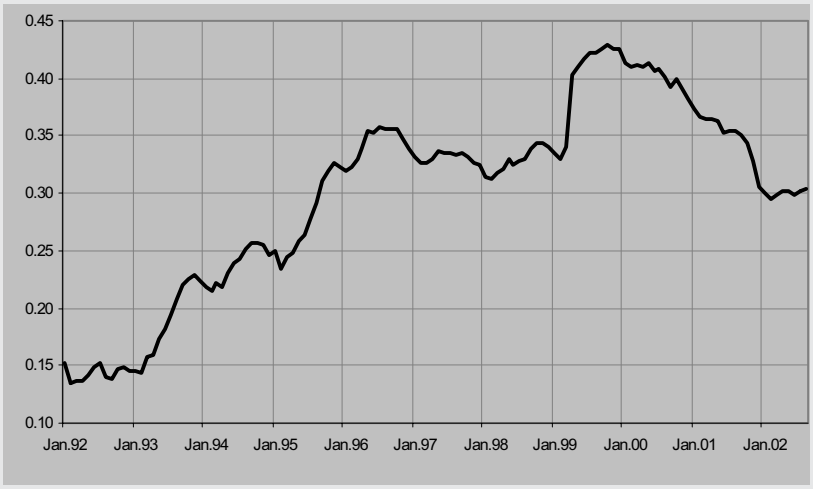
Household disposable income is expected to **increase only slightly** in 2003 compared to 2002 (by 0.1 of a percentage point), mainly due to faster growth of employment (the number of persons in employment is expected to rise by 0.9%), while growth in the gross wage per employee will be the same as in 2002. Total social transfers will correspondingly increase by 7.5% in nominal terms. Income growth is expected to be around **3.4% in 2004;** the increase will mainly result from a 0.5 of a percentage point faster growth of the gross wage per employee (2.5%) and a slightly higher employment rate (an increase of the number of persons in employment by 1.1%).

a percentage point (from 1.3% to 0.9%), while the growth of the gross wage per employee will not exceed that of 2002. In spring, we took into account the effects of the new Personal Income Tax Act which will, however, be clear only in 2005 (though minor effects may be recorded as early as 2004). Furthermore, household income is expected to be disburdened considerably, because five years will have passed from the extensive purchases of cars and other durable goods in the period before the introduction of the VAT; these purchases indeed accounted for a major rise of household indebtedness with banks. A major leap in the growth of private consumption in 2004 is also expected from the funds which will be released from the first National Housing Savings Scheme, part of which will be spent on

Box 3: Household indebtedness and consumption

Slovenian households increased their indebtedness in particular in the years marked by higher consumption: i.e. in 1993, 1995, and, most recently, before the introduction of the VAT in 1999. Their net indebtedness, expressed as the ratio between loans and deposits with banks, moved up sharply in those years, as a result of higher indebtedness as well as reduced savings. It is obvious that households used loans and savings to increase their disposable income in the short term and to spend it on consumption. In the course of the past decade, net household indebtedness[10] has doubled (in 1992 the ratio was 0.15, this year it is around 0.30). In 1999 the ratio was even higher (0.43) than the present one, but it has been settling quickly for three consecutive years as a result of lower additional indebtedness and the relatively high growth of savings in the past three years (Picture 4).

Picture 4: **Ratio of household loans to deposits with banks**



Source: BS, IMAD calculations

The loan burden of households (the ratio of the average stock of bank loans to the average registered monthly income) has been settling for the last two years, again due to lower additional new indebtedness; however, as a result of the loans taken out in 1999 and their maturity, the burden is still at a relatively high level (see Table) and is decreasing only slowly. The ratio of the average stock of bank loans to average registered monthly income is around 2.8 this year - seven times higher than a decade ago (0.4).

In spite of the high rise of the two indicators that measure **household indebtedness**, indebtedness has been decreasing slowly for the last two to three years. This year, the year-on-year real growth of loans to households is at the

[10] Since spring 1999 the category of loans to households includes loans to sole proprietors

Box 3: Household indebtedness and consumption- *continued*

lowest level of the past decade (a slow rise, though faster than that of any other category of loans, is recorded by the volume of short-term loans, which is probably largely due to the dwindling use of cheques[11]). In recent years households have tended – in spite of the fact that their income has been gradually disburdened from the instalments for loans taken out in 1999 – to save rather than to take out new loans. This **may indicate a major change in the structure of how they spend their income, but this may simply mean that they are preparing for a new cycle of major purchases.** The lower growth of private consumption in the past three years indeed resulted mainly from lower consumption on durable goods[12], that is, the type of purchases usually financed with loans. If, indeed, we expect a new cycle of consumption, this would lead to a leap in household net indebtedness: in 2004 their housing savings will become available and, on the other hand, a major part of their income will be disburdened from loans taken out in 1999. Both developments suggest that households may again be willing to take out new loans in order to buy dwellings or other durable goods.

Table 2.2.2: **Ratio of household loans to household income**

Period	Average monthly stock of household bank loans (SIT billion)	Average registered monthly househods income (SIT billion)	Loans/ Income	Average annual increase in loans/ average annual increase in income
1992	16.0	38.4	0.42	N/A
1993	38.5	60.9	0.63	1.00
1994	73.8	74.6	0.99	2.58
1995	123.9	88.9	1.39	3.50
1996	192.9	106.4	1.81	3.94
1997	224.4	119.8	1.87	2.35
1998	272.6	131.8	2.07	4.02
1999	390.2	146.5	2.66	8.00
2000	472.1	164.3	2.87	4.60
2001	516.8	181.6	2.85	2.58
2002 July	546.6	198.9	2.75	2.06*

Source of data: Bank of Slovenia, calculated by IMAD.
Note: * First seven months of 2002 and 2001.

[11] The use of cheques by individuals has been falling constantly in recent years. In 1996 households still paid nearly SIT 300 billion with cheques, in 2001 only SIT 90 billion. The sharpest drop in the use of cheques was recorded in 2000 and resulted from the interbank agreement on the mode of cashing cheques. The agreement meant that banks no longer guarantee to cash cheques and thus limited deferred payment with cheques. Payments with credit and debit cards have therefore increased and, most likely, also short-term loans. Another reason for faster growth in short-term loans was that sole proprietors used these loans to solve their liquidity problems.

[12] The consumption of durable goods by households recorded very high growth rates until 1995 and again in 1999, before the introduction of VAT, but settled later.

consumption and on purchases of durable and semi-durable dwelling goods. Gross wage growth should be slightly higher than in 2003 (by 0.5 of a percentage point), as well as the number of persons in employment. Household disposable income is expected to be 3.4% higher in real terms, and since real consumption is forecast to rise by 3.9% in 2004, households will provide additional funds from their savings or borrowing.

2.2.3. Investment

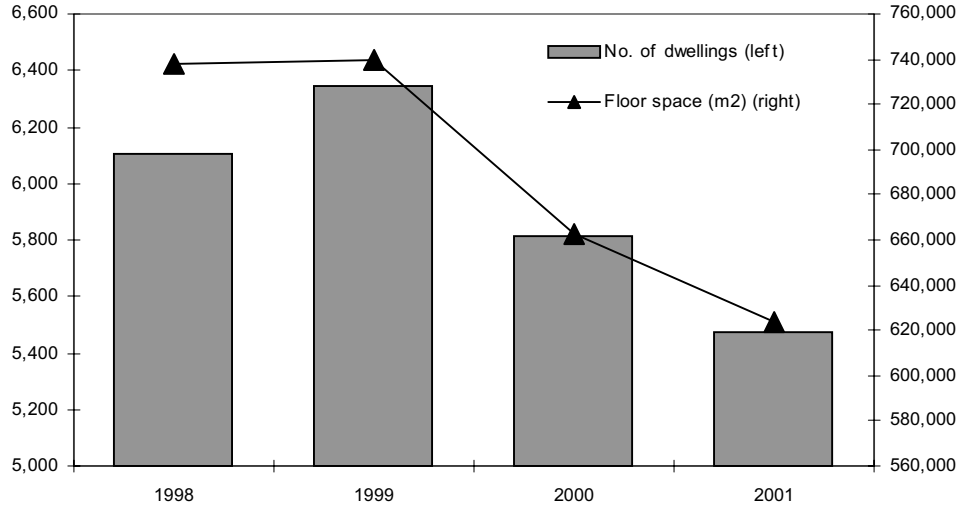
Gross fixed capital formation increased by 3.2% year on year in the last quarter of 2001 after investment had fallen for four quarters in a row. Even though this increase was largely underpinned by the low price rises of investment goods and the relatively low level of investment the year before, investment figures for the first two quarters of 2002 confirm that investment activity is on the increase in 2002 (2.9% growth in the first and 3% in the second quarter year on year). According to some short-term indicators, there were a number of changes in the growth dynamics of different investment segments in the second quarter of 2002. In the final quarter of 2001 and the first quarter of 2002, the revival of investment was mainly driven by growth of investment in equipment and machinery, while in the second quarter of this year it was chiefly connected with growth of investment in structures and buildings[13]. The stronger investment in structures and buildings was connected with non-residential building construction and civil engineering (according to the latest available data from the SORS, 71% of all investment in structures and buildings was non-residential building construction). On the other hand, investment in new residential buildings was weak, as shown by figures on building permits issued in the past few years[14]. The slowdown of investment growth in equipment and machinery was very likely influenced by the faltering recovery of the international economic environment; further, business expectations in manufacturing deteriorated considerably in spring (see Chapter 2.3).

After low real growth in 2000 (up 0.2%), and a real decline in 2001 (down 1.9%), gross fixed capital formation **this year** is expected to increase by 2.9% in real terms, meaning that year-on-year growth rates seen in the first half of the year will be sustained in the second half of the year. In market-oriented activities, modest growth in export demand and deteriorated business expectations in spring will dampen the recovery of the investment cycle in the private sector, but investment growth in market-oriented activities (excluding infrastructure) is expected to remain positive this year. As residential building construction is expected to decline, growth in gross fixed capital formation will largely depend on the public sector's investment

[13] The data on industrial production volumes show that the production volumes of investment goods have slowed down since the final quarter of 2001 (7% year-on-year growth in the final quarter against 2.4% in the second quarter of this year). In this period, the year-on-year imports of investment goods increased (from 6.5% to 11.5% in nominal terms), though not as much as the exports of investment goods (from 4.4% to 13% in nominal terms). From last yearís final quarter onwards, construction activities have picked up: in the last quarter of last year the value of construction put in place was 4.1% lower than a year earlier, in the second quarter of this year the year-on-year growth climbed to 4.9%.

[14] The planned number of dwellings and their useful floor space were the lowest ever since 1998, when the data were first made available.

Picture 5: **Planned number of dwellings and their useful floor space**



Source: SORS

in economic infrastructure in transport and communications, in line with the higher budget appropriations for investment in 2002. Compared to last year's expenditure, the volume of public finance sources for investment funding (16% of total investment) will be 9% higher in nominal terms this year, and the volume of funds from the national budget will increase by 18.1% (see Chapter 6.2). The forecast sets the share of public finance sources for investment funding in 2002 at around 4.3% of gross domestic product.

In **2003** the real growth of gross fixed capital formation will rise to around 4.8%. The upturn in investment demand will be stimulated by the expected faster growth of investments in the private sector, in line with the anticipated increased growth in the main trading partners (investment in equipment and intangible fixed assets, which will also improve the competitiveness of the tradable sector), stronger growth of investment in telecommunications, the energy sector, environmental infrastructure, motorway construction and government services (Oncology Institute, Paediatric Clinic, other hospitals, students' halls of residence). Investment in residential building construction should also pick up, partly because of its cyclical nature, but also partly stimulated by the expected higher demand connected with the termination of the first five-year National Housing Savings Scheme (NHSS) in 2004 (see Box 4). Higher budget funds are earmarked for investment funding in accordance with the proposed amendments to the 2003 budget. Compared to 2002, public finance sources for investment funding should increase by 14.5% in nominal terms in 2003, and funds from the national budget by 17.3%.

A stronger upturn of investment activity is expected **in 2004,** when the growth of gross fixed capital formation is forecast to reach 6.3%. A major contribution to this growth will come from the funds released by the first National Housing Savings Scheme and from the boosted residential building construction based on these funds. Infrastructure investment (motorways, power plants on the Sava river) will continue

Box 4: National Housing Savings Scheme

The National Housing Savings Scheme (NHSS) was introduced in 1999 by the Government of the Republic of Slovenia in co-operation with the Housing Fund of the Republic of Slovenia. The scheme's aim is to stimulate long-term saving and to alleviate the housing shortage. The Housing Fund continued to launch saving schemes in the following years, and the 2002 scheme is the fourth one launched. Savers can opt for a 5-year or 10-year saving period[15] and a monthly deposit of SIT 10,000 (1 lot) or a multiple of that amount[16]. The real annual interest rates are 1.65% and 3% for 5-year and 10-year deposits respectively; at the end of every year the state contributes an annual premium equal to one monthly deposit (for 5-year deposits) or 1.25 monthly deposit (for 10-year deposits).

When the saving period expires, savers can make free use of their savings. Within a one-year period, they have the right to take out a favourable long-term housing loan, which they can use to buy an apartment or a single house, build a new house, replace an old house with a new one, or add a storey or extension to a single house. Savers are entitled to loans amounting to 2.2 times the sum total of deposits, but this also depends on their credit worthiness, and the repayment period is double the saving period. For a 10-year loan, the real interest rate is 2.45%, and for a 20-year loan 3.80%.

The five-year period of the first saving scheme ends in mid 2004. By the end of 2001 (that is 2″ years before the saving period's end) SIT 16.1 billion had been deposited, and in all the schemes, regardless of the saving period, SIT 24.9 billion. By mid 2004 savings in the first NHSS are expected to total SIT 40 billion. According to a survey performed by the Housing Fund, in April and May of this year, the great majority of the savers in the NHSS intend to use their savings to solve their housing problem, and over 80% of them intend to take out a housing loan. Taking account of these assumptions, it is estimated that after the first scheme comes to an end, and including granted loans, approximately SIT 100 billion will be available. This does not mean that all these funds entirely consist of additional sources, aimed at buying or renovating apartments or houses, but they will replace a considerable number of other sources (a higher number of loans granted within the framework of NHSS will probably cause the number of "commercial" housing loans to drop). Nevertheless, the second half of 2004 will probably see a higher housing demand.

to grow, but investment in other branches of construction should settle. In 2004 the funds from the first National Housing Savings Scheme will be included in investment funding, and the nominal growth of public finance sources for investment funding will be more modest in 2004 than in 2003 (8.7% according to the proposed budget). In addition, the Proposal for Development Programmes envisages a much higher volume of loans to be taken for the implementation of the national motorway

[15] The great majority of savers opted for five-year deposits.

[16] The monthly deposit is indexed every year and is now SIT 12,800.

construction programme. As well as a major improvement of investment growth in residential building construction (see also Chapter 2.3.) and environmental protection infrastructure, further growth is expected in investment in equipment, machinery and intangible fixed assets, and the volume will be influenced not only by the anticipated favourable effects from the international environment, but to a large extent also by the processes of mergers and take-overs by foreign as well as domestic companies.

2.2.4. Government consumption

In the first quarter of 2002, **government consumption** saw a year-on-year real growth of 2.7%, and in the second quarter of 3.8%. In both quarters, **collective government consumption** –- administrative, defence, economic, research & development, and other non-market government services –- grew faster than total government consumption, while **individual government consumption** on government non-market services in education, health, social work, culture, sports, and on market products like medicines, orthopaedic aids, concession rights to the private sector, and health resort services rose slightly in the first half of 2002. Total government consumption, compared to the first half of last year, increased by 3.3% in real terms (collective consumption by 3.8%, individual consumption by 2.8%).

The real growth of government consumption **in 2002** is estimated at 2.5%[17], i.e. slightly less than the spring forecast (2.9%). Following less favourable macroeconomic and public finance trends than anticipated when the national budget was prepared, the 2002 budget was revised in July, selectively limiting expenditures budget by changing their volume and structure. The modest growth of intermediate consumption and calculated wages led to the lower forecast of the real growth of government consumption. The revision of the Health Insurance Institute's financial plan altered the expenditure in the compulsory health insurance system and caused a rise of calculated wages as well as a fall of intermediate consumption in the structure of government consumption. Furthermore, the expenditure of municipal budgets was reassessed and this also changed the forecast of the real growth of government consumption in 2002.

Following the revision of the 2002 national budget, amendments were proposed to the already adopted **2003** national budget. The proposed changes to the volume and structure of government expenditure, combined with the estimated expenditure on compulsory health insurance and on municipal budgets, caused the forecast of government consumption growth to be set lower for 2003 as well. The estimated real growth of government consumption in 2003 is now set at 2.8%. The lagging of government consumption growth behind gross domestic production growth will thus increase slightly, as a result of the changes in the planned public finance revenues

[17] The calculations of government consumption at constant prices were made on the basis of the SORS' (recommended) methodology, which does not use just the consumer price index for converting all structural elements into constant prices, but uses the government consumption deflator, which consists of different deflators for individual categories within the government expenditure structure. So, in estimating government consumption, the deflator used for intermediate consumption is the predicted growth of consumer prices, and for the part which refers to calculated wages, it is the estimated growth of gross wages (average labour costs).

Table 2.2.4: **General government consumption (individual and collective)**

	1997	1998	1999	2000	2001	2002	2003	2004
						Forecast		
Real annual growth (in %)								
Total general government consumption	4.3	5.8	4.6	3.1	3.2	2.5	2.8	4.1
Individual consumption	3.6	6.1	3.9	2.2	2.6	2.1	2.6	3.9
Collective consumption	5.3	5.4	5.5	4.3	3.9	2.9	3.0	4.4
Share in GDP (in %)								
Total general government consumption	20.4	20.3	20.2	20.8	21.3	21.3	21.0	20.8
Individual consumption	11.5	11.4	11.5	11.8	12.2	12.2	12.0	11.8
Collective consumption	8.9	8.8	8.8	9.0	9.1	9.1	9.0	9.0

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

as well as expenditure, in particular in the transfers to households (social transfers, pensions) and investment expenditure from public finance sources.

Based on the proposed national budget for **2004**, the projections of expenditure on compulsory health insurance and municipal budgets, the real growth of government consumption in 2004 is estimated to increase slightly and reach around 4.1%. The coming into force of the Public Sector Wages Act should slow down the growth of calculated wages. The estimated growth of government consumption in 2004 means that it will lag behind the estimated growth of gross domestic product less than in 2002 and 2003 (0.2 of a percentage point, 0.7 and 0.9 in 2002 and 2003, respectively). Because government consumption lags behind gross domestic product growth in the mentioned years, the share of government consumption in gross domestic product will fall from 21.3% in 2002 to 20.8% in 2004.

2.3. The real sector – Economic developments and forecasts by sectors

Broken down by sectors, the highest contribution of value added was recorded by the service sectors (G to O; 61.3% last year) and their share is annually increasing; at the same time, the economic significance of industrial activities (C to E), agriculture, fishing, and forestry is decreasing. In the following years the share of industrial activities is expected to further shrink, from 31.6% in 2001 to 30.9% in 2004, and the share of services to increase from 61.3% to 62.2%. Further shrinking of the economic importance of agriculture is expected to stop at a level of approximately 3% of value added. After two consecutive years of decline, the importance of construction in the structure of value added should stabilise around the level it was before 1999 (5.8%). A detailed analysis of economic developments by individual activities in the first half of 2002 and a projection of value-added growth this year and in the two following years are presented below.

Table 2.3: **Growth and structure of value added by sectors**

		Real growth rates in %, constant prices 1995				Structure in %, current prices			
		2001	2002	2003	2004	2001	2002	2003	2004
			Forecast				Forecast		
A	Agriculture, hunting, forestry	-2.1	2.0	2.0	1.0	2.7	2.7	2.6	2.6
B	Fishing	1.2	1.0	1.0	1.0	0.0	0.0	0.0	0.0
C	Miming and quarrying	-7.1	6.0	-1.0	0.5	0.8	0.8	0.8	0.7
D	Manufacturing	4.4	3.7	4.9	4.9	23.7	23.5	23.5	23.4
E	Electricity, gas and water supply	6.1	3.5	0.0	1.0	2.9	2.9	2.8	2.7
F	Construction	-3.5	2.0	4.5	6.0	5.2	5.0	5.0	5.1
G	Wholesale, retail, trade, repair	2.0	2.3	3.0	4.0	10.1	10.1	10.1	10.1
H	Hotels and restaurants	5.0	3.0	3.5	4.5	2.9	2.9	2.9	3.0
I	Transport, storage, communications	4.5	3.5	4.0	5.0	6.9	6.9	7.0	7.1
J	Financial intermediation	5.1	4.5	4.7	5.5	3.9	3.9	4.0	4.1
K	Real estate, renting and business activities	3.4	3.4	3.5	3.8	10.7	10.8	10.8	10.9
L	Public administration and com. soc. sec.	5.2	4.7	5.0	4.5	5.2	5.3	5.3	5.4
M	Education	2.5	3.4	3.4	3.4	5.3	5.3	5.3	5.2
N	Health and social work	3.7	3.2	3.0	3.0	5.0	5.0	5.0	4.9
O	Other community and personal activities	3.8	3.8	4.5	4.5	3.4	3.4	3.4	3.5
	FISIM	2.6	2.0	2.0	2.0	-1.7	-1.7	-1.7	-1.7
1.	VALUE ADDED (A … O + FISIM) in basic prices	3.1	3.4	3.9	4.3	86.8	86.7	86.8	86.9
2.	NET CORRECTIONS (taxes on goods and services - subsidies)	2.0	1.9	2.5	4.1	13.2	13.3	13.2	13.1
3.	GROSS DOMESTIC PRODUCT (3 = 1+2)	3.0	3.2	3.7	4.3	100.0	100.0	100.0	100.0

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

Following three years of decline, the real growth of value added in **agriculture, forestry and hunting (A)** in the first half of this year was again slightly lower than in the same period last year. The available data indicate that this was mainly the result of negative developments in stockbreeding, which contributes most of the value added in the sector. According to the sample survey carried out at the end of last year, the number of livestock dropped year on year for all animals, except for poultry[18]. In the first half of the year the purchase value in stockbreeding was 1.4% lower year on year. Abattoirs purchased less meat in this period, especially beef and poultry, while there was a slight increase in the quantity of pig meat[19]. No statistical data are yet available on the physical volume of crop production, but we expect it to be higher than last year's when it was affected by drought. The wine cellars are still full of stocks from previous years, causing major problems to the purchase of this

[18] The number increased as follows: beef by 3.4%, pigs by 0.6%, sheep by 2.2% and goats by 9.7%. Poultry increased by 2.2% due to the higher numbers in agricultural companies (not on family farms, which account for over three-quarters of poultry breeding).

[19] The weight of poultry meat and beef in slaughterhouses dropped by 7.8% and 3.2%, respectively, while the weight of pig meat rose by 3%.

year's grapes. The total value of purchased quantities of crop production was higher in the first half of the year than in the same period last year: in fruit-growing and wine-growing by one tenth, in arable crops by one fifth.

In spite of the real decline of value added in the **first half of this year,** we expect a positive growth of **around 2%** on the annual level, which should be sustained **next year as well**. Following last year's exceptionally low level of crop production, improvement is expected this year because, for one thing, this year's weather conditions have been quite normal. Agricultural policy measures in stockbreeding should improve the conditions in the sector. Value-added growth will be significantly driven by higher state subsidies, this year as well as in the next two years[20]. In spite of these developments, the real growth of value added **in 2004** will drop to **around 1%,** but this will largely depend on the outcome of the accession negotiations on quotas and reference quantities.

In **mining (C),** the most important share of value added is contributed by coal mining (62% in 2001). Towards the end of last year the demand for coal was mainly met from the stocks, which therefore fell considerably. In the first half of this year, consumption of coal was still higher than anticipated (higher production by thermal power plants on account of the lower production by hydro power plants), and the total production of coal thus increased notably. Production by non-energy mining dropped in the second quarter by nearly a tenth, causing lower growth of value added in mining in that quarter (compared to the same period last year, value added grew in the first quarter of this year by 13.1%, and in the second quarter by 5.1%).

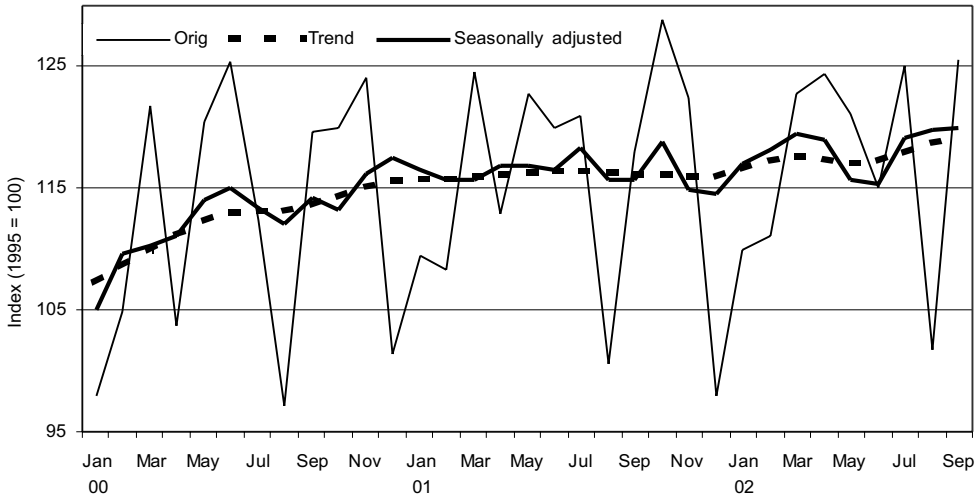
Based on the Energy Production and Consumption Balance of the Republic of Slovenia for 2002, adopted in July 2002, production of lignite coal is to increase by 17.2% this year, and that of brown coal to decrease by 12.4%. IMAD's spring forecast was based on the then anticipated slightly lower increase in the production of lignite and a major fall in the production of brown coal. If this year's extraction volumes of lignite and brown coal are as planned by the Energy Balance, and if the present falling trend (-5.6% year on year in the first eight months) in non-energy mining continues, we can expect **value added in mining** to grow by **6.0% in real terms in 2002**. For **2003** a **1%** real **fall** of value added is projected, as the share of thermal power plants will drop and reduce the demand for coal. In the following years no major changes are expected with regard to the annual quantities of extracted coal, unless major fluctuations in demand occur. The gradual decline of non-energy mining, recorded in recent years, should come to an end. The projected **real growth of value added** in **2004** is around **0.5%.**

Value-added growth in **manufacturing (D),** the most export-driven sector of the Slovenian economy[21], is heavily influenced by trends in the international economic environment. In the first quarter of the year, value-added growth continued to slow down (1.6% real growth year on year) in line with the trend at the end of last year.

[20] State subsidies are an increasingly significant factor of value added in agriculture, forestry and fishing; in 2001 their total share was 37%.

[21] Eleven out of fourteen subsectors in manufacturing generate more than half their total operating income in foreign markets, and in the entire sector exports account for around 57% of total operating income.

Picture 6: **Production volume trends in manufacturing**



Source: SORS, calculations: IMAD, method applied: TRAMO - SEATS

Following lively export activities (see Chapter 2.2.1), stronger growth was recorded in the second quarter (3.7%). Nevertheless, value-added growth in the first half of the year (2.7%) was still considerably below last year's figure (4.4%), a result of the dynamics in export demand, deteriorating cost competitiveness (see Chapter 3.1), and the high benchmark of the first half of last year. Dynamics similar to those of value added were recorded for production volumes in the manufacturing sectors. In the first quarter of the year, production volumes rose by 0.4% compared to the same period last year, in the second quarter by 1.3%, and in the first half of the year they exceeded last year's volumes by 1.0%. Because of the negative year-on-year growth rates in the spring months (May, June), production volumes saw a falling trend towards the end of the second quarter (see ill. 6) after a modest pick-up in the first quarter. The slowdown of production activity was in line with business expectations in manufacturing which, after pessimistic views at the end of last year, improved by February, but again started to fall rapidly in the spring months. These less favourable trends also affected employment in manufacturing, which dropped by 3.1% in the first half of the year compared to the same period last year.

Compared to the same period last year, the highest growth rates in manufacturing were recorded in the first half of 2002 by machinery and equipment (16.2%), vehicles and vessels (9.6% against 0.5% in the first half of last year), and chemicals and chemical products (3.8%). These sectors are export-oriented and they achieved typically above-average value-added growth rates per employee and above-average returns on assets and sales in 2001. The biggest falls in production activity were also recorded in export-oriented sectors, namely in the production of textiles (- 13.1%) and that of leather and leather products (- 9.9%); in both sectors the share of labour cost in value added is above average.

In the second half of the year, resumed export activities should continue to generate moderate value-added growth in manufacturing. The year-on-year real growth rates

of value added in the third and fourth quarters are estimated to be between 4.2% and 5.5%, and this means **real growth** of **value added of 3.7% in 2002.** Such developments are in line with the latest data on the production volumes in the summer months and the still unstable business expectations in the corporate sector. In July, production volumes exceeded June's figures by 8.8%, only to drop again considerably in August (down 18.6%), which had two fewer workdays, and because of the seasonal slowdown typical of this holiday month; August's low benchmark accounted for the 23.4% growth in September. Production activity thus rose by 3.8% in the third quarter compared to the same period last year. The cumulative rise in the January-September period of this year exceeded last year's by 1.9%, and for the third consecutive month the growth trend[22] (see ill. 6) picked up after slackening in the spring months. Growth of foreign demand and, consequently, of domestic goods exports (which should improve as soon as the last quarter of 2002) will be even stronger in 2003 according to the estimates, and this development will a have a beneficial effect on production activity in manufacturing. We expect the quarterly growth rates to be between 3.8% and 5.8% year on year, and real value-added growth in 2003 as a whole to be **4.9%.** For **2004**, it is envisaged that a moderate upturn will be sustained in foreign markets. Combined with the government's industrial policy measures to increase competitiveness, the real growth of value added in manufacturing should settle at **around 5%**.

In **electricity, gas and water supply (E),** the highest share in value added was recorded by power supply companies (63% in 2001). In the first half of 2002, the structure of power production changed considerably (compared with the usual structure and with expectations). The low water levels of Slovenia's rivers caused production in hydro power plants to drop, and the shortfall was compensated for by higher production in classical thermal power plants. Compared to the first half of 2001, the share of hydro power plants in the total production of electrical energy dropped from 33% to 19%, whilst the share of thermal power plants rose from 34% to 43%. This increased value added in electricity, gas and water supply in the first quarter (compared to the same period last year, by 7.8% in real terms) and in the second quarter by 8.7%, though the total physical production of electricity, measured in GWh, fell by only a few percentage points. With regard to this year's production of electrical energy and the trend expected by the Quantitative Electrical Energy Balance of the Republic of Slovenia for 2002, production in hydro power plants should fall by 19%, and that in thermal power plants (+ the nuclear power plant) should increase by around 5%. According to the Energy Production and Consumption Balance of the Republic of Slovenia, gas consumption should fall by 5.5% in Slovenia, and the consumption of district heating by 3.4%. Given these assumptions and more or less unchanged volumes in the water supply sector, **value added in the electricity, gas and water supply** should **grow by 3.5% in real terms in 2002.** Assuming that next year's structure of production in power plants will again come close to the long-term average, a **stagnation** of real growth is projected for **2003 along with 1% real growth of value added in 2004.**

In the first half of 2002 value **added** in **construction (F)** was 1.4% higher than in the same period last year. After last year's slowdown (3.5% in real terms) and the

[22] Production activity grew in September by 0.3% monthly or by a 4.1% year-on-year rate.

stagnation in the first quarter of this year (a 0.2% fall in real terms, year on year), value added was 2.8% higher in the second quarter than in the same period last year. This year's pick-up in construction activity is connected with the boosted construction of motorways, a development confirmed by data on the value of construction put in place[23] in civil engineering. In the first half of the year, the value of all construction put in place was 1.9% higher than in the same period last year: in civil engineering 2.5% higher, and in building construction 1.4% higher. This rise in building construction was connected with the upturn of activity in residential building construction (16.8% real growth year on year), but the high rise is largely due to last year's low benchmark. The data suggest that activity increased especially in companies employing 10 or more people, but these companies are estimated to build less than a fifth of all dwellings in Slovenia[24]. We presume that activities in residential building construction, which are not captured by statistical data, declined for the following reasons: according to last year's data on building permits, the number of single houses – these are largely built by small companies or by individual persons – was the lowest since the data were made available (in 1998). In non-residential building construction, the value of construction put in place in the first half of this year was 1.8% lower in real terms than a year earlier.

According to the data on the value of construction put in place, construction activity went up by 8.8% year on year in July. The favourable trends in civil engineering continued (28.5% year-on-year growth), building construction activity however was below the level of the same month of last year (down 5.4%), a development connected with the trends in non-residential building construction (down 8.3%). According to the Proposal for the Annual Programme of Motorway Construction and Maintenance, motorway construction should increase in the following months. At the same time, we do not expect improvement in building construction, especially not in residential building construction[25]. This means that **value added** in construction is estimated to **rise by around 2% in real terms in 2002**. Higher growth is projected for the next two years: in addition to livelier road infrastructure construction, residential building construction will increase before the first National Housing Savings Scheme comes to an end (see Box 4). Construction activity in this period will be boosted by the new zoning legislation to be implemented in 2003. In 2004, growth dynamics in construction will be additionally driven by the construction of power plants on the Sava river. **In 2003 and 2004,** value added in construction should achieve **4.5% and 6.0% growth in real terms, respectively.**

In **wholesale and retail trade and repair of motor vehicles, personal and household goods (G),** the first half of 2002 saw the same modest value-added growth as the period after 1999. In the first six months, value added rose by 1.8% in real terms compared to the same period last year (1.6% in the first and 2% in the second

[23] The data on the value of construction put in place refer to companies and organisations with ten or more employees.

[24] Construction companies with 10 or more employees built 15.9% of all dwellings in 2000 and 8.9% in 1999.

[25] According to preliminary data for the first half of this year, the building permits issued were for the construction of 2,601 dwellings, 17.9% less than last year, and the planned useful floor surface was 17.1% below that of last year.

quarter). According to the data from the quarterly TRG-ČL[26] survey, turnover saw a higher rise in retail trade in the first quarter (compared to the same period last year), and in wholesale trade in the second quarter. In both quarters, turnover in retail trade grew due to above-average results in shops selling food, beverages and tobacco, largely underpinned by the increased sales of non-specialised shops selling mostly food. In the first two quarters, the highest year-on-year growth in turnover in wholesale trade was recorded by non-food stores. In spite of the lower number of new cars sold[27], the trade in motor vehicles increased its turnover because more luxury cars were sold than in the same period last year. In the second quarter, sales dropped in all categories of cars, and this was reflected in the sector's lower turnover. Trends in the number of persons in employment in the first half of the year reveal the ongoing process of a falling number of small companies and the growing importance of large companies. The number of self-employed persons and those employed within them continues to fall, while employment in companies and other organisations in this sector is growing[28].

According to data on first new car registrations for the third quarter, the lag behind last year's sales is shrinking[29], and the business results of the trade in motor vehicles should improve by the end of the year. Following an upturn of private consumption in the second half of the year, retail sales should increase, and following a rise of activity in manufacturing and construction, sales in wholesale trade are also expected to go up. Given such trends, value-added growth should be stronger in the latter half of the year, and **2002** should see **2.3% value-added growth in real terms.** In the following two years, livelier activity is expected in manufacturing and construction, as well as faster growth in private consumption. We thus expect **value added** to **grow by 3% in 2003,** and **by 4% in 2004,** when private consumption will experience further growth (see Chapter 2.2.2.).

After favourable developments in 2000 and 2001, value-added growth in **hotels and restaurants** (H) slowed down considerably this year. The first half of the year saw only a 2% rise compared to the same period last year (2.2% in the first quarter, 1.9% in the second). These worsened results were mainly due to the lower turnover of restaurants (down 6.1%), which contributed nearly half of the total turnover in hotels and restaurants in the past years. Turnover in hotels increased by 3.7% in real terms, as the number of overnight stays grew (in the first quarter by 3.3%, and by 3.6%[30] in the second quarter compared to the same period last year). Turnover also

[26] The data from the TRG-Čl survey refer only to those activities of business entities engaged in trade, and thus also includes the trade within non-trade companies.

[27] Data of the Ministry of the Interior reveal 3.6% less first new car registrations in the first quarter than in the same period last year.

[28] The total number of persons in employment in sector G grew by 2.4% in the first quarter, and by 2.1% in the second quarter compared to the same quarters last year.

[29] Data of the Ministry of the Interior show around 8% fewer first new car registrations in the first half of the year, and about 6% fewer in the first nine months of the year than in the respective periods last year.

[30] The number of overnight stays increased because of the higher numbers of overnight stays by foreign tourists (by 7.7% and. 6.8%, respectively), whilst the number of domestic overnight stays dropped further.

increased in bars (3.6% in real terms), but the share of these enterprises in total turnover is only 10%. Total turnover in hotels and restaurants was thus 1.2% lower in the first and 3.3% lower in the second quarter in real terms compared to the respective periods of 2001.

In July and August, the number of overnight stays in Slovenia was at approximately the same level as last year's record[31]. Turnover in hotels and restaurants were, however, 4.3% lower in real terms than in July last year. Assuming improved trends in the last quarter, the projection sets the **real growth of value added in 2003 at 3%**. This year, the Government of the Republic of Slovenia adopted the Strategy on Slovenia's Tourism for the 2002-2006 period which, among other things, envisages more investment in hotels and restaurants. The first positive results may be expected in the **next two years,** and the **real growth of value added should climb to between 3.5% to 4.5%.**

In the first half of 2002, value-added growth in **transport, storage and communications (I)** was only 2.2% in real terms year on year (1% in the first quarter, 3.4% in the second) – one of the lowest half-year growth rates in recent years. In the first quarter, road freight transport saw a major drop (by 16.2%, measured in million tonne kms). Maritime freight transport also fell in the first quarter by 9.7%, but railway freight transport and loading and unloading services in all types of transport increased by 11.7% and 13.1%, respectively. According to the estimates, road passenger transport fell by 20.4%, urban passenger transport by 1.2%, whereas railway passenger transport went up by 6.4%. Although the volume of air passenger transport rose by 2.4%, airport traffic continued to decline, going down by 6.1%. The trends in road and railway freight and passenger transport of the second quarter were quite similar to those of the first quarter: i.e. road transport fell, railway transport grew. In the second quarter (after rising in the first) air passenger transport fell again slightly, since the upturn anticipated after last year's decline failed to materialise. In the first half of 2002 developments in telecommunications seemed to have followed the trends of the last two years (last year they recorded a net operating loss of over SIT 3 billion), and this affected the relatively low value-added growth of transport, storage and communications in this period. **This year, the real growth of value added in transport, storage and communications** will therefore be lower than last year's, lower also than predicted in spring, and should be around **3.5%. In 2003,** higher production activities should take growth up to **4.0%**, and in **2004** to **5.0%**.

After relatively high growth rates of value added in the past two years (5.5% annually on average), value added in **financial intermediation (J)** recorded slightly lower, 4.1% real growth year on year in the first half of 2002, but this is still 1.4 percentage points higher than the economic growth in the same period. Because the business results of the banking sector in the first half of the year were better in general than last year, the slowdown of value-added growth was probably primarily caused by the slowdown in employment. In the first half of the year, the year-on-year growth of the number of persons in employment in this sector was 2.5% on average (against

[31] By number of tourists and their overnight stays, 2001 was the best year for tourism in independent Slovenia: for the first time since 1991 the number of tourists exceeded 2 million and the number of overnight stays 7 million.

3.1% last year). The lower growth chiefly resulted from the reduction of the number of persons in employment in the auxiliary branches of financial intermediation, which have seen falling trends since the second half of 1999. The banking sector, which accounts for more than half the value added in financial intermediation, recorded better business results in the first half of the year than in the same period last year. Compared to the first half of the year in 2001, revenues from net interest increased in real terms by 4.1% (the comparative growth last year was -1.7%), net commissions by 4.6% (against 6.2% last year), net profits by 42.7% (against 5.9% last year). Net commissions in the insurance sector increased by 10.2% in real terms in the first half of the year, more than in the same period last year. Preliminary data from the balance sheets of the banking sector indicate that the favourable trend in financial intermediation will continue into the third quarter.

With regard to the favourable trends in the banking sector in the third quarter of this year and the benchmark of settling year-on-year growth rates in financial intermediation in the second half of last year, value-added growth is expected to slightly strengthen in the second half of this year. In June, the transfer of payment transactions from the Agency for Payments to the banks was completed and this should have a positive effect on value-added growth in the banking sector. Stronger activity is also expected in supplementary pension insurance. The companies that want to market this type of insurance must acquire a minimum of 15,000 insured persons by the end of the year, and we can therefore expect the number of persons included in supplementary pension insurance schemes to increase by the end of the year. Given these trends, we estimate this year's value-added growth in financial intermediation to reach **4.5%**. Taking account of the poorly developed financial markets and, consequently, of the anticipated faster development, above-average growth rates in financial intermediation are expected to continue in the following years. The privatisation of Nova Ljubljanska Banka, a solution to the ownership issue in the largest insurance company, and sharper competition are factors which will stimulate further faster growth in this sector – between **4.7% and 5.5%,** respectively in **2003 and 2004.**

In **real estate, renting and business services (K)** year-on-year value added grew in the first quarter by 3.5%, and in the second quarter by 3.6%. This indicates a continuation of the favourable trends of the latter half of 2001 when, after the slowdown of 2000, value-added growth picked up again. In the first quarter of this year, the number of persons in employment reached a record growth rate (10.6%, compared to the same period last year), which slowed down slightly in the second quarter – to 9.3%. In the first half of this year, the highest growth rates of persons in employment were recorded in computer services, where the number of persons in employment increased from January to June by 16.7% year on year (in 2001 by 16.3%), in real estate business (16% against 16.1% in 2001), in legal, tax, and business consultancy (13% against 10.6% in 2001)[32], and fast growth of employment was again recorded in advertising (11.6% against 15% in 2001). In the spring forecast we expected stronger growth of value added in architectural and technical

[32] This activity contributed the most to the fast growth of the number of persons in employment, as it has the highest share in the structure of sector K - 22%. The employment growth is considerable since the number of persons in employment in consultancy services fell on average by 1% annually in the 1997- 2000 period.

consultancy, which are closely connected with construction, but the data on the growth of employment for the first half of the year do not yet confirm this estimate (a 2.4% increase of persons in employment compared to the same period last year, against 3.6% in 2001).

Considering last year's growth dynamics of value added (high rates in the third and fourth quarters) and this year's employment trends (the slight slowdown in the second quarter) which continued into July, the forecast sets real growth of value added in the real estate, renting and business services **in 2002** at **3.4%.** In the following two years dynamic growth is expected to continue in this sector. The favourable trends in computer services should be further stimulated by the introduction of information technologies in public administration and the accelerated development of the information society. The higher rise in construction should lead to faster growth in architectural and technical consultancy services. **Real growth of value added in 2003** is estimated to remain at **3.5%**, but could reach **3.8%** in **2004**

In the first half of this year, value added in **public services (L to O)**[33] was 3.8% higher in real terms than in the same period last year, indicating a slight slowdown of the growth dynamics of 2001. After a 3.5% rise in the first quarter, the real growth of value added in public services climbed 4% in the second quarter. Compared to 2001, the structure of value-added growth in public services changed in the first half of 2002: growth strengthened in education, but slowed in public administration, defence, and compulsory social insurance. The latter sector was the main factor causing the high growth rates of value added in public services in the past two years, due to the fast growth of employment and wages.

In the first half of 2002 the growth of the number of persons in employment in **public administration, defence and compulsory social insurance (L)** settled at 2.1%, year on year (3.8% in 2001), in accordance with the restrictions on new employment. The real growth of gross wage per employee also dropped (see Chapter 5.2). These developments slowed down the value-added growth, which was 4.9% in real terms year on year in the first quarter, and slightly lower, 4.6%, in the second quarter. In **education (M)** the year-on-year real growth of value added was 2.8% in the first quarter and 3.6% in the second (2.8% in 2001). According to the data on the number of persons in employment, strong growth was recorded particularly in higher education(as envisaged in the spring forecast) because of the higher number of enrolled students. In the first half of the year, the number of persons employed in higher education rose by an average of 4.3% year on year (in 2001 by 3.3% on average). The number of persons employed in predominantly market-oriented services in adult and other education maintained a high growth rate this year (7.3%; 7.9% in 2001). In **health and social work (N***)* value added increased in the first quarter by 3.4% in real terms, and by 3.3% in the second quarter (against 3.7% in 2001). Stronger employment growth was recorded in health, where the number of persons in employment increased by 2.1% year on year (last year's annual average was 1.1%; in 2000, only 0.8%). In accordance with the changes to the Standard Classification of Activities, the sub-category of sheltered workshops was transferred

[33] Using Eurostat's methodology the activities classified L to O by the Standard Classification of Activities are included in the public services group.

from the social work group to other activities in the first months of 2002. According to the number of persons in employment, sheltered workshops had a 48.3% share in social work activity and a 19.3% share in the entire activity of health and social work. The transfer of sheltered workshops led to a larger share of people employed in health and a lower share of those employed in social work. Because sheltered workshops are market-oriented companies, the relationship between value added generated by market-oriented and non-market-oriented activities also changed. Those employed in sheltered workshops are now classified in the activity where they in fact operate. In **other community and personal services (O)** the year-on-year real growth of value added was very low in the first quarter, only 2.2%, but climbed to 4.5% in the second quarter. As indicated by the data on the number of employed, the highest rise in the second quarter was recorded in recreational, cultural, and sports activities, which are predominantly market-oriented and achieve high value-added rates per employee.

Based on the quarterly data on value-added growth and taking account of employment trends, we expect the **real growth of value added** in public services to be **3.7%** in **2002**. Compared to last year, a minor strengthening of growth may only be seen in education. In spite of a slight slowdown compared to last year, public services will grow faster than gross domestic product this year, as they have done in the past years (with the exception of 2000). The forecast for **2003 and 2004** sets value-added growth at **4% in real terms**. Faster growth of public administration, defence, and compulsory social insurance is indicated by the proposal of planned jobs, which should lead to higher employment in state administration next year, resulting from increased protection of the southern border, the formation of a professional army, and the process of accession to the EU. In 2004, the increase of persons employed in this sector should slow down slightly, but still remain at a relatively high level. In education, adult education is expected to expand and new programmes will be introduced in higher education – meaning that next year's growth will be at a relatively high level and that slightly stronger growth can be expected in 2004. Value-added growth should increase in other community and personal services in 2003 and 2004, in particular on account of the continuing faster growth of mainly market-oriented services. A slight slowdown of growth is expected in health and social work in the following two years, mainly due to the transfer of sheltered workshops – which recorded significantly faster growth in recent years[34].

[34] The number of sheltered workshops increased in the 1995-2001 period from 81 to 143, and the average number of employees in these companies increased from 3,787 in 1995 to 11,276 in 2001.

3. International economic relations

3.1. International competitiveness[35] - Productivity growth to offset the larsge part of the exchange rate's impact on international competitiveness

In 2002, the price competitiveness of Slovenian manufacturing has been worsened by the slow nominal depreciation of the tolar and the stagnant or disproportionately slow rises in relative prices. Manufacturing's cost competitiveness should fall less strongly because labour productivity growth will, given a moderate rise in the compensation of employees, neutralise most of the exchange rate's effects on international competitiveness. Slovenia's market shares in international markets are expected to increase in 2002 for the second year running.

In the first nine months of 2002, the Bank of Slovenia (BS) continued to set the lowest exchange rates in the foreign exchange market as a result of an excess supply of foreign exchange in the prompt and futures foreign exchange markets. In exchange

Table 3.1: **International competitiveness indicators**

- Annual growth rates in %

	2000	2001	2002	2003
		Estimate	Forecast	
Tolar's real effective exchange rate [1]				
Nominal terms	-8.1	-5.8	-3.0	-1.5
Real terms [2]	-2.1	-0.3	2.7	2.3
Unit labour costs in manufacturing [3]				
SIT, nominal terms	4.2	8.5	5.3	2.5
Against the basket of currencies [4]	-4.2	2.2	2.2	1.0
Against the basket of currencies - relative [5]	-2.3	0.5	0.8	0.4
Components [4]				
Compensation of employees - real terms [6]	2.6	1.8	1.4	1.9
Net wages and other remuneration	1.9	0.8	0.9	1.7
Tax burden on wages [7]	0.6	0.6	0.1	0.0
Labour productivity	7.2	1.7	3.6	4.9
Prices / effective exchange rate	0.1	2.1	4.3	4.0

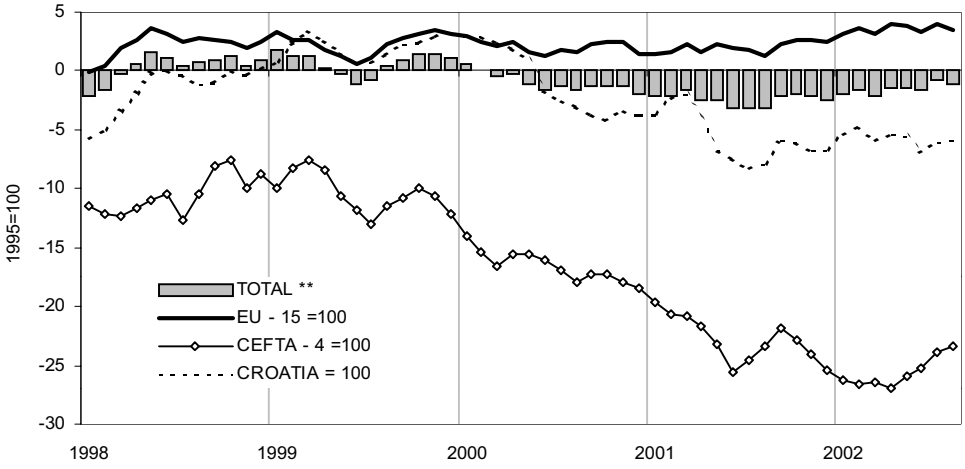
Sources of data: AP, BS, SORS, OECD, EC, calculations by the IMAD.
Notes:
[1] A rise in value means appreciation of the tolar and vice versa,
[2] Measured by relative consumer prices,
[3] Applies to enterprises and organisations employing three or more workers (ZAP-M),
[4] Domestic factors only
[5] Relative to rises in unit labour costs of the seven main OECD trading partners,
[6] Deflated by the consumer price index,
[7] Gross wage and employers' contributions relative to net wages.

[34] The analysis of international competitiveness focuses on price and cost competitiveness and changes in market shares. It should be noted that competitiveness of the Slovenian economy as a whole does not depend on price and cost competitiveness alone, but also on the level of technological advancement (Development Report, IMAD 2002).

offices, demand was invariably higher than supply. With depreciation of the tolar slowing down in both monthly and annual terms, September's average nominal value of the tolar against the euro was 2.9% lower than December's, while in the first nine months it was 3.7% lower than in the same period of 2001. From May to July, the tolar appreciated in nominal terms against the basket of OECD currencies[36] mainly due to the US dollar's strong depreciation against the euro, so the tolar's value in September was 1.4% lower than in December. The effect of the weak US dollar was less evident at the year-on-year level: the tolar's effective exchange rate depreciated by an average of 3.3% in nominal terms in the first nine months against the same period last year. As relative consumer prices rose fast, the tolar's real effective exchange rate was 2.9% higher in September over December (1.5% higher against the euro) and 2.6% higher in the first nine months compared to the same period last year (2% higher against the euro). Following this year's slow rise in relative producer prices, the tolar's real effective exchange rate was 0.9% higher in September over December (0.5% lower against the euro) and 2.6% higher in the first nine months compared to the same period last year (1.8% higher against the euro). The impact of this year's slow rise in relative producer prices on the tolar's year-on-year real exchange rate is as yet not evident due to last year's dynamics (the rapid rise in the last quarter). In August over December, Slovenian manufacturing's price competitiveness also worsened compared to competitors from CEFTA countries (down 2.7% when measured by relative consumer prices) and Croatia (down 0.9%), while the average price competitiveness in the first eight months was better than in the same period last year (up 4.0% and 0.3%, respectively).

In the first eight months of 2002, Slovenian manufacturing's cost competitiveness was roughly at the level of December 2001 and was affected by changes in the

Picture 7: **The tolar's real effective exchange rate against currencies of the main trading partners**



Source: OECD, WIIW, SORS, calculations by the IMAD.
Notes: * the CPI deflator; ** total, including the USA and Switzerland. A fall signifies an improvement in competitiveness.

[36] The euro, the US dollar, the pound sterling, and the Swiss franc.

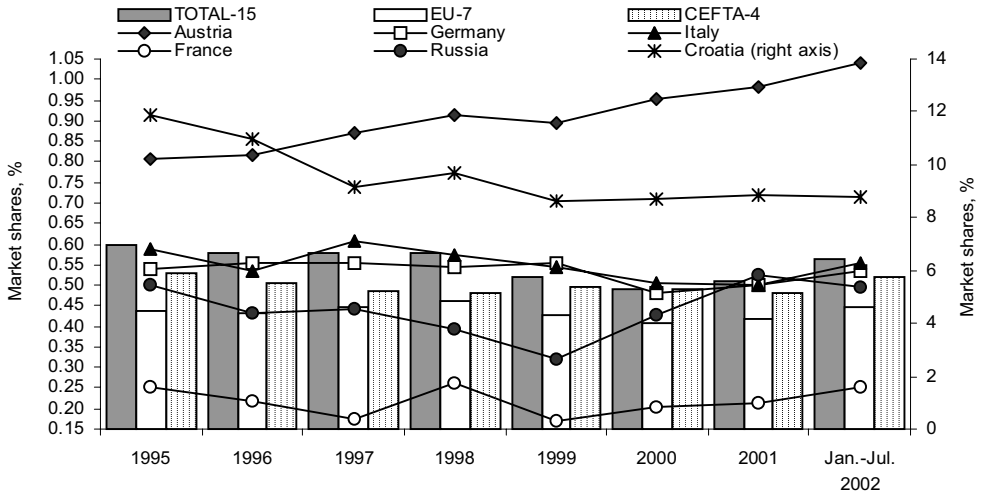
effective exchange rate and production. After falling by 1.2% in the first three months of the year, relative unit labour costs began to rise and climbed by 1.6% in the ensuing period. This rise came to a halt in July, when production activity picked up. In August, relative labour costs fell by 0.6% because the nominal appreciation of the tolar was interrupted. Real compensation of employees increased modestly, by 0.9%, as other remuneration fell and wages rose only slightly, while employment fell steadily since mid-2001 largely due to the feeble recovery of foreign demand (employment in August was 1.3% lower than in December). In the first eight months, the average cost competitiveness of Slovenian manufacturing worsened slightly compared to the same period last year. Real growth in the compensation of employees was modest, up 0.9% when deflated by the consumer price index, but in foreign markets growth was accelerated by a slower rise in the exchange rate relative to domestic inflation (the gap was 4.3 percentage points). With labour productivity climbing by 2.6%, again due to falls in the number of employees (down 1.3%) after one year's break, unit labour costs against the basket of currencies climbed by 2.4%. However, since the main trading partners also recorded a rise in unit labour costs (up by an estimated 1.3%), the relative worsening of Slovenian manufacturing's cost competitiveness was weaker and equalled around 1%.

Slovenia's market share in the main trading partners[37] climbed to an average of 0.562% in the first seven months from 0.522% in the first seven months of 2001 and from 0.512% in 2001 as a whole. This year's rapid market share increase in advanced economies was primarily the result of ongoing growth in the German, French and Austrian markets, and resumed growth in the Italian market after suffering a four-year shrinking. As before, Slovenia's market share growth in the EU was weaker than that in the Czech Republic, Hungary, Poland and Slovakia. In Central and Eastern Europe, Slovenia's market share increased substantially in the CEFTA-4 countries after having fallen slightly for two years: this was underpinned by resumed growth in the Czech and Hungarian markets and accelerated growth in the Polish and Slovak markets. The market share fell slightly in Croatia and more markedly in Russia after having expanded rapidly for two years. In the countries of former Yugoslavia, which are not incorporated in the aggregate market share, Slovenia's market share increased in the FR of Yugoslavia in the first half of 2002 for the fourth consecutive year (from an average of 4.91% in 2001 to 5.2%). However, in Macedonia the market share fell after one year of increase (from 7.81% to 6.07%). No data for this year are as yet available for Bosnia and Herzegovina, where Slovenia's market share increased in 2001 for the third year running and expanded from 15.94% in 2000 to 16.92%.

Assuming that the Bank of Slovenia's exchange rate policy remains unchanged before the end of 2002, the tolar's slow depreciation against the euro should continue. In 2002 as a whole, the tolar will depreciate by 3.0% in nominal terms against the basket of currencies (3.7% against the euro) and appreciate by 2.7% in real terms on the basis of the consumer price index (2% against the euro). Slovenian manufacturing's cost competitiveness in 2002 will fall at a similar rate as in the first eight months year on year. Before the end of 2002, year-on-year labour productivity

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

Picture 8: **Slovenia's market shares in the 15 main trading partners**



Sources: OECD, SORS, WIIW, estimates by the IMAD.

growth will strengthen gradually to around 3.6% mainly as a result of slightly accelerated production growth (up 2.1%) and falls in the number of employees (down 1.5%). The real compensation of employees, deflated by consumer prices, will rise by 2.2 percentage points more slowly than labour productivity growth, while in foreign markets its rise will be fuelled by the 4.5 percentage points slower nominal rise in the effective exchange rate relative to domestic inflation. With an around 1.3% 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 0.8% in 2002.

The trend of Slovenian manufacturing's worsening international competitiveness is expected to continue in 2003. In the environment of the Bank of Slovenia's monetary policy (see Chapter 7.1), nominal depreciation should continue to slow down (to 1.5%) and the real appreciation of the tolar's effective exchange rate should be maintained (about 2.3% when measured by relative consumer prices). Labour productivity growth of 4.9% should be stronger than in 2002 because of faster production volumes growth (3.3%) fuelled by increased foreign demand. The downward trend in employment should continue, albeit more slowly. Since growth in the real compensation of employees (up 1.9% deflated by the consumer price index) should still lag significantly behind labour productivity growth, Slovenian manufacturing's relative unit labour costs measured against the basket of currencies should record a weaker rise than in 2002 (up by around 0.4%) as the effective exchange rate is expected to rise by 1.5% in nominal terms.

3.2. Balance of payments[38] - A balanced current account and high foreign direct investment inflows

In the first eight months of 2002, the current account of the balance of payments had a surplus of EUR 239.3 million, whereas the situation in the same period of 2001 was more balanced, with a surplus of only EUR 0.7 million. A quick look at the current account reveals an improvement particularly in merchandise trade. Moreover, the surplus in trade in services also went up a little. Factor services and current transfers, on the other hand, worsened compared to the same period in 2001. The trade deficit totalled EUR 125.8 million in the first eight months, EUR 313 million less than in the same period last year, which was due to stronger export than import flows and better terms of trade (index 102.6). The trade balance with five most important trading partners rose by just around EUR 40 million[39]. Taking this slight increase into account, the overall drop in the trade deficit was largely the result of the large trade surplus with countries in the areas of former Yugoslavia (Croatia excluded), CEFTA and the former Soviet Union. Trade in services strengthened from the same period in 2001, exceeding the growth of trade in goods. The surplus in services trade rose from EUR 334.8 million to EUR 359.4 million, chiefly due to the increase in net exports of transport services and the decrease in deficit in other business services (see also Chapter 2.2.1). After posting a surplus of EUR 4.8 million in January–August 2001, factor services had a deficit of EUR 80.7 million in the same period in 2002. The deficit was driven primarily by interest payments on external debt, a fall of banks' income from interests abroad, and the increased expenditure on direct investment. The latter increase is mainly the result of the altered methodology of calculating reinvested earnings (see Box 5). The balance of current transfers in the first eight months of 2002 dropped from EUR 99.9 million to EUR 86.4 million from the same period in 2001.

The capital and financial account of the balance of payments showed net assets of EUR 265.1 million in the first eight months of 2002 after reaching only EUR 71.4 million in the same period of 2001. Net capital inflows, the Bank of Slovenia's foreign exchange reserves excluded, amounted to EUR 380.5 million, a drop from EUR 488.9 million in the same period a year earlier. The driving force behind capital outflows was individuals' cash flows (EUR 414.5 million) and a rise in net assets stemming from short-term trade credits (EUR 369.7 million; EUR 203.4 million in the same period of 2001). The outflow of individuals' cash can partly be explained as an adjustment to the banks being flooded with foreign currency from households at the end of 2001 when all old foreign currencies from the euro zone were changed

[38] As the Bank of Slovenia began to release monthly balance of payments figures in euros in 2002, this chapter contains an analysis of the balance of payments for 2002 and forecasts for the period from 2002 to 2004 in euros only. IMAD believes this to be the most valid solution given that the majority of transfers related to the balance of payments are made in euros. The differences stemming from methodological changes (Box 4) in the period from 1994 to 2001 are presented in USD because the Bank of Slovenia has issued the balance of payments and current account forecasts in euros only since 1996. The Statistical Appendix (Table 7) also contains data about the balance of payments and current account forecasts in USD.

[39] In JanuaryñAugust 2002, the surplus with Croatia increased and the deficit with Italy decreased compared to the same period of 2001. However, the surplus in trade with Germany fell and the deficit with Austria and France rose in the same period.

Box 5: Revision of the balance of payments for 1994-2001

In August, the Bank of Slovenia revised Slovenia's balance of payments for 1994-2001 and thus improved the statistical coverage of balance of payments flows. The main reasons for revising the balance of payments series are: (i) previously, the balance of payments had been presented in three currencies (SIT, USD, and EUR since 1996); (ii) the revised balance of payments allows a breakdown of the current account by countries; (iii) the methodology for calculating reinvested earnings has changed[40]; (iv) the methodology has changed because part of imports of services under merchanting was transferred to other items of the services account; and (v) cross-checks and data corrections had to be made. The figures have most notably changed due to reinvested earnings and the redistribution of some merchant services (affecting figures on imports of services). The new methodology led to higher current account balances for each of the given years. Changes were most evident in 1999 to 2001, when the current account deficit relative to gross domestic product fell by 0.4 to 0.6 of a percentage point. In 2001, Slovenia recorded a current account surplus of 0.2% of gross domestic product instead of the current account deficit of 0.4% of gross domestic product previously established.

Another important change in 2001 related to reinvested earnings. Reinvested earnings for 2001 were assessed on the basis of figures for 2000. However, the actual figures for 2001 obtained by the Bank of Slovenia from annual equity investment reports revealed that the provisional figure was too high. This was mainly due to the negative reinvested earnings of non-residents in Slovenia, suggesting that foreign equity fell in the same period, which was largely the result of losses made by a bank in majority foreign holding.

In addition to changes in the current account, the final balance of payments for 2001 also includes changes relating to loans extended between affiliated companies (a 10% or higher holding). In terms of methodology, the Bank of Slovenia has brought its balance of payments figures closer to the standards used by the IMF. Loans extended between affiliated companies, which had previously been put under loans, are included in direct investment as of and including 2001. As a result, the loan data series (loans given and received) and the item direct investment – other capital (abroad and in Slovenia) – were interrupted in 2001.

In 2003 and onwards, the Bank of Slovenia will no longer show the balance of payments in US dollars because it believes this currency is unsuitable for presenting the balance of payments due to its volatility and, secondly, because most transactions in the balance of payments are conducted in euros. As of 2003, the Bank of Slovenia will publish its balance of payments only in tolars and euros.

[40] Prior to the revision, reinvested earnings were added as a one-off amount at the end of December of a given year. Since August 2002, they have been added monthly in order to allow a better comparison with the balance of payments of other European countries, where this method has become an established practice. At the same time, the inclusion of reinvested earnings in each month's balance of payments will paint a more realistic picture of direct investment in December.

Box 5: Revision of the balance of payments for 1994-2001 - *continued*

Table 3.2: **Changes in methodology for the balance of payments for 1994-2001 (balances according to old and new methodologies)**

Balances according to odl and new methodology	Current account[1], % of GDP	Current account[1], USD million	Trade in goods, USD million	Services, USD million	Labour and capital income, USD million	Current transfers, USD million
1994 old methodology	4.0	573.0	-336.4	643.0	169.8	96.6
1994 new methodology	4.0	574.8	-336.5	643.3	171.3	96.6
Difference	***0.0***	***1.8***	***-0.1***	***0.3***	***1.5***	***0.0***
1995 old methodology	-0.5	-99.4	-953.0	578.2	179.4	96.2
1995 new methodology	0.4	-74.7	-953.9	582.6	201.3	95.2
Difference	***0.1***	***24.7***	*-0.9*	***4.4***	***21.9***	***-1.0***
1996 old methodology	0.2	31.4	-824.9	633.4	132.2	90.6
1996 new methodology	0.3	55.5	-826.1	640.5	153.3	87.8
Difference	***0.1***	***24.1***	***-1.2***	***7.1***	***21.1***	***-2.8***
1997 old methodology	0.1	11.4	-776.3	630.3	39.4	118.1
1997 new methodology	0.3	50.5	-774.8	635.8	75.4	114.2
Difference	***0.2***	***39.1***	***1.5***	***5.5***	***36.0***	***-3.9***
1998 old methodology	-0.8	-147.2	-789.3	492.5	27.9	121.8
1998 new methodology	-0.6	-118.0	-792.0	500.8	55.9	117.4
Difference	***0.2***	***29.2***	***-2.7***	***8.3***	***28.0***	***-4.4***
1999 old methodology	-3.9	-782.6	-1245.2	364.1	-24.5	123.0
1999 new methodology	-3.5	-698.4	-1235.1	353.5	63.7	119.6
Difference	***0.4***	***84.2***	*10.1*	***-10.6***	***88.2***	***-3.4***
2000 old methodology	-3.4	-611.5	-1138.9	436.4	-24.5	115.5
2000 new methodology	-3.0	-547.6	-1138.9	449.7	26.2	115.4
Difference	***0.4***	***63.9***	***0.0***	***13.3***	***50.7***	***-0.1***
2001 old methodology	-0.4	-66.9	-621.7	501.2	-74.5	128.2
2001 new methodology	0.2	30.9	-619.4	502.1	19.1	129.1
Difference	***0.6***	***97.8***	***2.3***	***0.9***	***93.6***	***0.9***

Source of data: Bank of Slovenia.
Note: [1] Current account balance.

into euros (see Chapter 7.2). The great majority of net assets, however, result from trade with countries in the areas of the former Yugoslavia and Soviet Union as well as CEFTA[41]. Net liabilities of Slovenian companies, on the other hand, stemmed from their trade with the EU and EFTA countries. Two major sources of capital inflows were FDI (EUR 757.1 million) and falls in Slovenian banks' deposits abroad (EUR 454.4 million). Net loans made up a mere EUR 6 million inflow as compared to EUR 325.8 million in the same period of 2001. Since 2001, net bank deposits in

[41] A rise in the net crediting of these countries was boosted by the continued increase in Sloveniaís exports to these countries (see Chapter 2.2.1).

the balance of payments have only included loans between residents and non-residents who have no capital alliance (see Box 5). Compared to 2001, the first eight months of 2002 saw a fall in the borrowing of other sectors (except the banking and governments sectors; see Chapter 3.4.). The current account surplus and capital inflows made the Bank of Slovenia's foreign exchange reserves rise by EUR 646.2 million in the first eight months. The rise exceeded that in the same period of 2001 when it was EUR 560.5 million. The foreign exchange reserves of the central bank totalled EUR 5,323.4 million at end-August, which was 82% of the foreign exchange reserves of the entire banking sector. Slovenia's total foreign exchange reserves were EUR 6,492.3 million at end-August.

Given the anticipated export and import trends until the end of 2002 (see Chapter 2.2.1.) and the expected worsening of the terms of trade from the first half of the year[42] (in 2002 on average, the terms of trade should be about the same as in 2001), the **trade deficit** is to go up by the end of 2002 to some **EUR 486 million**, **which is considerably less than in 2001**. The surplus in services is expected to reach some 537 million EUR by the end of 2002. With an anticipated deficit in incomes of some EUR 128 million and an unchanged surplus in the transfers of some EUR 138 million, **a surplus of EUR 62 million or 0.3% of GDP is to be recorded on the current account of the balance of payments in 2002**.

Anticipating a gradual upturn in Slovenia's most important trading partners, the value of exported goods and services in **2003** should increase faster than the value of imports (see Chapter 2.2.1.). This should, despite a slight deterioration in the terms of trade , help further reduce the trade deficit (EUR 402 million) and keep a surplus in services trade (EUR 510 million). With a slight rise in net factor services (EUR 158 million) and a more or less unchanged balance in current transfers, **a surplus of EUR 88 million or 0.4% of GDP is to be recorded on the current account of the balance of payments** in 2003.

Taking into account the anticipated growth in export markets in **2004** (see Chapter 1) and the trends in the components of domestic consumption (see Chapter 2.1), imports in 2004 are expected to increase faster than exports, which could result in another rise in the trade deficit to EUR 539 million. While a gradual slowdown in goods export growth is expected in the markets of the former Yugoslavia and Soviet Union, Slovenia's volume of trade within the EU is expected to rise after the country joins the Union. An increase in the trade deficit is expected to be the driving force of **another rebalancing of the current account of the balance of payments, which is expected to be roughly balanced in 2004** (a deficit of some EUR 9 million). However, it should be noted that the forecast of current transfers for 2004 is based on a rather conservative estimate of financial inflows from the EU. This estimate takes into account the limited absorption capacity and its influence on the realised inflows.

[42] The impact of oil prices, other raw materials and, as a result, the impact of prices of other industrial products in the second half of 2002.

3.3. Foreign direct investment - Record foreign direct investment inflows in 2002

After achieving record levels in 2000, global foreign direct investment (FDI) flows dropped significantly in 2001. According to UNCTAD, FDI inflows fell by 51%, down from USD 1,492 billion in 2000 to a mere USD 735 billion in 2001. Most of this fall was due to lower inflows in advanced industrialised countries, (down from USD 1,227 billion to USD 503 billion), while FDI inflows in developing countries dropped by around USD 33 billion (down from USD 238 billion to USD 205 billion). The falls in FDI flows seen in 2001 were largely the result of a lower level of cross-border mergers and acquisitions, which have been the driving force behind the strong FDI growth over the last few years. These mergers and acquisitions are expected to remain low in 2002; in January-July, the volume of global mergers and acquisitions totalled USD 222 billion, over 40% less than in the same period the year before, which will result in further falls in FDI flows in 2002 (UNCTAD, 2002). The OECD estimates that FDI flows will drop by 20%-25% in 2002 (OECD, 2002).

These falls in FDI flows have primarily been due to decelerating global economic growth, particularly in the three largest world economies (the USA, the EU and Japan), and significant drops in the capital market indices of advanced industrialised countries. This is the reason why falls in FDI flows were strongest in these countries. After the surging FDI flows seen in the late 1990s and 2000, driven by the overvalued shares in capital markets, especially in telecommunications and high technologies, the falls seen in 2001 and 2002 probably signify a return to the level of FDI flows that will be sustainable in the long term. Record-high share prices recorded over the last few years inflated corporate liquidity as well as companies' capacity to make take-overs, while high share prices prompted former owners to sell their holdings. Further, cross-border take-overs were stimulated by the privatisation wave in OECD countries and elsewhere at the end of the 1990s.

In the environment of significant drops in global FDI flows, countries in transition did more than well: FDI inflows increased slightly from USD 26.6 billion in 2000 to USD 27.2 billion in 2001. As a result, the share of transition countries in global FDI inflows climbed from 1.8% in 2000 to 3.7% in 2001. The main FDI recipients

Table 3.3.1: **Flows, stock and changes in stock of inward FDI[1] in Slovenia in 1993–2001**

VALUES, USD million	1993	1994	1995	1996	1997	1998	1999	2000	2001
Year-end stock - total [2]	954.3	1,325.9	1,763.4	1,998.1	2,207.3	2,777.0	2,682.4	2,892.7	3,209.0
Equity and reinvested earnings	709.7	966.5	1,203.5	1,274.9	1,559.4	2,016.2	1,910.1	1,969.1	2,185.6
Net liabilities to foreign investors	244.4	359.4	559.8	723.1	647.9	760.8	772.4	923.6	1,023.4
Changes in stock - total values [2]	N/A	371.6	437.5	234.7	209.2	569.7	-94.6	210.3	316.3
Annual inflows - total	112.6	116.7	150.5	173.5	334.2	215.5	106.6	135.9	503.3

Source of data: Bank of Slovenia.
Notes: [1] companies where a foreign investor holds a 10% or higher stake; [2] total value = equity + liabilities to foreign investors - claims on foreign investors;
N/A - not available.

among countries in transition remained Poland (USD 8,830 million in 2001), the Czech Republic (USD 4,916 million), Russia (USD 2,540 million), Hungary (USD 2,414 million), Slovakia (USD 1,475 million), Croatia (USD 1,442 million), and Romania (USD 1,137 million). This suggests that foreign investors consider countries in transition to be stable and promising locations for FDI; on the basis of a survey conducted among foreign investors, UNCTAD estimates that the attractiveness of these countries will grow in the next three to five years (UNCTAD, 2002).

The year 2001 saw a positive turnaround as regards FDI inflows in Slovenia. FDI inflows totalled USD 503.3 million, by far the highest annual amount so far. This trend strengthened further in 2002: in January-August, FDI inflows amounted up to USD 680.7 million, as against the USD 288.8 million seen in the same period last year. These higher inflows were mainly fuelled by foreign acquisitions, being relatively large for Slovenian circumstances (the takeover of Simobil by Austria's Mobilkom, the takeover of SKB Banka by France's Société Générale, the purchase of Banka Koper by Italy's San Paolo IMI, the purchase of Krekova Banka by Austria's Reiffeisen Bank, the purchase of Cementarna Trbovlje by Austria's Lafarge Perlmooser, the purchase of a minority stake in Pivovarna Union by Belgium's Interbrew, and the purchase of the rest of the stake held by the Sava Kranj in Sava Tires by Goodyear). If some foreign acquisitions which have already been concluded are also taken into account (the purchase of a stake in the NLB by Belgium's KBC and the EBRD, and the takeover of Lek by the Swiss Novartis) – they are likely to be realised before the end of the year – FDI inflows may total USD 1.5 or close to USD 2 billion in 2002.

This strong FDI growth over the last two years raises two questions. First, to what extent does this upward trend reflect an improvement in foreign investors' perception of Slovenia as a location for investment and, second, to what extent was this due to occasional opportunities for affordable acquisitions. Being a future member of the EU, Slovenia is clearly becoming an increasingly more attractive investment location because it will constitute part of the single EU market upon accession to the Union. Further, following the process of post-privatisation ownership consolidation Slovenian companies are more and more focused on long-term development issues. Within this context, some companies see their future as being part of foreign multinational companies. Gradual growth in FDI inflows is also being stimulated by the measures set out in the government's Programme of Attracting Foreign Direct Investment in 2001-2004 and the Action Plan for Lifting Administrative Barriers to Investment, both of which show the government's more positive attitude to foreign investment. Slovenia's favourable opportunities for FDI are also shown by the UNCTAD data for 1998-2000, placing Slovenia in 31st place in the world in terms of potential for inward FDI, while Slovenia is ranked only 110th as regards the actual results in attracting FDI. Significant inflows seen in 2001 and 2002 will definitely paint a different picture (UNCTAD 2002). If the government realises the announced privatisation of state assets which, in the context of existing public finance and strategic concerns, will be impossible to carry out without an important role of foreign investors, and if some of the announced FDI projects are realised, high annual FDI inflows are expected in the oncoming years. The levels, however, may not be as high as in 2002. So the general impression is that foreign investors' perception of Slovenia as an FDI location is improving steadily. However, in order

to extend the scope of FDI from foreign acquisitions to more greenfield investment, the government and the Trade and Investment Promotion Agency will have to take on a more active role.

Another issue concerns the importance of these strong FDI inflows for the Slovenian economy. First of all, they contribute to economic growth and development directly by bringing in fresh capital, technology and know-how, and indirectly through the positive effects of co-operation between foreign investment enterprises and domestic enterprises[43]. On the other hand, high FDI inflows exert upward pressure on the tolar's appreciation, which puts the Bank of Slovenia in the difficult position of how to effectively sterilise these inflows, especially in view of the fact that the proceeds will be increasingly collected by private individuals with whom it will be impossible to negotiate the timing of inflows to match the sterilisation capacity of the Bank of Slovenia. An even more important issue related to FDI inflows is how to spend these funds most effectively for development, i.e. how to stimulate the recipients of proceeds to direct them back into the economy, while taking into account the economy's limited capacity to allocate these funds for investment. Economic policy measures aimed at directing the proceeds to development and increasing the economy's absorption capacity for investment involve the following: (i) additionally stimulate the recipients of proceeds to direct them back to the capital market; (ii) encourage domestic and foreign enterprises to invest by renting them fully-equipped business premises in industrial estates under advantageous conditions, while these premises are financed by the proceeds; and (iii) set up risk capital funds whose aim is to foster Slovenian enterprises' investment abroad.

The year 2001 saw the biggest FDI outflows from Slovenia so far, totalling USD 132.8 million; the stock of Slovenia's direct investment abroad amounted to USD 949.5 million at the end of 2001. Further growth in Slovenia's FDI abroad was recorded in 2002. From January to July, FDI outflows totalled USD 74 million

Table 3.3.2: **Flows, stock and changes in stock of outward FDI[1] in Slovenia in 1993–2001**

VALUES, USD million	1993	1994	1995	1996	1997	1998	1999	2000	2001
Year-end stock - total [2]	280.6	354.0	489.9	459.5	459.4	636.2	626.5	767.6	949.5
Equity and reinvested earnings	241.7	342.4	366.2	342.9	324.7	381.5	379.1	464.0	584.2
Net liabilities to foreign investors	38.9	11.7	123.7	116.5	134.7	254.7	247.4	303.6	365.3
Changes in stock - total values [2]	N/A	73.4	135.9	-30.4	-0.1	176.8	-9.7	141.1	181.9
Annual inflows - total	-1.3	12.7	10.0	-7.0	-30.9	5.5	-47.6	-65.3	-132.8

Source of data: Bank of Slovenia.
Notes: [1] companies where a foreign investor holds a 10% or higher stake, [2] the '-' sign signifies outflows; N/A - not available.

[43] For more on the positive spillover effects of FDI in Slovenia, see Damijan, Jože, Mark Knell, Boris Majcen & Matija Rojec. 2002. *Technology transfer and spillovers through FDI in transition countries: How important are horizontal and vertical spillovers?* Ljubljana: Institute for Economic Research. Mimeo.

Box 6: Specific measures for stimulating Slovenia's FDI in the countries of South-eastern Europe

Interviews conducted with Slovenian investors abroad reveal three main weaknesses in the areas of institutional services and support provided to investors abroad: (i) the lack (inaccessibility) of finance or high financing costs; (ii) the low quality and lack of information necessary for outward internationalisation; and (iii) the non-existence or inefficiency of the institutional framework/ agreements. On the whole, Slovenian investors abroad assessed the quality of institutional services to be semi-good: the lowest score was given to financing opportunities: on one hand, they criticise the existing offer of domestic banks (they mentioned the inflexibility of banks, low credit limits, high prices, short loan maturity), on the other hand, they note the lack of other forms of financing such as risk capital funds. Small and medium-sized enterprises are particularly critical because they cannot get bank loans for investment abroad while, at the same time, they do not have their own funds for these purposes. Suggestions made by companies relating to financing opportunities mainly concern higher credit limits, subsidised interest rates, guarantees, and tax incentives. One of the important barriers to any faster internationalisation is the lack of information (Jaklič and Svetličič, 2002).

Apart from the general measures enterprises proposed to encourage Slovenia's outward investment, two specific aspects are important when investing in South-eastern Europe. These two aspects ask for the introduction of additional measures, and give a specific additional relevance to some general measures. They relate, on one hand, to greater risk involved and, on the other, to the fact that Slovenia enjoys a special status because of its strong economic relations with this region and its better understanding of business customs and the economic environment of these countries. Measures relating to these two aspects concern three areas:

a/ Conclude and effectively implement bilateral agreements on investment protection and agreements on the prevention of double taxation. So far, Slovenia has concluded bilateral investment agreements with all countries in the region, except Moldavia, while agreements on the prevention of double taxation have only been signed with Macedonia and Romania. These two types of bilateral agreement are important both in terms of reducing risk and promoting Slovenia as a springboard for investors from other countries planning to invest in this region.

b/ Expand the range of services provided by the Slovenian Export Corporation. By definition, the services of the Slovenian Export Corporation should reduce risk in countries where investment takes place. The Slovenian Export Corporation is faced with growing demand for services that insure outward investment, which mainly stems from FDI in South-eastern Europe.

c/ Specific measures aimed at bolstering the role of Slovenia as a springboard for investing in South-eastern Europe and a location where regional headquarters are established. Slovenia has many specific advantages which

Box 6: Specific measures for stimulating Slovenia's FDI in the countries of South-eastern Europe - *continued*

make the country an attractive location for setting up regional headquarters for South-eastern Europe, or a springboard for investors in this region. Activities that should encourage the establishment of regional headquarters in Slovenia range from improving/developing the transport, (tele)communications and financial infrastructure needed for co-operation with 'preferential FDI recipient countries' to direct fiscal and factor incentives for stimulating FDI.

* The Belgian concept of co-ordination, distribution and service centres is a very good example here. Belgium has six specific incentives for setting up such centres: tax relief for co-ordination, service and distribution centres, incentives for hiring expert staff, exemption from tax on dividends, the reduction of tax base for invested funds (The Economist Intelligence Unit, 2002).

compared to the USD 56.8 million recorded in the same period of 2001. The growing investment activity of Slovenian companies abroad is mainly related to their involvement in the countries of former Yugoslavia and other countries in transition. The strengthening of this process needs specific outward FDI promotion measures (see Box 6). The economic policy rationale behind outward FDI promotion is that FDI is becoming an important way of increasing sales in foreign markets. The countries of former Yugoslavia seem to be the most obvious destination for investment expansion, with further opportunities being offered by the privatisation processes underway in these countries.

3.4. External debt - Subdued growth in external borrowing in 2002

In 1995–2001, external debt increased faster than foreign exchange reserves. While external debt rose by 17.3% in this period, the latter went up by 11.9%, which made the average annual rate of cover of external debt by total foreign exchange reserves drop from 1.154 in 1995 to 0.855 in 2001. Long-term debt (maturity of over one year) made up 98% of the entire external debt in this period. After 1997, however, the share of private non-guaranteed debt in the long-term external debt started to increase.

Slovenia's overall external debt went up USD 1,159 million in the first eight months of 2002, totalling 7,876 million USD at the end of August. Given that the euro is the predominating currency in the external debt structure (91.9% at end-August 2002), external debt increased almost solely due to exchange rate changes[44]; a rise of a mere USD 119 million resulted from current transactions. The share of long-term debt at end-August represented as much as 98.7% of the country's entire external debt; it increased by 0.6 of a percentage point from 2001. The year 2002 saw a structural change as regards private and public sector borrowing: the government sector made no borrowing through the issuing of euro-bonds, so the share of public and publicly guaranteed debt decreased. Compared to the end of 2001, this share

Table 3.4: **External debt, USD million**

	1995	1996	1997	1998	1999	2000	2001	31.8.2002
OVERALL EXTERNAL DEBT	**2,970**	**3,981**	**4,123**	**4,915**	**5,400**	**6,217**	**6,717**	**7,876**
Long-term debt	2,916	3,931	3,988	4,805	5,283	6,118	6,591	7,777
Public, publicly-guaranteed debt	1,437	1,996	2,014	2,326	2,451	2,665	2,710	2,995
Private non-guaranteed debt	1,479	1,935	1,974	2,479	2,832	3,453	3,881	4,782
Used IMF funds	4	1	-	-	-	-	-	-
Short-term debt	50	49	135	110	117	99	126	99

Source of data: Bank of Slovenia.

dropped by 2.6 structural points to 38.6% until the end of August. As for the structure of lenders, the share of external debt with international financial institutions is falling (from 11.6% in 2001 to 11% in the first eight months of 2002).

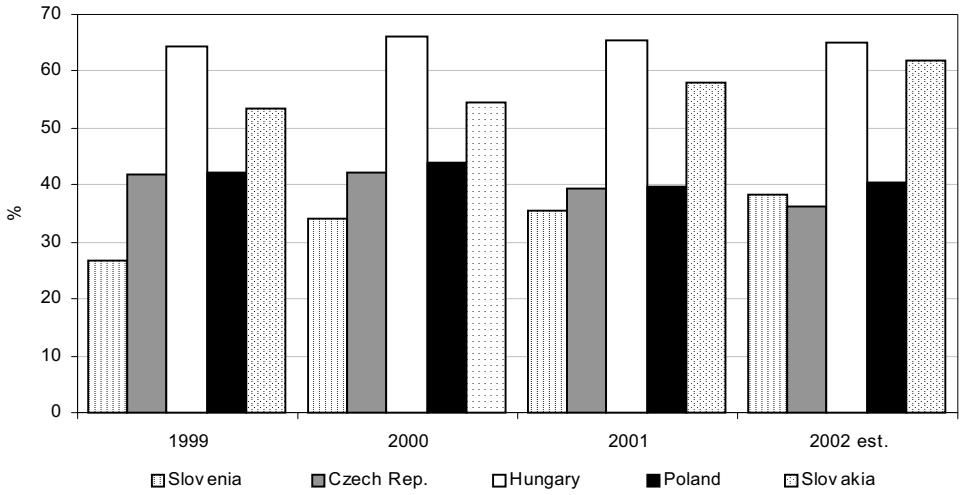
The increase in liabilities deriving from net loans taken out abroad (disbursement less repayment) was relatively small in the first eight months of 2002, amounting to a mere USD 131.5 million (USD 284.2 million in the same period of 2001). The sum of approved foreign loans has gradually decreased since 2000. The main reasons for this are the modest rise in domestic demand for loans and the major increase in tolar and foreign currency deposits in banks, which boosted the lending capacity of Slovenian banks. This year the government sector primarily repaid debt, and took out its first foreign loan only in July. The banks borrowed only USD 2.7 million from abroad until the end of August, chiefly because of the sharp rise in other sources of funds (see Chapter 7.2.). The inflow of foreign loans to Slovenian companies totalled USD 123.7 million in January–August, down sharply from USD 294.7 million in the same period of 2001. Companies borrowed more at home this year (see Chapter 7.2)

The average terms of fresh loans taken out from private lenders improved in the first eight months of 2002 compared to 2001. Interest rates dropped from 5.4% to 4.3% on average, with the grace period being extended from 3.4 years to 4.2 years. On the other hand, the period before loans are due shortened from 7.2 to 6.4 years.

Total foreign exchange reserves amounted to USD 6,399 million at end-August, up USD 652 million from the end of 2001. Similarly to external debt, foreign exchange reserves increased mainly as a result of a drop in the US dollar against the euro. The entire foreign exchange reserves at end-August therefore sufficed to cover 6-months' worth of imports of goods and services. Given that the increase in external debt in the first eight months, which resulted mainly from exchange rate changes, exceeded the rise in foreign currency reserves, the coverage rate of external debt by foreign exchange reserves dropped by 4.4 percentage points from the end of 2001, totalling

[44] In the situation of the US dollar strengthening against the basket of currencies, such a currency structure has a favourable effect on external debt expressed in US dollars. The opposite is the case when the value of the US dollar falls against the basket of currencies.

Picture 9: **Share of external debt in some EU candidate countries, as a % of gross domestic product**



Source: SORS, BS, NEWTON Holding, Quarterly Watch, winter 2002

81.2%. The IMAD has estimated that external debt would exceed USD 8 billion at the end of 2002 and foreign currency reserves would amount to around USD 6.4 billion.

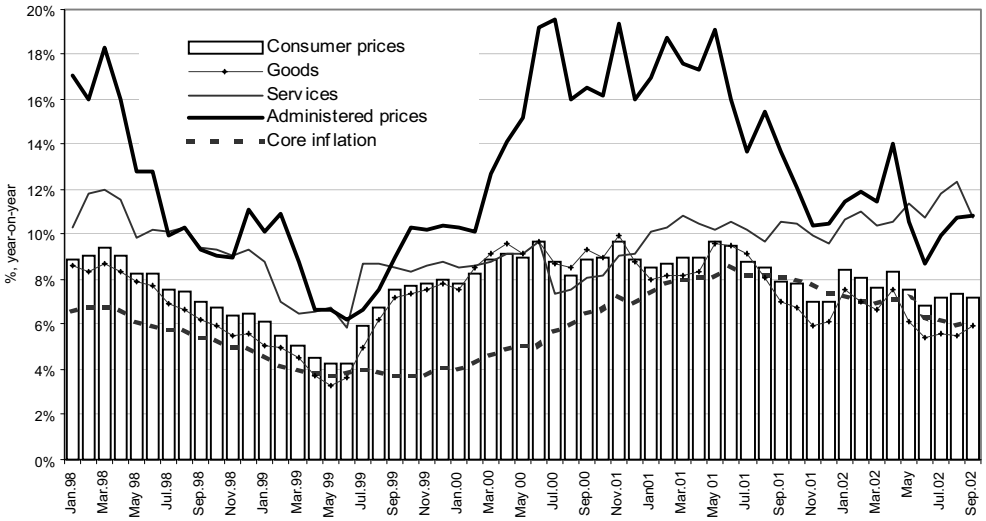
The share of Slovenia's external debt in gross domestic product increased from 21.1% in 1996 to 35.7% in 2001. This places Slovenia, according to World Bank standards, among moderately indebted countries. From among the group of EU candidate countries, the Czech Republic and Poland are in the same group. Hungary and Slovakia, on the other hand, have already exceeded the critical limit of indebtedness (50% of GDP), qualifying as heavily indebted countries.

4. Prices - Co-ordinated action of more restrictive monetary, prices and fiscal policy measures needed

After prices had risen relatively quickly in the first nine months of 2001 and eased gradually in the last quarter, the annual inflation rate was 7% and the average inflation rate 8.4% at the end of 2001 (both rates were 8.9% in December 2000). **In early 2002, inflation's downward trend was interrupted** by several factors, mainly changes in taxation and rises in administered prices, so that consumer prices rose by 3.2% in the first quarter. Higher oil prices at the beginning of the second quarter pushed liquid fuel prices up, amplifying the spillover effect of higher fuel prices on other prices. Since consumer prices rose relatively slowly in the other two months of the second quarter, inflation slowed down to 1.5%, while the favourable seasonal factors in the third quarter helped quarterly inflation drop by a further 0.1 of a percentage point to 1.4%.

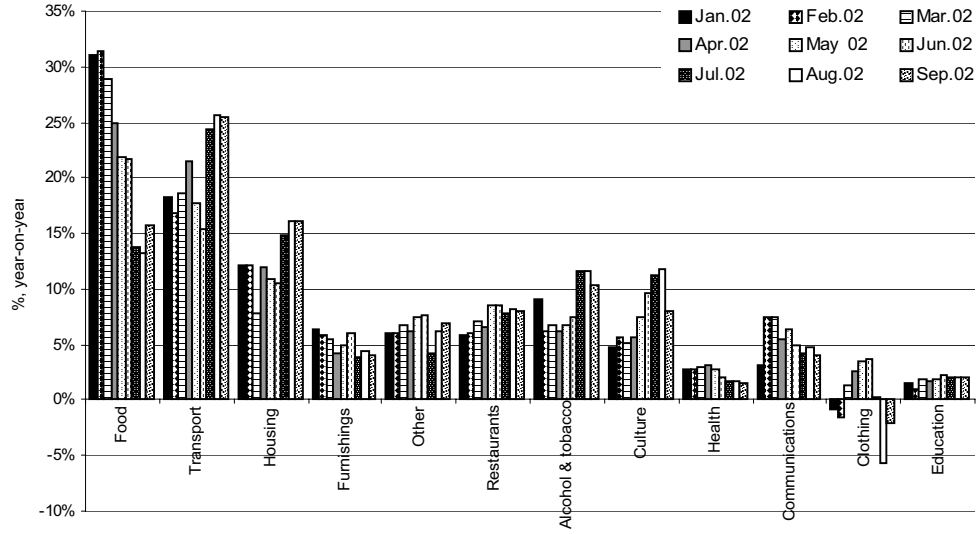
As far as changes in taxation are concerned, which accounted for about 38% of the total price rise in the first quarter, the biggest upward pressure came from higher value-added tax rates (the general rate was raised from 19% to 20% and the reduced rate from 8% to 8.5%). This added 0.6 of a percentage point to January's rise in consumer prices. Higher rates of excise duties on alcoholic beverages, tobacco and liquid fuels added another 0.3 of a percentage point to inflation, and environmental taxes on local utility services an additional 0.3 of a percentage point. The latter triggered an adjustment of local utility service prices which, along with telephone service prices, added the most to rises in administered prices in the first quarter of this year (up by a total of 6.5%). Additional upward pressures on prices came from food prices, which persisted at relatively higher levels, thereby sustaining their contribution to annual inflation of over 30%.

Picture 10: **Movements of inflation and selected price aggregates**



Source: SORS, calculations by the IMAD

Picture 11: **Contribution of individual groups of prices to inflation**



Source: SORS, calculations by the IMAD

In the second quarter, prices were largely affected by the leap in oil prices (from USD 21 per barrel at the end of March to USD 26 per barrel at the end of April) and, consequently, higher liquid fuel prices (adding 0.5 of a percentage to inflation in April alone). In addition to direct effects on prices, the rising liquid fuel prices had an indirect impact mostly on products and services in the transport and housing groups. Administered prices rose less than in the first quarter, except for automotive fuel prices, which were higher by 2.5%. A favourable effect on inflation came from slower rises in food prices, which began to follow the usual seasonal trends in the second and particularly in the third quarter. In the third quarter, the trends from the preceding months continued, and they mainly involved price falls in seasonal goods and services, slower rises in petrol prices, and continued moderate rises in other administered prices (rising by 1.2% in the third quarter). The latter were most helpful in bringing quarterly inflation down to 1.4%.

Looking at individual groups of products and services, three groups – food, transport, and housing – accounted for about 60% of the total price rise in the first nine months. After the upward pressure on inflation from food prices began to wane in the second and third quarters, the pressure from groups where prices depend on oil prices strengthened. At the same time, the contribution of service prices to inflation increased in the third quarter. This, along with the relatively even distribution of price changes, suggests that price growth in the last few months was again fuelled primarily by structural factors and imbalances after prices had mainly been pushed up by one-off factors early in the year. Further evidence supporting this conclusion is the slow deceleration of the core inflation.

With the pressure of oil prices easing after April, the **gap between rises in goods and services prices** again became more evident in the second and third quarters.

The gap came in at 3.4 percentage points at the end of 2001 and increased by 1.4 percentage points before the end of the third quarter. The relatively fast rise in service prices was partly due to the Balassa-Samuelson effect[45], but they were also pushed up by a steep increase in the administered prices of services in the first nine months, mainly those of local utility services and telecommunications. The administered prices of services climbed by 22% year on year in September, compared to the 7.7% rise in prices of other services. As far as non-administered prices of services are concerned, the biggest contribution to inflation came from restaurants and hotels services (0.5 of a percentage point). The prices of services held a 26.8 share in the price index in the first nine months, but accounted for 36.8% of the total increase in consumer prices.

The persistently rising food and energy prices helped the **core inflation to keep falling gradually** and drop to 6.1% in September, down 0.4 of a percentage point from last December. In addition to the fundamental factors influencing the measured inflation, the relatively slow deceleration in the core inflation was due to tax changes that affected most products and services covered in the price index, and due to indirect effects produced by rises in administered prices (mainly energy products) seen in the second half of 2001 and the first half of 2002.

Prices under various regimes of regulation rose by 10.4% in the first ten months of this year (10.3% in the same period last year), while the contributions of individual groups of administered prices to inflation remained roughly the same[46]. As in 2000 and 2001, inflation was mostly fuelled by higher petroleum product prices (rising by 11% and adding 10.9% to inflation in the first nine months), followed by local utility service prices (rising by 15.2% and adding 8.1% to inflation). The prices of telephone services rose by 23.7% and added 4.1% to inflation. The contribution of administered prices to inflation totalled 20.2% at the end of 2001 – it climbed to 27% by the end of the first quarter, and fell again to 22.8% by the end of September.

Following the steep rise in local utility service prices in the first quarter of this year (10.6%), the Government adopted a new methodology for regulating these prices, stipulating that each rise must be announced in advance, and also set the ceiling for local utility service prices. The prices of automotive fuels continued to be set by the model, according to which domestic prices moved in line with world oil prices and the US dollar's exchange rate, while price regulation mainly involved the method of translating these factors into the price of fuel. Even though automotive fuel prices rose at similar rates as in 2001, they primarily reflected the movements in oil prices

[45] This effect on year-on-year inflation in Slovenia is estimated to vary between 1 to 2 percentage points in the last two years.

[46] The share of products and services under various regimes of regulation in the consumer price index changed at the beginning of 2002 (from 13.2% of all products and services in 2001 to 13.4% in 2002) as a result of changes in the weighting of the consumer price index. The structure of administered prices also changed in May following a new method of regulating the prices of telecommunications services, thus reducing the share of administered prices in the consumer price index to 12.2%. The prices of telephone services are no longer under the direct government's regulation and are now shaped by the Telecommunications, Broadcasting and Postal Agency of the Republic of Slovenia on the basis of proposals of telecommunications services providers. The Agency also performs other tasks pertaining to a sectoral regulator.

and the US dollar's exchange rate this year, whereas in 2001 they rose due to higher excise duty rates, which added 0.7 of a percentage point to inflation (0.1 of a percentage point this year). The methodology of regulating other prices remained unchanged.

In the first nine months, **industrial producer prices** rose more slowly than in the same period last year; their year-on-year rise slowed down by 2.6 percentage points and reached 4.9% in September. This downward trend was due to the relatively rapid deceleration in the prices of consumer goods, going down by 4.1 percentage points this year, however, these prices were still the fastest-rising component of the producer price index. The prices of intermediate and investment goods also decelerated, the former climbing by 4.5% and the latter by 2.9% (1.5 percentage points and 0.8 of a percentage point less than in the same period last year, respectively). The persistence of industrial producer prices at relatively high levels – given that their year-on-year rise ranged between 1.1% and 2.3% in the first nine months of 1999 – was mainly due to high rises in energy prices, which recorded a 13.6% year-on-year rise in September.

In the **last quarter of the year**, consumer prices are expected to be influenced by seasonal factors, while another crucial factor should be oil and petroleum product prices. Prices that are under the government's direct control should remain unchanged, according to the plan of raising administered prices in 2002 and 2003. Assuming that there will be no major changes in economic policy – the Bank of Slovenia continues to manage gradual depreciation of the tolar, the adopted wage agreements are implemented, and there are no changes in tax and excise duty rates – prices are expected to rise at approximately the same rates as in the third quarter. **At the end of 2002, the annual inflation rate should reach between 7.5% and 7.7%, a maximum of 0.7 of a percentage point higher than at end-2001, while the average inflation rate should be 7.6%, 0.8 of a percentage point lower than last year.**

In 2003 favourable external effects on prices are expected to continue. As generally predicted, the average level of oil prices should be lower than in 2002, and price rises in EU member states should also be weaker. Domestic price rises will therefore primarily depend on internal factors, i.e. chiefly the measures of economic policy. While making the autumn economic forecasts, it became evident that inflation will overshoot the target set out in the Budget Memorandum by almost one percentage point unless all key economic policies become more restrictive. The forecast was divided into two scenarios – one assuming that economic policies would remain unchanged and one anticipating more restrictive economic policies. As explained below, the Government has already taken measures to increase the restrictiveness of economic policies. However, since some issues remain unresolved, particularly those relating to tax policy and policies outside the Government's authority (exchange rate and monetary policies, decisions taken by independent regulators), the Autumn Report presents both scenarios.

Scenario of more restrictive economic policies. A **faster reduction in inflation** and a drawing closer to the Maastricht price criterion could mainly be achieved by more restrictive economic policies in the fields of monetary and exchange rate policies,

fiscal and incomes policies, as well as in administered prices policy. Rises in administered prices should not exceed the targeted level of inflation, while prices governed by independent regulators should also adjust to the slow rise in administered prices. The most important fiscal policy measure (which could lead to a faster reduction in inflation as early as in 2003) is the more gradual approach to raising environmental taxes and excise duties. The latter mainly concerns alcoholic beverages and automotive fuels, where the adjustment process is not stipulated by law, and the contribution of excise duties to inflation could thus be reduced to about 50% of the current level. As far as incomes policy is concerned, no changes are necessary from the point of view of inflation since the current incomes policy for 2002 and 2003 can ensure that the real wage per employee rises below the rate of the economy's labour productivity growth in both the private and public sectors. In the field of exchange rate policy, an important factor in reducing inflation is to decelerate exchange rate rises (an approximately 50% slower nominal rise in the exchange rate is estimated to cut the annual inflation rate by 0.4 to 0.6 of a percentage point in 12 months). This would in turn help monetary aggregates to rise more slowly, or bring their growth closer to the rates proposed by the Bank of Slovenia as necessary for reducing inflation. **Provided that these measures are co-ordinated and the external factors affecting prices are favourable, the annual inflation should drop by about 1 percentage point by the end of 2003 to close to 5%.**

After discussing the autumn economic forecasts, the Government took some steps that could lead to a more restrictive economic policy mix. Prices under the Government's control should not rise more than the targeted inflation (5.1%), and the Government expressed hopes that regulatory authorities will take into account the macroeconomic consequences of their decisions about prices they regulate. The Government also made a commitment to pay attention to the impact of tax changes on inflation and be constantly aware of the need for a more restrictive economic policy. This means that no changes in the tax burden will take place in the first four months of 2003, except the raising of excise duties on tobacco and value-added tax rates on wine already prescribed by law. Further, it will subsequently raise excise duties and taxes only if this is not at odds with the inflation target. Administered prices should not be raised at the beginning of the year either. Given these decisions, it is realistic to expect that the annual inflation rate will drop to about 5.5% in the first quarter of 2003, also due to the high monthly rates seen in the first four moths of 2002. This would also help formulate more restrictive exchange rate and monetary policies. In order to bring inflation down to the level set by the Maastricht criteria, it will be necessary not only to pursue restrictive policies but also to eliminate structural imbalances in sectors where prices are regulated by the Government, i.e. in the financial sector, primarily in regard to the use of indexation mechanisms and financial market operation, and in the labour market.

Scenario of unchanged economic policies. If the current orientations of economic policies remain unchanged, the **annual and average inflation rates will reach about 5.9% at the end of 2003.** The unchanged fiscal policy means that adjustments to excise duties on alcoholic beverages, tobacco products and liquid fuels are carried out further in line with the rates proposed in the national budget. Their total contribution to inflation, which is in fact expected to be lower than in 2002, should range between an estimated 0.8 and 1.0 percentage points. If the policy of adjusting

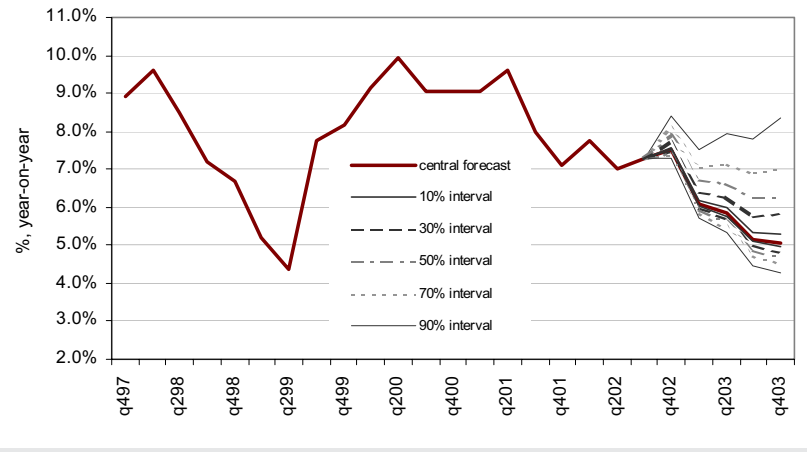
Box 7: Inflation forecast – possible discrepancies

Inflation forecasts prepared so far have only shown the most likely movement of the inflation rate, whereas the risk of discrepancy from the central value has only been given in descriptive form. This method has proved to be inadequate because it paid little attention to the possibility of discrepancy from the central inflation forecast and because it neglected the impact of potential risks that were considered in the process of making the forecast.

This shortcoming can be eliminated by making the probability distribution of the expected inflation rates shown in the fan chart below. The bold curve shows inflation movements since 1998 and the central inflation forecast for the last quarter of 2002 and 2003. The curves distributed around the central forecast show the limits of the interval assumed to incorporate the actual inflation movements at a given selected probability. The curves on the extremities delimit a range for which a 90% assumption can be made that it will incorporate the actual inflation movement.

The trust intervals are estimated on the basis of previous discrepancies between the forecast and actual inflation rates and they also take into account the current estimation of potential risks related to inflation movements in the next five quarters. The asymmetric distribution of expected discrepancies from the central forecast shows that the same level of probability applies to either larger positive or larger negative discrepancies of the actual inflation from the forecast rate, or that, in line with our expectations, the probability of inflation exceeding the central forecast is higher than the opposite probability. If more restrictive economic policies are pursued – and the central inflation forecast envisages an annual inflation rate of 5.1% at the end of 2003 – we can assume that in the majority of circumstances the inflation rate will not be lower than 4.3% and not higher than 8.3%.

Picture 12: **Probability distribution of expected price rises under more restrictive economic policies**



Source: the IMAD

administered prices remains unchanged, both in terms of restrictiveness and method of regulation, administered prices should rise by 8.0% and account for 0.9 of a percentage point of the total price rise (of which 0.2 of a percentage point should come from the aforementioned raising of excise duties). Unchanged monetary policy means that the Bank of Slovenia's priority will be to manage exchange rate movements, and the tolar's nominal depreciation should be about 2.8% in 2003. In such conditions, and assuming that the relatively high financial inflows from abroad are maintained, movements in monetary aggregates and interest rates will depend on exchange rate targeting and not on reducing price rises.

5. Labour market

5.1 Employment and unemployment - Employment growth to strengthen slightly in 2003

The employment growth, which had been continuing since 1999, slowed down considerably in the first half of 2002, according to the monthly figures on formal employment, and quarterly data from labour force surveys and national accounts statistics. Compared to the same period last year, in the first nine months of 2002 the labour force increased by 0.9%, the number of persons in employment by 0.8%, the number of employees by 0.6% and the number of self-employed persons by 2.5%. Following a short seasonal drop in December 2001 and January 2002, **formal employment** (including employees and self-employed persons) continued to rise in spring until June, but at a slower pace than in 2001. Between February and June, the total number of formally employed persons rose by around 6,000 (or 0.8% compared to January), equalling the number by which employment fell in December 2001 and January 2002 – mostly resulting from non-renewed fixed-term employment contracts. The most substantial drop was then recorded in the small business sector (3.5% compared to November); in the following months, employment growth made up for only a third of the said drop. During the entire period of transition, employment in the small business sector recorded a high positive growth that fell significantly only last year and was negative in the first half of 2002: it fell by 1.7% compared to the same period of 2001 and by 2.2% compared to last year's average. The number of private individual entrepreneurs started to fall again in September 2001 following the trend recorded since 1996. The number of employees in companies and organisations, which fell by 4,300 in the winter months, rose by over 5,000 by June, accounting for a 0.1% increase compared to November 2001. The number of own-account workers and farmers has been rising since October 2001.

From November 2001[47] to June 2002, the number of persons in employment **by activities** mostly fell in manufacturing[48], decreasing gradually each month of 2002. A considerable drop was also recorded in wholesale and retail trade, particularly in the small business sector. Compared to November last year, the number of persons employed in mining and construction dropped slightly in June 2002. In all other activities, winter redundancies (recorded also in business services, other public, community and personal services, transport, and public works which, in statistical terms, are part of public administration and social work) were more or less made up for. If sheltered workshops were not statistically reclassified (see footnote 53), there would be considerable employment restructuring to the detriment of the secondary sector (industry and construction); however, the share of employed persons in this sector slightly increased.

[47] Such comparison excludes the seasonal element (fixed-term employment contracts usually expire at the end of the year).

[48] Statistical data indicate a positive growth in manufacturing and a significant drop in health services and social work (N) which was, however, mostly due to statistical reclassification of sheltered workshops from social work under the activities in which such companies operate. For such reason it is yet not possible to assess the actual trend of employment in individual activities and sectors of manufacturing. Data included in the text refer to employment by activities as assessed before these statistical changes.

Table 5.1: **Formal employment structure and growth by activities**

		Annual growth (in %)		Structure (in %)	
		2001/2000	Jan-June 2002/ Jan-June 2001	2001	Jan-June 2002
A	Agriculture, hunting, forestry	-3.3	5.8	5.3	5.5
B	Fishing	-4.1	-0.6	0.0	0.0
C	Mining	-5.3	-6.6	0.7	0.7
D	Manufacturing *	0.9	-2.2	30.3	30.5
E	Electricity, gas, water supply	-0.8	2.8	1.4	1.5
F	Construction	-0.9	0.5	7.3	7.2
G	Trade, motor vehicle repair	1.9	2.2	12.7	12.8
H	Hotels and restaurants	0.5	1.1	3.7	3.7
I	Transport, storage, communications	2.0	2.9	6.2	6.3
J	Financial intermediation	2.9	2.5	2.5	2.6
K	Real estate, renting, business services	6.1	9.9	6.3	6.6
L	Public administration, defence	3.8	2.1	5.9	5.9
M	Education	2.0	2.0	6.9	7.0
N	Health services and social work *	2.8	0.2	7.1	6.1
O	Other social and personals services	2.0	1.7	3.3	3.3
P	Private households	12.6	2.9	0.1	0.1
TOTAL		**1.4**	**1.2**	**100.0**	**100.0**
	Agriculture and fishing (A to B)	**-3.3**	**5.8**	**5.4**	**5.5**
	Industry (C do F) *	**0.4**	**-1.5**	**39.7**	**39.9**
	Services (G do P) *	**2.7**	**2.8**	**54.9**	**54.6**

Sources of data: SORS, the IMAD's calculations.
Note: * the growth rate for 2002 takes no account of the statistical reclassification of sheltered workshops.

Compared to the same period last year, in the first half of 2002 formal employment grew by 1.1% and **the number of all persons in employment** – according to the survey – by 1%, which means that in the first half of the year the share of informal employment slightly decreased. Nevertheless, it continued to be high: around 15% of persons in employment were unpaid family members helping out, persons working under work contracts or in the black economy. **Expressed as full-time equivalent employment** (according to the methodology of the national accounts statistics), **employment growth** was much lower and equalled just 0.1%. Compared to the other two, it can be concluded that the average working time per person in employment is less than the year before; a higher share of employees working part-time was also recorded by the labour force survey (6.5% in the first quarter of 2002 compared to 6.1% in the same period last year). According to the published quarterly data on value added and employment growth, **labour productivity** increased by 2.9% in the first half of the year, which is slightly more than in the same period and on the average last year. This was probably[49] due to higher productivity growth in

[49] This is assumed on the basis of monthly figures on formal employment. The SORS did not publish the data on quarterly employment growth according to the methodology of the national accounts statistics by activities.

manufacturing resulting from the decrease in employment.

Contrary to last year when formal employment was still rising in July, in July 2002 the number of persons in formal employment dropped by 0.2% compared to June, partly due to seasonal effects; a similar drop was also recorded in August. A seasonal increase in the number of employees may be expected in autumn, but will probably be weaker than last year. Most growth is expected in the services sector, particularly in education (according to September's data on new employment). Given the current economic trends, no employment revival in manufacturing can be expected yet. It is therefore estimated that formal employment growth will decelerate to 0.6% annually by the end of the year, which is a lower increase than anticipated in spring – at that time we expected employment in manufacturing to stagnate, but it is actually shrinking this year. Given the hitherto trends, **employment growth expressed as full-time equivalent employment of 0.2%** will be less than anticipated in spring. Consequently, it will be even less in **2003 and 2004**, when growth will be **0.7% and 0.9%** respectively. The lower rise in employment means that the estimated value added growth (see Chapter 2.3) will be based on **higher productivity growth** amounting to around 3.2% in 2002 and 2003, and 3.4% in 2004. A possibly higher productivity growth is also anticipated by the expected revival of private investments.

This year's slowdown in employment growth was paralleled by **a halt in the downward trend in unemployment**, which started with the employment growth in 1999. Both the number of registered and survey unemployed increased. In the first half of the year, the number of registered unemployed rose by 0.5% compared to the same period in 2001, and the number of unemployed established by the survey by 3.2%.

In the first nine months, the number of registered unemployed rose by an average of 1.5% compared to the same period last year, mostly due to increased inflows of people whose fixed-term employment contracts terminated and who lost their jobs due to bankruptcy or permanent redundancy. By the end of September, the inflow of first-time job-seekers decreased by 1.7% compared to the same period last year. The majority of people who lost jobs were those whose fixed-term employment contracts terminated. The number of unemployed having found a job in the first nine months dropped by 4.2% against the same period last year. After having dropped last year, the number of non-subsidised jobs of the unemployed increased again by September. The structure of other persons deleted from unemployment registers remains unchanged: two fifths of them were deleted on their own accord or for failing to report to the employment office, a fifth were deleted for reasons of retirement, and slightly more than a tenth for taking up schooling. In 2002, active employment policy programmes are mostly intended for persons with low employment prospects and aim to improve the unemployment structure (smaller shares of long-term unemployed, older or unskilled persons).

Contrary to last year, when the number of registered unemployed persons was falling up until September, in 2002 registered unemployment only decreased between February and June, when it reached the lowest monthly rate this year (10.5% compared to 11.8% in December 2001). The registered unemployment rate of women continues to be higher (12.8% in June) than the unemployment rate of men (10.1%).

Given the usual seasonal trends, the number of **registered unemployed** is expected to exceed 106,000 by the **end of 2002**, representing 12% of the formal active population, while the **average number of registered unemployed** should be 103,900 or **11.7%**. We did not take into account the reclassification of persons registered in employment offices who exercise the rights provided by acts other than the Employment and Insurance against Unemployment Act – they are supposed to be included in separate registers as provided by Article 9 of the Act Amending the Employment and Insurance against Unemployment Act. No figures are available to apply the new method of registration in our projections for 2002.[50] Given the expected growth of employment and the slow increase of the employment rate of the working-age population, **in 2003 and 2004 unemployment will decrease again** (to 99,300 or 11.0% of the active population, or 94,900 or 10.5%) provided that inflow into unemployment falls and the outflow of unemployed persons into employment increases.[51]

Through active provision of employment, inclusion into active employment policy programmes, retirement of those who have become redundant and meet the conditions for retirement, and other deletions from the unemployment registers, the share of long-term unemployed fell considerably and was below 55% in the first half of the year. It is expected that other **structural unemployment problems** will decrease through accelerated inclusion into education and other programmes intended for persons with low employment prospects. The share of unemployed persons over 40 fell below one half (49.4%), while the share of those over 50 still exceeds one quarter, although it decreased compared to September 2001 by 1.4 percentage points. The share of insufficiently qualified unemployed persons was around 47%, whereby the share of those who were unemployed for more than a year fell to 66% (69% in 2001). Women continue to account for more than half of the unemployed.

The **survey unemployment rate** was higher in the first quarter of the year (6.9%) and the same in the second quarter (5.9%) compared to the same period last year. The survey unemployment rate of women (6.3% in the second quarter) is still higher than the unemployment rate of men (5.7%). The number of registered unemployed persons who are not considered unemployed according to the survey criteria, remains around 50,000; among them, the share of those who have not sought employment in the last four weeks is around 76.5%. In the first quarter of the year, the number of young unemployed persons (aged between 15 and 24) was the same as last year (20,000; half of them women) while the survey youth unemployment rate (18.4%) was higher than last year (17.8%) since more young people were enrolled in education, leading to a fall in the young active population, mostly in women. Thus, the unemployment rate of young women (19.9% in the first quarter of 2002) continues to be higher than of men (17.3%).

[50] According to the Ministry of Labour, Family and Social Affairs, through continuous active provision of employment, intense involvement of persons with low employment prospects into active employment policy programmes and adoption of amendments with regard to keeping of registers, the number of registered unemployed persons will be again below 100,000 at the end of 2002.

[51] According to the Ministry of Labour, Family and Social Affairs, the number of registered unemployed persons will be 93,200 at the end of 2003 and 89,000 at the end of 2004.

In the first nine months of this year, the average **number of vacancies was slightly lower** and **recruitment was slightly higher than last year** on average. The share of fixed-term employment continued to rise (from 72.4% in 2001 to 75%). The ratio between unemployed persons and vacancies worsened compared to last year: 8.8 unemployed persons per vacancy (8.5 in 2001). The ratio for vacancies requiring higher and secondary education remained unchanged (2.3 and 7.9 respectively), while the ratio for vacancies with lower education worsened (from 13.2 to 14.6). The **modification of the educational structure of employees** is thus continuing, as indicated also by the educational structure of new jobs. The employment of persons with lower education is decreasing while the employment of persons with higher education is increasing.

5.2. Wages - A slowdown in public sector wage growth, the gross wage per employee again rising below the rate of labour productivity growth

Wages policy for 2002 and 2003 has been negotiated for both the private and public sectors. Its main goal is to keep the rise in the real gross wage per employee below the rate of labour productivity growth.

In the **private sector**, the **Wages Policy Agreement for 2002-2004** has been concluded as a separate part of the still unnegotiated Social Agreement and enacted by the Act on Implementation of the Wages Policy Agreement for 2002-2004. The adjustment mechanism laid down in the Wages Policy Agreement plans a rise of 4.2% in August's basic wage and another rise in December, equalling the actual rise in consumer prices in January-November reduced by the rate of August's basic wage increase. The adjustment mechanism for 2003 also involves a two-step increase: August's basic wage should be raised by 2.5%, while December's wages should climb by the rate of the actual consumer price rise in January-November reduced by the rate of August's basic wage increase. The safety valve previously used in January no longer exists. The safety valve is now only used in the adjustment of August 2003: if the actual rise in consumer prices in January-June is higher than 2.8%, the basic wage is to be raised by a rate that tops 2.6%. So August's adjustment is based on the targeted inflation rate, while December's adjustment is based on the actual inflation rate. Even though the new mechanism differs little from the one laid down in the Annex to the Wages Policy Agreement for 1999-2001 – it was also a two-step mechanism where one adjustment was based on the targeted and the other on the actual inflation rate – the difference between the two is that the **new adjustment mechanism allows current inflation to be incorporated in an adjustment of the same year, thereby preventing inflation's spilling over to the following year**. This is important from the aspect of reducing inflationary pressures. Wage rises based on labour productivity growth are defined in sectoral and company collective agreements. The Wages Policy Agreement also stipulates that the adjustment mechanism used for the basic wage should also be applied to the minimum wage. Further August's additional adjustment of the minimum wage to the previous year's gross domestic product growth should still be used. The social partners agreed on the latter in order to restrict wage dispersion at the bottom end of the pay scale. The social partners also agreed that the private sector's **adjustment mechanism for**

2004 will include new criteria in addition to those relating to consumer prices, i.e. the SIT/EUR exchange rate and inflation in those EU member states that are Slovenia's main trading partners.

In the **public sector**, the adjustment mechanism was formulated in December 2001 and set out in the Annex to the Collective Agreement for the Public Sector. Like the adjustment mechanism that was in force in 2001, the new adjustment mechanism is set in two phases. The one for 2002 takes into account 88% of the consumer price rise (December 2002/December 2001) that was forecast upon adoption of the Annex. Accordingly, the basic wage was raised by 2.3% in January and by 2.6% in August. The adjustment mechanism for 2003 takes into account 90% of the targeted rise in consumer prices, leading to a 2.1% rise in wages in January and a 2.3% rise in August. The adjustment mechanisms for both 2002 and 2003 incorporate a safety valve that is triggered if inflation exceeds the expected consumer prices rise: in addition to January's regular adjustment of the basic wage, there is an additional wage adjustment that takes into account price rises exceeding the targeted rate of inflation almost in full. If there is a substantial discrepancy between the expected and actual rises in consumer prices, the spillover of the previous year's inflation into the current year is bigger.

In early 2002, the National Assembly passed the Public Sector Wage System Act, which will come into force on 1 January 2004. The social partners have already started talks to devise the new methodology, while sectoral collective agreements will define a job classification system and the public sector's collective agreement will lay down temporary wage supplements. This law has introduced a more centralised public sector wage system, allowing no partial wage increases and enabling greater wage flexibility in terms of the relationship between wages and work efficiency.

In January **2002**, the basic wage in the **private sector** was raised by 2.7%, i.e. 90% of the expected price increase in the second half of 2001, as laid down in the Annex to the Wage Policy Agreement for 1999-2001. As the forecast 7% rise in consumer prices (December 2001/December 2000) was not exceeded, the safety valve was not triggered. In addition to adjustments of the basic wage, a significant effect on private sector wages comes from the length of a working month and performance-related payments given at the end of the year. In the first quarter of 2002, the gross wage per employee rose by 1.1% in real terms year on year and was mainly pushed up by production and business services, while wages in industry stagnated at the level of the first quarter of 2001 (wages in industry depend more on the working month than other activities and the first quarter of 2002 was shorter than the respective one the year before). In the second quarter, the gross wage per employee rose faster than in the first one, going up by 2.3% in real terms. About the same rate of increase was seen in industry, while business services (financial intermediation and real estate activities) recorded the strongest wage growth of 2.7%. In July, the gross wage per employee climbed by 2.3% over June in nominal terms (July was the longest month in the year). Even though the basic wage was raised by 4.2% and the minimum wage by an additional 3%, wages rose by just 1% in August over July because of the high benchmark. In September, the gross wage per employee is to fall slightly in nominal terms so third-quarter wage growth should be about 2.2% in real terms

year on year. In the last quarter, the gross wage per employee is estimated to rise by around 2.8%. Given the projected rise in consumer prices, the gross wage per employee in the private sector should climb by **around 2.2%** in real terms in 2002.

In the **public sector**, the gross wage per employee rose by 1.3% in real terms year on year in the first quarter; wages in education climbed by 5.6%, wages in health services fell by 1.5%, while other activities maintained the levels of the same quarter the year before. Wage movements were roughly the same in the second quarter: the gross wage per employee climbed by 1.4% in real terms in the public sector as a whole, education saw a 5.4% increase, health services a 1% fall, while wages in other activities again stagnated at the level of the respective quarter of the previous year. Wage growth in education was fuelled by the strong increases seen at the end of 2001 (wage supplements were raised in line with amendments to the collective agreement for education). This resulted in significantly higher wage levels than in the first quarter of 2001 (both in nominal and real terms). In July, the gross wage per employee stagnated in nominal terms, while in August the basic wage was raised by 2.6% and the minimum wage by 3%. The public administration was given a wage supplement for May, June and the first half of July as a one-off payment. This supplement, introduced by a government decree, was abolished in mid-July. In the third quarter, the gross wage per employee rose by an estimated 2.2% in real terms year on year (education saw a rise of 5.4%, so this activity continued to witness strong wage growth, stagnation was recorded in health services, and the public administration saw a rise of 2.9%). In the last quarter, the gross wage per employee is forecast to rise by 0.5% in real terms; wage growth should decelerate to 1.2% in education, while other activities should see stagnation at roughly the level of the last quarter of 2001. Taking into account trends from the first three quarters and estimates for late 2002, we expect the gross wage per employee in the public sector to rise by **1.3% in real terms** in **2002**[52]**.** This figure is below the spring forecast of 2.6% wage growth mainly because of the overestimated wage growth in health and social work and faster rises in consumer prices.

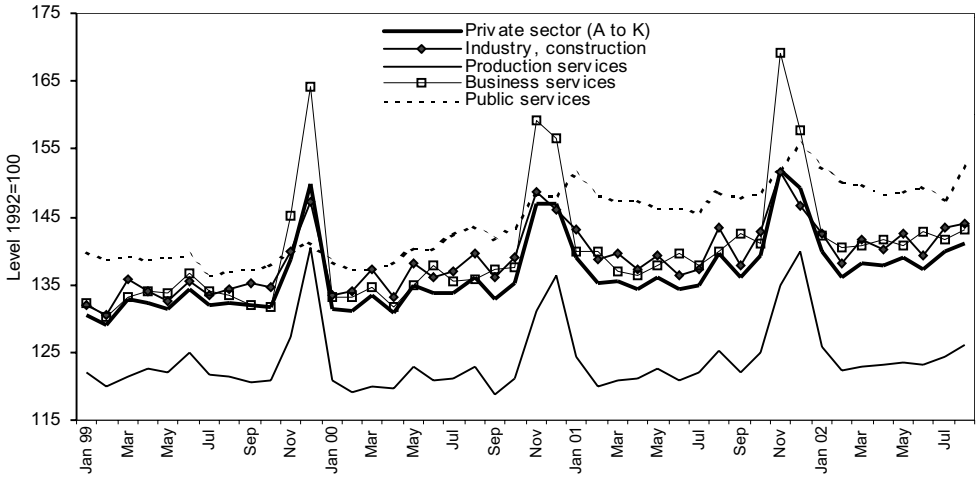
Following wage movements in the private and public sectors, the **real gross wage per employee should rise by around 2% in real terms in 2002 and is expected to lag behind the estimated 3.2% labour productivity growth by a solid one percentage point**.

In **2003**, the gross wage per employee in the **private sector** should increase by around **2%** in real terms. This forecast was made on the basis of the adjustment mechanism currently applied and the additional adjustment of the minimum wage to previous year's gross domestic product growth. The minimum wage is particularly important for wage movements in manufacturing, where the share of employees receiving wages close to the minimum wage level is largest.

In the **public sector**, real growth in the gross wage per employee will be influenced by the adjustment mechanism laid down in the Annex to the Collective Agreement for the Public Sector and regular promotions. Further, the difference between

[52] In order to maintain the time series, this forecast follows the same division of employees into activities as before the statistical change, which involved the transfer of sheltered workshops from social work activities to the activity where these organisations mainly operate.

Picture 13: **Monthly real gross wage per employee**



Source: SORS, calculated by the IMAD.
Note: The real gross wage per employee index (1992=100) deflated by the consumer price index (Dec 1998=100)

consumer price rises which were forecast for 2002 upon signing the Annex and the actual consumer price rises will be taken into account almost in full in the adjustment of January 2003. Despite the government's efforts to keep the current relationships between wages in the public sector unchanged before the Public Sector Wage System Act comes into force, an Annex to the Collective Agreement for Education was signed in June 2002 introducing a 3% wage increase in July 2003. The same rate of increase should also be introduced in July of 2004, 2005 and 2006. This Annex was

Box 8: Wage distribution

Wage distribution has been worsening since 1999. In the **private sector**, the ratio of the ninth decile to the median and the ratio of the median to the first decile were stable up to and including 1999. After 2000, the ratio of the ninth decile to the median worsened significantly, suggesting that high wages rose faster than average wages (the former mainly involve executives and professionals). The ratio of the median to the first decile remained unchanged, showing that the adopted policy was adequate. This ratio might have worsened as a result of pressures to reduce labour costs. The situation was somewhat different in the **public sector**. Wage distribution worsened because of greater wage differentiation in the lower half of wage distribution, while the ratio of the median to the first decile increased steadily. This means that the lowest wages were increasingly behind the average wage growth. The situation in the upper half of wage distribution has tended to improve since 1999, with the ratio of the ninth decile to the median declining. Wages of highly educated professional staff seem to be more and more equal. The new Public Sector Wage System Act, which will enter into force in 2004, aims to reduce wage dispersion in the public sector.

Box 8: Wage distribution - *continued*

Table 5.2.1: **Inequality indicators showing the distribution of employees relative to the level of their gross wage, Slovenia 1996-2001**

	1996	1997	1998	1999	2000	2001
9th decile / 1st decile	3.36	3.39	3.34	3.39	3.46	3.51
median / 1st decile	1.67	1.69	1.68	1.70	1.70	1.72
9th decile / median	2.01	2.00	1.98	1.99	2.04	2.04
gini coeficient	0.278	0.289	0.287	0.293	0.295	0.299
gross wage / median*100	120.4	120.2	119.9	121.4	122.1	122.7

Source of data: SORS, calculations by the IMAD.

Table 5.2.2: **Inequality indicators showing the distribution of employees relative to the level of their gross wage in the private sector (activities from A to K), Slovenia 1996-2001**

	1996	1997	1998	1999	2000	2001
9th decile / 1st decile	3.10	3.18	3.17	3.20	3.22	3.30
median / 1st decile	1.60	1.61	1.61	1.63	1.61	1.61
9th decile / median	1.93	1.97	1.96	1.97	2.00	2.05
gini coeficient	0.277	0.284	0.282	0.288	0.292	0.294
gross wage / median*100	121.9	120.8	120.5	121.7	122.6	123.8

Source of data: SORS, calculations by the IMAD.

Tabela 5.2.3: **Inequality indicators showing the distribution of employees relative to the level of their gross wage in the public sector (activities from L to O), Slovenia 1996-2001**

	1996	1997	1998	1999	2000	2001
9th decile / 1st decile	3.30	3.36	3.35	3.43	3.46	3.45
median / 1st decile	1.73	1.75	1.80	1.81	1.85	1.87
9th decile / median	1.91	1.92	1.86	1.89	1.86	1.84
gini coeficient	0.250	0.270	0.270	0.277	0.273	0.270
gross wage / median*100	114.0	115.7	114.1	114.9	112.8	112.2

Source of data: SORS, calculations by the IMAD.

signed because of pressures from education's trade union, further, according to findings from an analysis made while drafting of the Public Sector Wage System Act, wages in education lagged the most behind wages in other sectors. Following these assumptions, the gross wage per employee in public services should climb by around **2%** in real terms in 2003.

The **gross wage per employee** is forecast to rise by **2% in real terms in 2003** and should lag behind the estimated 3.2% labour productivity growth by over one percentage point.

In **2004, private sector** wages are estimated to rise slightly faster. The adjustment mechanism devised by the social partners should maintain the real value of the basic wage. Further, performance-related payments should be higher in view of the stronger economic growth. Higher wage growth will also be due to more working days. Following these assumptions, the gross wage per employee in the private sector should rise by 2.7% in real terms in 2004. In the **public sector**, the gross wage per employee should climb by about 2% in real terms, according to the adopted adjustment mechanism. This figure includes the wage increase in education resulting from the wage supplement adopted by the Annex to the Collective Agreement for Education. Wage movements in the private and public sectors will lead to some **2.5% real increase in the gross wage per employee**, meaning that **wage growth should lag behind the 3.4% labour productivity growth by around one percentage point**.

The **minimum wage** is adjusted in the same way as the private sector's basic wage, and is additionally adjusted once a year to the previous year's gross domestic product growth. The social partners have agreed that this additional adjustment will be used until the minimum wage achieves 58% of the average gross wage per employee stipulated in collective agreements for manufacturing industries. Up to 2001, the minimum wage had climbed to around 53% of the wage level in manufacturing, and reached 54.3% in 2001 when regular adjustments were accompanied by an additional increase of 4.6%. This led to a total rise in the minimum wage of 4.7% in real terms in 2001. The social partners agreed to introduce this additional increase in order to improve wage distribution. This measure helped the gross wage per employee at the lowest levels to rise and contributed to preventing any further wage dispersion in the lowest brackets.

In 2001, **work-related allowances and other remuneration, payments based on contracts for work and services and copyright contracts** rose more slowly than the total net wage bill. They represented 41.2% of the total net wage bill, almost two percentage points less than in the last few years (around 43%). Movements in these payments seen the first seven months of 2002 indicate that they will represent about 39% of the total net wage bill at the end of the year.

6. Public finance

6.1. General government revenue in 2002–2004 - Consolidated general government revenue relative to GDP 1.1 percentage points lower than budgeted for 2002

In **2002** changes were made to the payment and calculation of **general government revenues,** which changed the scope and structure of revenues. In January 2002 value added tax rates were raised: the standard rate from 19% to 20%, and the lower rate from 8% to 8.5%. Excise duties were also raised for all products subject to excise duties. Two new taxes were introduced in 2002: the environmental tax on waste disposal, and the environmental tax on the use of lubricants. Both taxes have a positive effect on the revenues of the national budget as well as on the environment. Registration taxes were introduced for motorbikes less than 50 cm^3. The rates for social security contributions paid by employees remained unchanged in 2002, while the rate of contributions for health insurance paid by employers was raised from 6.36% to 6.56% of the wage bill. The rate of pensioners' health insurance contributions rose by 0.2 percentage points. The taxation threshold of payroll tax was lifted by one bracket and the taxation of wages in higher brackets was lowered by 0.2 of a percentage point, bringing labour costs down to help offset the increased burden caused by the higher contribution rates. Import tax rates were further reduced in 2002 as a result of free-trade agreements and the EU Association Agreement.

In the **first half of 2002,** VAT revenues increased by 8.8% in real terms compared to the same period last year. More than 60% of the growth achieved was due to higher VAT rates in the beginning of 2002. In the first six months of 2002, revenues from excise duties rose by 13.8% in real terms compared to last year. The fastest growth among revenues from excise duties was achieved by excise duties on mineral oils, which grew by 15.6% in real terms compared to the first half of 2001. Excise duties on tobacco and tobacco products were raised by 8.8% in real terms while those on alcohol and alcoholic beverages rose by 7.6% in real terms. The growth of revenues from excise duties was in the most part due to multiple increases of excise duties, with those on mineral oils increasing significantly in the second half of 2001, while excise duties on alcohol and tobacco being raised in both 2001 and 2002. In the first six months of 2002, 72% of excise duties were consisted of excise duties on mineral oils, 20% of those on tobacco and tobacco products and the remaining 8% of those on alcohol and alcoholic beverages. General government revenues calculated on the basis of wages and representing around 56% of government revenues, increased in the first half of 2002 by around 2.7% in real terms compared to the same period last year. Revenues from social security contributions grew by 2.5% in real terms compared to the first half of 2001. Taxes on wages, which represent the main personal income tax revenue (94.9% in 2001), grew compared to last year by 2.4% in real terms. In the first half of 2002, other subgroups of personal income tax recorded modest growth rates or even decreased in real terms (tax on entrepreneurial profits, tax on income from real estate), while personal income tax refunds were higher than in the first six months of 2001. In the first half of 2002, the total revenue from personal income taxes increased in real

terms by only 1.7% compared to the same period last year. Payroll tax revenues increased by 4.7% in real terms. Revenues from customs duties and import taxes fell by 7.3% in real terms compared to the first half of 2001, similarly to revenue from corporate income tax (around 2.6% in real terms). In the first half of 2002, **general government revenue** from mandatory taxes **increased by 3.7% in real terms compared to the same period last year**.

The changed macroeconomic developments, which led to a lower economic growth forecast for 2002 than in spring (see Chapter 2.1), will have some impact on the scope and structure of general government revenue in 2002 (the calendar year). It is estimated that VAT revenue will increase in real terms by 6.8% compared to 2001 (the calendar year), whereby more than three quarters of the growth will be due to the higher VAT rates introduced at the beginning of the year. Excise duties on all products subject to excise duty were raised in 2002; it is expected that revenue from excise duties will grow by 8.8% in real terms compared to 2001. Due to further reductions in customs duty rates in accordance with the EU Association Agreement and other free-trade agreements, customs duties and import taxes will fall for the seventh consecutive year (falling by 4.7% in real terms), and representing only 0.6% of gross domestic product. Revenue from corporate income tax will increase by 1.8% in real terms. It is estimated that general government revenues calculated on the basis of wages will increase by around 3% in real terms. Revenues from social security contributions paid by employers and employees will increase in real terms by 2.6%. Revenue from tax on wages (the main source of personal income tax revenues) will grow by 3.4% in real terms. Other personal income tax revenues are expected to increase only by 0.2% in real terms. Personal income tax refunds will be lower than in 2001; it is therefore estimated that the total personal income tax revenues will grow in real terms by 4.3%[53]. Due to the already explained changes concerning the payroll tax, the revenue from payroll tax will increase by around 5% in real terms. The average tax rate will be reduced from 4.6% of the wage bill in 2001 to around 4.25% in 2002. Total general government revenues representing mandatory taxes are expected to increase by 3.9% in real terms and will account for 41.5% of the estimated gross domestic product.

According to the consolidated balance of public finance elaborated by the Ministry of Finance, in 2002 the consolidated general government revenues (VAT and excise duties paid in January 2003 excluded) will total around 41.5% of the estimated gross domestic product, which is 1.1 percentage points lower than planned while adopting the national budget for 2002 and by 1.6 structural points lower than in 2001.

Activities aimed at reforming direct taxes continued in 2002. They involved the preparation of a new systemic law on personal income tax and corporate income tax. The effective tax rate reached only half of the applicable tax rate due to numerous tax exemptions. The activities will continue in 2003 when real estate taxes will also be reformed. The legislation which will support these changes is expected to enter into force in 2004. Its implementation will somewhat change the structure of general

[53] In 2002 there was no increase in refunds based on the law – which reduced the liabilities of those people in the lowest income brackets.

government revenues. Among indirect taxes, revenues from corporate income tax will rise, while revenues from income tax will fall.

The decreasing trend of the share of mandatory taxes in gross domestic product that has been going on for several years (from 44% in 1995 to an estimated 41.5% in 2002), will continue in 2003 and 2004. In light of the expected macroeconomic developments, it will therefore be necessary to increase tax liabilities through sustainable measures aimed at stricter charging, collecting, and recovery of the existing mandatory taxes (taxes and contributions), and at expanding the contribution and tax bases, as well as at a rational approach to the existing tax exemptions (especially concerning corporate income and personal income taxes). A further rise in contribution rates is unacceptable from the point of view of competitiveness. Other revenues, in particular non-tax revenues from domestic and foreign donations, as well as from other capital and concession sources will have to be increased. However, the key to achieving general government balance will be the measures regarding general government expenditure.

6.2. General government expenditure in 2002–2004 - In 2002, general government expenditure relative to GDP roughly the same as in 2001

The changes in the forecast of macroeconomic developments for **2002** in the 2002 Spring Report compared to the forecasts made while adopting the 2002 budget, required budget expenditure be brought into line with the expected budget revenue. Following the revision of the 2002 budget (July 2002), budget expenditure dropped by SIT 14.4 billion and totalled SIT 1.334 billion, 11.7% more in nominal terms than budget expenditure in 2001. Compared to the estimated gross domestic product, budget expenditure will equal 26.3% or 0.1 of a structural point more than the year before. Faster growth than the total expenditure of the 2002 national budget will be recorded by capital expenditure (18.1%), interest payments (13.1%), expenditure on wages, contributions and other allowances for the employees of government bodies (12.8%) and expenditure on goods and services in public institutions (16.2%). Transfers from the national budget to the Pension and Disability Insurance Institute will increase by 14.8% – their share is up to 16.6% of the national budget expenditure (as against 16.2% in 2001), or 4.4% of the estimated gross domestic product. Slower growth than total budget expenditure will be recorded in 2002 by transfers to individuals and households from the national budget (9.7%), subsidies (7.2%), expenditure on goods and services in government bodies (4.6%) and budget expenditure on transfers to municipalities (3.3%).

Due to the revision of the 2002 budget and the lower macroeconomic forecasts for the following period, changes to the 2003 budget adopted in December 2001 were proposed in October 2002. In accordance with the Public Finance Act that introduced the two-year budgets, the government also proposed the national budget for 2004.

Changes to the adopted **2003** national budget envisage budget expenditure dropping by around SIT 5 billion and equalling SIT 1,449.6 billion. Budget expenditure in nominal terms is expected to slow down in 2003 and equal 8.7%; its share in gross

domestic product will fall to 26.1%. Faster growth than the total budget expenditure will be registered in 2003 by expenditure on wages, contributions and other allowances for the employees of government bodies (by 10.3%), due to the increasing number of employees needed for the adoption of EU legislation and related tasks, and the 'professionalisation' of the army. The fast growth of capital expenditure will continue in 2003 (by 17.3% in nominal terms). Compared to 2002, a slightly faster growth will be registered by transfers to individuals and households (11.6%) because of the implementation of the Social Security Act. A shrinking of general government expenditure due to worsened macroeconomic conditions will be hardest felt by expenditure on goods and services both in government and public institutions, which are expected to grow in 2003 by only 3.1% in nominal terms. Compared to the previous years, the 2003 national budget forecasts a slower increase in expenditure on interest payments (5.8% in nominal terms) due to repayment of part of the debt (see Chapter 6.4) and is in line with the long-term objective of public debt servicing. The 2003 budget also envisages a real fall in transfers from the national budget to the Pension and Disability Insurance Institute (2.9% nominal growth).

Expenditure in the **2004 national budget** is expected to total SIT 1,559 billion, 7.5% more than in 2003, and equal 25.8% of the estimated gross domestic product.

The expenditure of **municipal budgets** is expected to grow in 2002 by a solid 9% in nominal terms. Their share in the estimated gross domestic product will total 5.2%, which is approximately the same level as in 2001. Spending on wages and contributions to local government bodies, on goods and services, transfers to individuals and households, and interest payments will increase faster in 2002 than the total expenditure of municipal budgets. Slower growth than total municipal budget expenditure will be recorded by capital expenditure and subsidies.

A slight slowdown in municipal expenditure growth is expected in 2003 and 2004, and expenditure should rise less than gross domestic product in both years. Compared to gross domestic product, in 2003 and 2004 the expenditure of municipal budgets will drop to the level of around 5%.

Expenditure on pension and disability insurance will increase by around 11.8% in nominal terms in 2002. Spending on pensions and disability allowances will increase by 10.9%. In accordance with the adopted indexation method, pensions will be adjusted in line with wages growth; the number of beneficiaries will increase. Expenditure on wage compensation, income support for pensioners and other forms of ensuring social security (the introduction of state pensions) is expected to increase faster than the expenditure on pensions in 2002. To implement the rights deriving from the Pension and Disability Insurance Act (excluding contributions paid for the health insurance of pensioners), 13.3% of gross domestic product was used in **2002**. The estimates for 2003 and 2004, which take into account a further lowering of the (annual) accrual rate, the growth in the number of beneficiaries (1.1% annually in 2003 and 2.5% in 2004), and the presently applicable method of adjusting pensions in line with wage growth, anticipate that around 12.9% of the estimated gross domestic product will be needed for this purpose in 2003 and about 12.8% in 2004.

Expenditure in **mandatory health insurance** is expected to grow in 2002 by 12.6%

in nominal terms and total 7% of gross domestic product. Expenditure on payments of health services will increase in nominal terms by 12.2%, and – within this group – expenses on wages and contributions in health-care institutions will increase by 13.8%, while expenses for goods and services for health-care institutions will grow by 9.8%. Expenditure on medicines will increase in 2002 by 15%. The growth of expenditure on wage compensation for sick leave accelerated again and is expected to equal 19% in 2002. Rights deriving from mandatory health insurance were not changed by legislation in 2002. A range of activities was adopted to control expenses on medicines, and to rationalise the implementation of health-care programmes. **2003 and 2004** will see further activities aimed at curbing expenditure in the health sector. The limited means available for mandatory health insurance, which dictate the continuous efforts to control expenses in the public health service, are already affecting the accessibility of health services. Any continuation of this trend will raise questions about equity and solidarity in the public health system. Analyses and measures are therefore being prepared which will have to be used in the coming years to intervene in this field.

After consolidation, **general government expenditure** in **2002**, as reported in the global balance, will increase by 11% and total 44.5% of gross domestic product,

Table 6.2: **Structure and share of national budget expenditure in gross domestic product, in %**

	Share in GDP, in %				Structure in %			
	2001	2002	2003	2004	2001	2002	2003	2004
	real.	revised	propos. amend.	proposal	real.	revised	propos. amend.	proposal
TOTAL NATIONAL BUDGET EXPENDITURE	**26.2**	**26.3**	**26.0**	**25.6**	**100.0**	**100.0**	**100.0**	**100.0**
CURRENT EXPENDITURE	**8.1**	**8.0**	**7.8**	**7.6**	**31.0**	**30.4**	**29.9**	**29.8**
of which:								
Wages, contributions and other allowances for gov. employees	3.4	3.5	3.5	3.4	13.2	13.3	13.5	13.3
Expenditure on goods and services in gov. bodies	2.9	2.8	2.6	2.6	11.2	10.5	10.1	10.2
Domestic and external interest payments	1.6	1.6	1.5	1.4	5.9	6.0	5.9	5.3
Sufficient amount of financing sources	0.2	0.2	0.1	0.2	0.7	0.6	0.5	0.9
CURRENT TRANSFERS	**15.6**	**15.7**	**15.4**	**15.3**	**59.6**	**59.6**	**59.3**	**59.9**
of which:								
Subsidies	1.2	1.2	1.2	1.2	4.8	4.6	4.8	4.8
Transfers to individuals and households	3.6	3.6	3.6	3.5	13.8	13.6	14.0	13.7
Transfers to public institutions	5.5	5.6	5.5	5.4	21.0	21.1	21.0	21.1
Transfers to the Pension and Disability Institute	4.2	4.4	4.1	4.1	16.2	16.6	15.8	16.1
Other transfers	1.0	1.0	1.0	1.1	3.8	3.8	3.8	4.2
CAPITAL EXPENDITURE AND TRANSFERS	2.5	2.6	2.8	2.7	9.4	10.0	10.7	10.4

Sources of data: Ministry of Finance; revised national budget for 2002, proposed amendments to the national budget for 2003, proposed national budget for 2004, IMAD's calculations according to GDP forecasts.

which is the same as in 2001. According to the proposed amendments to the national budgets for 2003, the estimated expenditure of the pension and health service budgets and the estimated expenditure of municipal budgets, consolidated general government expenditure in **2003** will increase by 8.6% in nominal terms; its share in gross domestic product will fall to 44%. Taking into account the expenditure envisaged by the proposed national budget and the expected expenditure of other general government "budgets", the total (consolidated) general government expenditure in **2004** will grow by a further 7.4% in nominal terms; its share will drop to 43.4% of gross domestic product.

6.3. General government deficit in 2002–2004 - General government deficit to narrow gradually over the next two years

Although economic policy measures in 2002 increased the amount of financing sources and lowered general government expenditure, the current general government deficit in **2002** will represent 1.5% of gross domestic product, or 0.4 of a structural point more than envisaged when the national budget was adopted.

The adopted budget for **2002** foresees the budget year matching the calendar year, and this means that the annual expenditure of the national budget will be effected by the 11-month revenues from value-added tax and excise duties (excluding revenues from value-added tax and excise duties paid in January 2003). The actual general government deficit in 2002 will therefore increase by the "compensatory" deficit, amounting to 1.5% of gross domestic product. Together with the current deficit, the general government deficit will total around 3% of gross domestic product in 2002. In **2003,** the general government deficit will again equal the current deficit, which is estimated to total some 1.2% of gross domestic product in 2003 and 0.9% in **2004**.

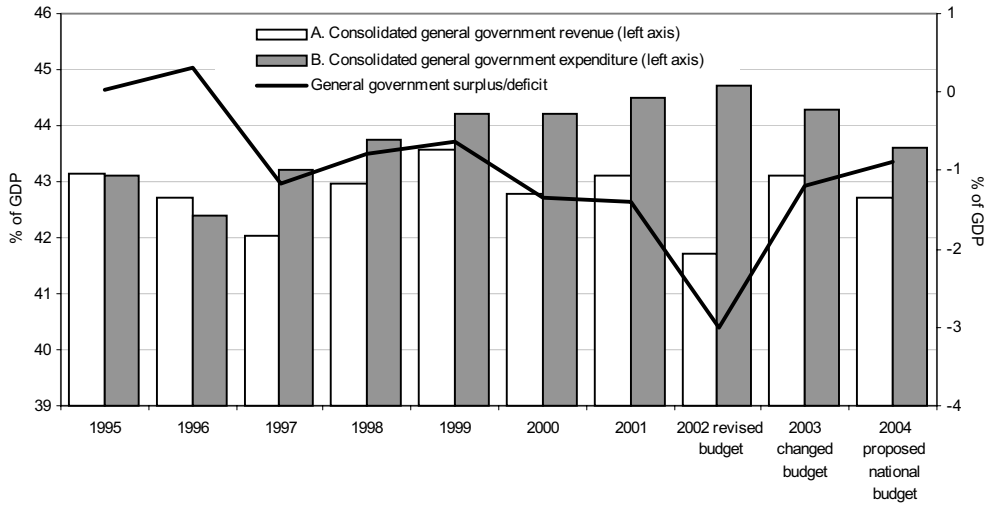
In Slovenia, the general government deficit is defined as the deficit of the consolidated general government balance of four general government "budgets": the national budget, the budget of the mandatory pension and disability insurance, the budget of the mandatory health insurance, and the municipal budgets. The government's general accounting standards draw on the solutions found in the standards of Government Finance Statistics (GFS), recommended by the International Monetary Fund. Flows (general government revenues and expenditure) are entered when paid, rather than when a liability arises, as is applied in the national accounts. As a candidate country and pending EU accession, Slovenia is obliged to annually submit to the European

Table 6.3: **Balance of public finance, consolidated in line with GFS-IMF methodology (shares in GDP in %)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General government revenues	43.1	42.7	42.0	43.0	43.6	42.8	43.1	41.7	43.1	42.7
General government expenditure	43.1	42.4	43.2	43.8	44.2	44.2	44.5	44.7	44.3	43.6
Surplus / deficit	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-1.4	-3.0	-1.2	-0.9

Source of data: Ministry of Finance, budget memorandum for 2003 and 2004. IMAD's calculations according to GDP forecasts.

Picture 14: **Consolidated balance of public finance**



Source of data: Ministry of Finance, calculations IMAD.

Commission a notification on the public debt and the general government deficit, which must be based on the methodology of the European System of Accounts – ESA 95. Presentation of the general government deficit using uniform methodology for all countries is important for monitoring how the Maastricht convergence criteria are being met. Transformation of the present calculation of the general government deficit, based on the national methodology, into the European methodology requires the following actions: the inclusion of new transactors (the inclusion of public funds and other missing institutions of the government sector) and transactions (e.g. the institutions' own revenues, certain environmental taxes); the transition to recording transactions when a liability arises (particularly important in relation to interest on public debt); adjustment to the calendar year; adjustment of the consolidation method, and other steps. Calculations elaborated this year according to the European methodology set the general government deficit in 2001 at 2.5%; in 2002, the deficit is expected to equal 1.8% of gross domestic product.

6.4. Central government debt - Central government debt relative to GDP to fall in the upcoming years

Central government debt increased nominally by SIT 115.5 billion in the first half of 2002 and totalled SIT 1,344.4 billion on 30 June 2002. Net loan disbursement totalled SIT 93.4 billion (loan disbursement amounted to SIT 390.7 billion, while debt repayment stood at SIT 297.3 billion). Value changes (indexation and exchange rate differences) increased the debt by SIT 22.1 billion. In 2002 the government continued to pursue the strategy of providing funds for budgetary needs in the domestic market and by the end of June took out loans for a total of SIT 390.5 billion (SIT 66.5 billion of loans and SIT 324 billion by issuing securities). In the

Table 6.4.1: **Stock and changes in the debt of the Republic of Slovenia in the first half of 2002 (SIT billion)**

	31.12. 2001 Stock	Disburse-ment	Repayment	Net disburse-ment	Revaluation and changes	Debt changes	30.6. 2002 Stock
DEBT OF THE RS	1,228.9	390.7	297.3	93.4	22.1	115.5	1,344.4
I. Internal debt	635.1	390.5	284.6	105.9	14.7	120.6	755.7
II. External debt	593.8	0.2	12.7	-12.5	7.4	-5.1	588.7

Source of data: Ministry of Finance.

same period, external debt amounted to only SIT 0.2 billion.

At the end of June 2002, the euro-nominated debt represented 50.8% of the total debt or 1.8 of a percentage point less than at the end of 2001. The US dollar-nominated debt dropped to 2.5%, while the tolar-nominated debt increased by 3.2 percentage points, representing 46.1% of the total debt. The currency structure and changes in debt currency structure result from the reduction of risks related to exchange rate changes as well as from the adjustment of the external debt portfolio currency structure to the structure of foreign exchange inflows, where the euro predominates.

By type of interest, the debt with a fixed interest rate equalled 76.7%, while the debt with a variable interest rate was 23.3% of the total debt at the end of June. A higher debt with a variable interest rate (it equalled 17.6% of the total debt at the end of 2001) is due to financing budget needs with domestic bonds with a variable interest rate (instruments in which interests depend on TOM, while the principal remains nominally unchanged). This year's issue of bonds, namely RS 27 (issued on 15 January 2002), RS 34 (issued on 18 February 2002), RS 37 (issued on 19 April 2002) and RS 40 (issued on 31 May 2002), indicates that the downward trend of interest rates recorded in 2001 continues (see Table 6.4.2).

Table 6.4.2: **Bonds of the Republic of Slovenia issued in the first half of 2002 to finance budget deficit and repay the principals due**

Bond	Maturity	Interest rate	Total value
RS 27 - 2nd issue	4.12. 2006	TOM+4.70%	SIT 9,207.4 mill.
RS 34 - 1st issue	18.2. 2007	TOM+4.20%	SIT 14,171.4 mill.
RS 35 - 1st issue	18.3. 2007	TOM+4.20%	SIT 14,000.0 mill.
RS 36 - 1st issue	18.3. 2005	9.00%	SIT 3,790.0 mill.
RS 37 - 1st issue	19.4. 2007	TOM+4.00%	SIT 17,000.0 mill.
RS 38 - 1st issue	19.4. 2017	5.625% (indexed EUR)	SIT 4,048.1 mill.
RS 29 - 3rd issue	15.1. 2012	5.375% (indexed EUR)	SIT 5,008.3 mill.
RS 40 - 1st issue	31.5. 2007	TOM+3.90%	SIT 15,000.0 mill.
RS 36 - 2nd issue	18.3. 2005	9.00%	SIT 8,210.0 mill.
RS 41 - 1st issue	17.6. 2007	TOM+3.90%	SIT 12,000.0 mill.
TOTAL			**SIT 102,435.2 mill.**

Source of data: Ministry of Finance.

Table 6.4.3: **Bonds of the Republic of Slovenia issued by the end of June 2002 to finance early repayment of RS 15M and RS 04**

Bond	Maturity	Interest rate	Total value
RS 27 - 2nd issue	4.12. 2006	TOM+4.70%	SIT 3,701.1 mill.
RS 28 - 1st issue	15.1. 2005	TOM+4.20%	SIT 10,500.0 mill.
RS 29 - 1st issue	15.1. 2012	5.375% (indexed EUR)	SIT 2,280.8 mill.
RS 29 - 2nd issue	15.1. 2012	5.375% (indexed EUR)	SIT 5,023.4 mill.
RS 34 - 1st issue	18.2. 2007	TOM+4.20%	SIT 2,738.6 mill.
TOTAL			**SIT 24,244.0 mill.**

Source of data: Ministry of Finance.

On 15 January 2002 the government exchanged part of the RS 15M bonds amounting to SIT 8,243.8 million for RS 31 and RS 32 bonds. The remaining RS 15M bonds (SIT 16,482 million) were repaid early on 14 February 2002 – the funds were provided by borrowing from RS 27 - 2nd issue (partly – SIT 3,701.1 million in nominal terms), RS 28 (100% nominal value) and RS 29 (100% nominal value). The budget gained SIT 1,150.5 million in 2002 from the early exchange and repayment of the RS 15M bonds. Similarly, in April 2002 the government repaid the early part of the RS 04 bonds equalling SIT 7,815.7 million with funds provided through borrowing from RS 29 – 2nd issue and RS 34 – 1st issue. Here the budget savings in 2002 totalled SIT 414.5 million (see Table 6.4.3.).

Table 6.4.3: Bonds of the Republic of Slovenia issued by the end of June 2002 to finance early repayment of RS 15M and RS 04

The forecast of the central government debt for the 2002–2004 period is based on the following three assumptions: (i) a decrease of the budget deficit which should not exceed 1% of gross domestic product in 2004; (ii) the government will not take over any additional debts based on special laws; (iii) SIT 112.6 billion, resulting from the sale of the government's stake in Nova Ljubljanska Banka, will be used to repay the debt in 2003.

In September 2002, the Government adopted a programme of using the proceeds gained from the sale of the government's stake in Nova Ljubljanska Banka. The underlying objective is to reduce public debt in a way that maximum long-term fiscal effects are achieved, while taking into account monetary effects and the effects

Table 6.4.4: **Central government debt in 2002-2004 (SIT billion)**

	2002	2003	2004
Required scope of borrowing	272.4	234.6	280.7
Interest payments[1]	83.4	85.0	83.2
Repayment of principal[1]	129.3	176.7	223.4
Central government debt	1,414.3	1,393.3	1,477.2
Debt as % of BDP	28.0	25.3	24.5

Source of data: S. Mićković: Dolg ožje opredeljene države, October 2002.
Note: [1] new debts in the 2002-2004 period are included.

Box 9: Calculation of structurally adjusted budget balance and target share of debt in gross domestic product

Fluctuations in economic activity significantly affect the dynamics of budget revenues and expenditures[54] as well as the targeted share of budget balance and government debt in the gross domestic product. One of the channels through which fluctuations in economic activity are reflected in the budget balance is through automatic fiscal stabilisers. In conditions of increased economic activity, budget revenues grow due to a higher tax base and progressive taxation, while budget expenditures, mostly transfers to the unemployed, decrease. On the contrary, slow economic growth causes a fall in budget revenues and an increase of expenditures related to the income or social status of recipients. In times of economic prosperity, automatic stabilisers slow down the growth of the population's income and budget expenditure, while in times of economic downturn, they alleviate the decline of revenues and increase general government expenditure. Thus, automatic stabilisers have an anti-cyclical effect on economic activity (slowing down expansion and alleviating contraction), and a pro-cyclical one on general government expenditure (increasing deficit in times of economic slowdown and creating surplus in times of expansion). Therefore, the actual budget balance is not the most appropriate indicator of fiscal policy, for it is subject to effects which are not directly controlled by fiscal authorities and are not a result of fiscal policy changes. **In defining the objectives of the fiscal convergence process, we need to consider the reaction of target parameters to changes in the economic cycle,** not only their actual status. Obviously, the effect of automatic stabilisers on the general government balance and on the fluctuation of economic activity depends on the characteristics of the tax system and regulations concerning social transfers; their importance and the assessment of their effects therefore vary among individual countries. According to the European Commission[55], reducing gross domestic product by 1% causes an increase of the general government deficit by 0.3% to 1% of gross domestic product. The greatest effect (0.5% to 1% of gross domestic product) is produced when economic activity decreases due to lower domestic consumption. On the other hand, it is important to take into consideration the extent to which such automatic adjustment of the deficit actually succeeds in stabilising economic activity fluctuations. The above calculations indicate that automatic stabilisers in some countries (Denmark, Portugal, Sweden) reduce gross domestic product fluctuations by up to 30%, while in others (Germany, Spain, Great Britain) by only 20%.

The calculation of the structurally adjusted budget balance that takes into account the effects produced by automatic stabilisers is based on the estimation of the trend or potential gross domestic product. The following calculation of the potential or cyclically adjusted gross domestic product was prepared according to the European Commission's methodology with the application of the Hodrick-Prescott filter (see also the 2002 Spring Report, p. 115), which deduces cyclical

[54] The calculations are based on general government data.

[55] Public Finances in the EMU - 2001, European Commission, DG ECFIN, 2001.

Box 9: Calculation of structurally adjusted budget balance and target share of debt in gross domestic product - *continued*

fluctuations from the dynamics of gross domestic product. The resulting estimation of the potential gross domestic product is the basis for calculating the elasticity of budget revenue and expenditure with regard to the fluctuations in gross domestic product growth. While all budget revenues depend on the economic cycle, among expenditures only the social transfers related to unemployment[56] depend thereon. The table below shows the actual and cyclically adjusted budget balance. The cyclically adjusted balance is a more appropriate indicator of the restrictiveness or expansiveness of fiscal policy and its long-term sustainability, since it depends particularly on discretion decisions by fiscal authorities and not on cyclical fluctuations in the economy. As indicated in the table, the actual budget deficit at the end of 2002 is expected to be above the structural one, which can be explained by the impact of automatic stabilisers in 2002 when the actual economic growth was considerably below the potential growth.

The expected increase of the difference in 2003 is related to the relatively slow growth of economic activity on the one hand and to the deferred activity of automatic stabilisers on the other; in 2004 the difference is expected to decrease in accordance with the envisaged faster economic growth.

Taking into account the cyclical fluctuations of economic activity in planning the budget deficit also means that in order to meet the Maastricht criterion regarding the volume of the budget deficit, it is necessary to consider a safety margin calculated on the basis of previous fluctuations of economic activity. Given the specific nature of public finance in Slovenia, the safety margin is not calculated according to the European Commission's methodology but is assessed as the average of the absolute value of the cyclical budget deficit increased by double standard deviation in the 1997-2004 period. In such a case, the safety margin equals 0.6% of gross domestic product, meaning that the budget deficit in the following years should not exceed 2.4% of gross domestic product. This would ensure that despite a possible decrease of economic activity, in 95% of all cases the budget deficit would not exceed 3% of gross domestic product, as determined by the Maastricht criterion.

Based on institutional restrictions regarding the value of budget deficit allowed by the Maastricht criterion and the Stability and Growth Pact, it is possible to define the final value of parameters to be achieved in the process of fiscal convergence, particularly the optimum value of central government debt. Therefore, in order to maintain fiscal stability, it is necessary to pursue the target budget deficit and the target value of government debt together.

In order not to exceed the relative level of debt determined by the Maastricht criterion in the medium-term period, it is necessary, assuming that gross

[56] Transfers to the unemployed, social security transfers, wage compensations and other transfers to individuals.

Box 9: Calculation of structurally adjusted budget balance and target share of debt in gross domestic product - *continued*

domestic product growth equals 4.2% and the average effective interest rate for the existing debt stays at 6.0%, to achieve a **primary budget surplus above 1% of gross domestic product**. The result can also be interpreted in the following manner: in the medium-term, the relative amount of the debt determined by the Maastricht criterion will not be exceeded, assuming a 4.2% trend growth of gross domestic product and the currently envisaged primary budget balance, only if the effective interest rate is below 5%. Such calculation of the necessary primary surplus means that a possible lower realisation of budget revenues than expected will need to be compensated by reducing the budget deficit (expenditure) and not by additional borrowing.

Table 6.4.5: **Actual, cyclical and structural general government balance between 1997and 2004 according to the ESA**

Year	Actual balance	Cyclical balance	Structural balance	Actual balance	Cyclical balance	Structural balance
	SIT million			% of BDP		
1997	-80,329	-807	-79,522	-2.8	0.0	-2.7
1998	-75,197	-5,555	-69,641	-2.3	-0.2	-2.1
1999	-80,168	10,510	-90,678	-2.2	0.3	-2.5
2000	-130,280	20,993	-151,273	-3.2	0.5	-3.7
2001	-114,672	3,717	-118,388	-2.5	0.1	-2.6
2002	-92,125	-14,017	-78,108	-1.8	-0.3	-1.5
2003	-70,057	-23,846	-46,211	-1.3	-0.4	-0.8
2004	-61,414	-21,139	-40,276	-1.0	-0.4	-0.7

Source of data: Ministry of Finance, calculated by B. Vasle in S. Mićković.
Note: Figures do not add up because they are rounded off.

on the domestic banking and financial system as a whole. The adopted programme lays down a combined approach whereby debts are repaid earlier and certain parts of the portfolio are exchanged for new and cheaper instruments. The liquid assets gained should be deposited with the Bank of Slovenia in line with the above dynamics. As a result, in 2003 budget expenditure on debt servicing will be lower by around SIT 3 billion and revenue from interests will increase by SIT 7 billion. Since the deposited proceeds offer the possibility of restructuring the remaining debt, direct savings from interest rate payments could be even higher, while an indirect effect may lead to a reduction in the level of domestic interest rates.

If the above assumptions are realised, central government debt, expressed as a share of gross domestic product, will decrease in the coming years; the relative reduction of debt would thus be the result of actively managing the proceeds from the sale of the stake in NLB, and a sustainable budget deficit, i.e. moderate new borrowing.

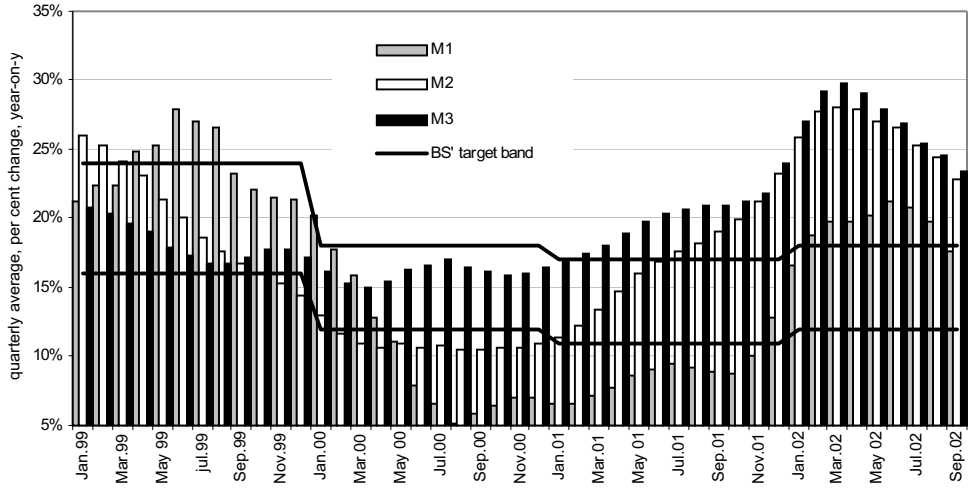
7. Monetary developments and the capital market

7.1. Monetary developments - Attention focused on keeping fluctuations and the level of exchange rate in check

In the first nine months of 2002, the Bank of Slovenia continued to pursue the monetary policy presented in the Medium-term Monetary Policy Framework of November 2001, aimed at achieving its medium-term objective: to gradually **bring inflation down to 4% before the expected accession to the European Union**. a The policy is based on two pillars: the first pillar represents the volume of money in circulation, the M3 monetary aggregate, while the second pillar consists of indicators which have some impact on price stability and monetary policy's sustainability, particularly the indicators of economic activity, wage dynamics, the current account balance, movements in administered prices, and the government sector's balance.

In line with the expected dynamics of inflation reduction, the Bank of Slovenia set a target band for monetary aggregate growth: the M3 broad monetary aggregate should grow by an average of 12%-18% in 2002. Although the Bank of Slovenia changed the floor and ceiling of the target band by one percentage point compared to 2001, M3 overshot the ceiling by more than half as early as in January, and the difference further increased by the end of the first quarter when M3 growth was 29.8%. In the second quarter, the average M3 growth began to slow down and this trend was maintained in the third quarter, at the end of which the average M3 growth was 23.3%, exceeding the ceiling of the target band by 29.7%. The relatively high M3 growth was partly due to the introduction of the euro at the beginning of 2002:

Picture 15: **The Bank of Slovenia's monetary aggregates growth (quarter/same quarter of the previous year)**



Source of data: BS.

this had led to the exchange of former national currencies into tolars in the last quarter of 2001 and pushed up household foreign currency deposits at the same time. The resulting strong growth in monetary aggregates also affected their level in 2002. Nevertheless, short-term growth in monetary aggregates and their components began to decelerate at the beginning of 2002, which also helped ease their long-term growth in the second and third quarters. In addition, the structure of monetary aggregates has changed. In the first nine months of 2002 compared to the same period last year, the formation of M3 was mainly based on net domestic assets (SIT 128.3 billion), while the Bank of Slovenia reduced the M3 monetary aggregate through net foreign assets (by SIT 11.9 billion).

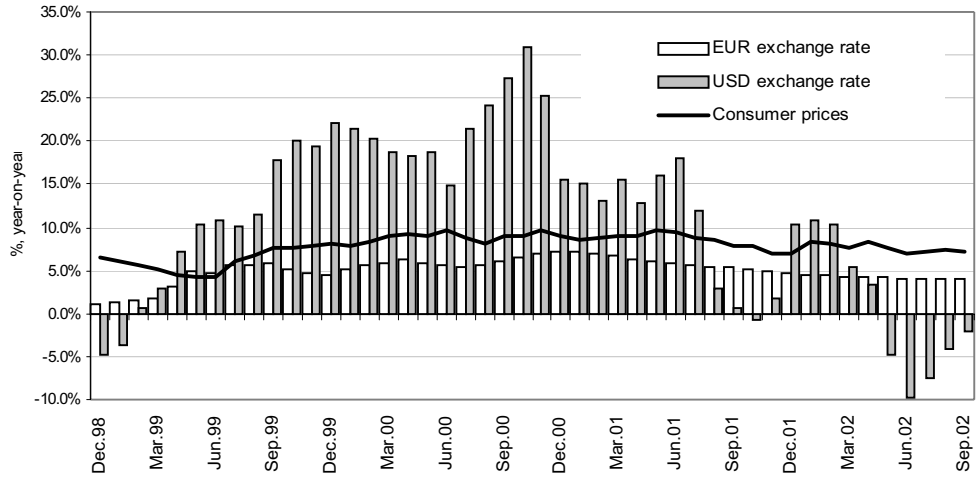
Compared to December 2001, the average M3 growth was reduced by 0.6 of a percentage point by September, primarily as a result of slower growth in foreign currency deposits and tolar time deposits in banks. Year-on-year growth in foreign currency deposits decreased by 0.9 of a percentage point in the first nine months to 24.6% in September, while growth in tolar time deposits slowed down by 3.7 percentage points to 23.1% in September. The relatively faster deceleration in tolar time deposits also led to slower growth in the M2 monetary aggregate. The fastest growing **components of the M3 broad monetary aggregate** were tolar sight deposits, going up by 48% in the first nine months compared to December 2001 (up 17.8% year on year in September) and currency in circulation, rising by 43% (up 18.2% in September).

As in 2001, the growth in base money and the M1 narrow monetary aggregate was lower than that of the M2 and M3 monetary aggregates. Although growth in the **volume of base money** accelerated by 6.3 percentage points between December and July, it began to slow down afterwards and eased by 2.5 percentage points in the third quarter. Nevertheless, M3 growth was almost 50% higher than in September 2001 when it was 9.0%.

In the first nine months, changes in base money supply were mostly due to reduced net inflow of capital compared to the same period last year and, as a result, due to changed conditions in the foreign exchange market. Consequently, the choice of monetary policy instruments depended relatively less on the need for sterilisation. Similarly to last year, net base money was issued through foreign exchange transactions (including repurchase agreements of the Bank of Slovenia, which represented the main instrument of supply), and withdrawn through tolar transactions, mostly by releasing tolar bills into circulation and increasing overnight deposits introduced in 2001.

Lower foreign capital inflows than in the first nine months of 2001, which affected the choice of monetary policy instruments, had little effect on the structure of **exchange rate policy** instruments. In addition to the monetary policy instruments mentioned above (mostly repurchase agreements and foreign currency bills), which also affected the level and fluctuation of the exchange rate, the Bank of Slovenia continued to intervene in the foreign exchange market by determining the level of the nominal exchange rate that had to be taken into account by the banks which signed the cooperation agreement with the Bank of Slovenia.

Picture 16: **Year-on-year changes in the exchange rates of the euro, US dollar, and inflation**

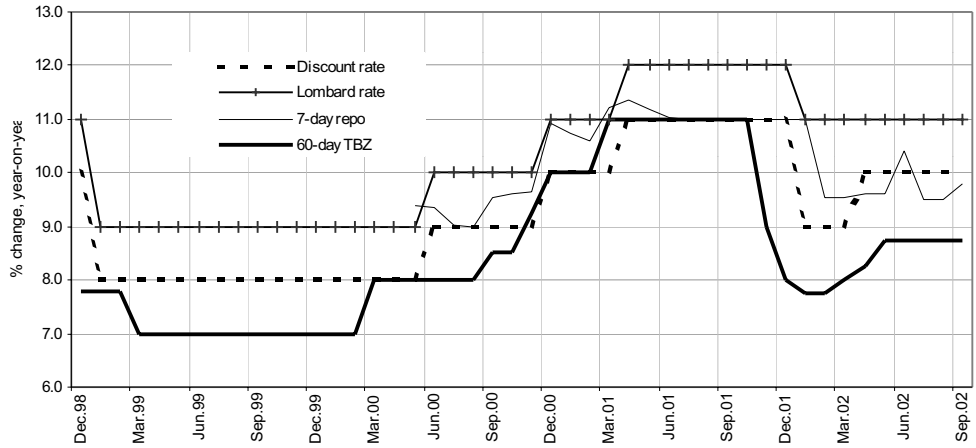


Source of data: BS, SORS.

In the first quarter of 2002, the tolar's nominal depreciation against the euro was 1.2%, but slowed down to 0.9% in the second and third quarters, reducing its year-on-year rise from 4.7% in December last year to 4.0% in September 2002. The year-on-year rise of the US dollar's exchange rate was 10.8% in January and slowed down to 3.4% at the beginning of the second quarter. In the second half of the year, the trend reversed and the tolar's nominal appreciation against the US dollar equalled 2.1% in September.

After the Bank of Slovenia concentrated on the dynamics of the **exchange rate**, and let growth in monetary aggregates (particularly the M3 broad monetary aggregate)

Picture 17: **Dynamics of the Bank of Sloveniaís interest rates**



Source of data: BS.

Box 10: The Bank of Slovenia's monetary policy guidelines for 2003 and 2004

In November 2001, the Bank of Slovenia (BS) presented new monetary policy guidelines for the period up to Slovenia's accession to the EU. The main goal is to bring the inflation rate down to 3%-4% before Slovenia's integration with the ERM2; the BS also stressed the importance of conducting a policy of gradual depreciation of the exchange rate in order to ensure gradual convergence.

About a year after the announcement of new monetary policy guidelines, the implementation revealed the contradicting nature of the two goals set by the BS. In conditions of relatively high foreign exchange inflows, the tolar's gradually depreciating exchange rate has led to strong growth in monetary aggregates. This, in turn, does not help inflation fall to the target level.

If this policy is pursued further – i.e. the BS sticks to its goals in the next two years and continues to focus on managing gradual depreciation of the tolar, thus indirectly managing the tolar's real effective exchange rate – inflation will persist above the levels set by the Maastricht criteria in both 2003 and 2004. With financial inflows remaining relatively strong in the next two years, the BS could reduce pressure on the exchange rate and monetary aggregate growth by expanding the range of instruments used to sterilise foreign exchange inflows. However, growth rates in monetary aggregates would still largely depend on the scope of interventions taken to maintain the targeted level of the exchange rate. Further, this policy would lead to no significant reduction of the gap between domestic and foreign interest rates, which has the biggest impact on capital inflows from abroad along with exchange rate changes. If inflation were brought down to lower levels thanks to factors that are exogenous to the BS' policy, such reduction would be unsustainable.

The sustainable reduction of inflation is only possible in conditions of more restrictive economic policies and their improved co-ordination. In the field of exchange rate policy, an important factor of keeping inflation down is to decelerate depreciation of tolar (about 50% slower nominal depreciation of tolar could cut the annual inflation rate by 0.4 to 0.6 of a percentage point in 12 months). This would in turn help monetary aggregates rise more slowly, or bring their growth closer to the rates proposed by the BS as being necessary for reducing inflation.

exceed the ceiling of the target band throughout the year, i.e. a growth rate defined in 2001 as the highest at which inflation could still be reduced to the level comparable with EU member states, interest rates complied with the objective of reducing inflation. In January, the Bank of Slovenia lowered its key **interest rates**: the discount interest rate from 11% to 9%, and the lombard interest rate from 12% to 11%, but ceased to change them after raising the discount interest rate to 10% in April. Since movements in interest rates on tolar bills and repurchase agreements were similar to the movements of the Bank of Slovenia's key interest rates, the average interest rate of the central bank in the first nine months of the year was lower than in 2001.

Regarding interest rates on **foreign currency bills**, the Bank of Slovenia followed the dynamics of interest rates in foreign markets. The interest rates on euro-nominated bills remained unchanged compared to December last year on average, while the interest rates on US dollar-denominated bills were lower by 0.2 of a percentage point on average.

No significant change is expected in the pursuance of monetary and exchange rate policies in the last quarter of 2002. Similarly to the last two years, the selection of monetary and exchange rate policy instruments are expected to be influenced mainly by foreign capital inflows. Given the agreement on using the proceeds from the sale of assets, which was concluded between the Bank of Slovenia and the Ministry of Finance in October, no additional pressures are expected in foreign exchange markets; the Bank of Slovenia is expected to continue with the gradual nominal depreciation of the tolar and thus **prevent any stronger appreciation of the tolar's real effective exchange rate**. At the same time, due primarily to this kind of exchange rate policy, a reduction of the level of monetary aggregates[57], which would significantly add to a sustainable reduction of inflation, cannot be expected. Moreover, if relatively high foreign exchange inflows are to be continued in the following years, the Bank of Slovenia is expected to enlarge the selection of instruments used in the process of sterilisation. Given the growing volume of temporary purchases of foreign exchange, the Bank of Slovenia will introduce a new repurchase agreement. In addition to the existing 7-day foreign exchange repurchase agreement, banks will be offered a 270-day agreement, with the possibility of refinancing through newly issued 360-day tolar bills. However, by pursuing such a policy, the Bank of Slovenia will depart from its declared objective regarding interest rates, i.e. the gradual reduction of differences between interest rates in Slovenia and abroad.

7.2. Financial flows and the capital market - Moderate lending activity of banks and slightly lower growth in bank savings

In the first half of 2002, **growth in household bank deposits slowed down**. The volume of household savings in banks increased by 2.2% in real terms compared to December last year (by 7.7% in the same period last year); the average monthly growth was 0.4%. The strongest rise in real terms was recorded in the first half of the year by long-term deposits (tolar and foreign currency deposits), and the maturity was further extended. The relatively modest growth was mostly due to the following reasons: firstly, the exchange of national currencies of EMU members into euros at the end of 2001 and the related net outflow of foreign currency deposits in the first half of 2002; secondly, the high comparable basis in 2001 resulting from the all-year dynamic growth of household deposits and the increase of the total savings level at the end of the year due to the exchange into euros; thirdly, the decrease of interest rates in real terms for time deposits by 1 percentage point on average in the first six months of the year, which probably also caused the redirection of part of

[57] Although long-term growth rates in the last quarter of the year will be lower due to the calculation effect resulting from the comparison between monetary aggregates growth rates in the last quarter of 2002 and the high rates in the last quarter of last year, particularly December.

savings from the banks to the secondary capital market. Another reason for such redirection was the strong growth in the stock market index this year and the very high rates of return in mutual funds – as a consequence, investments in mutual funds increased considerably in the first half of the year. Therefore, the net inflow of tolar and foreign currency deposits in banks was 48.1% lower in real terms than in the same period last year; a further increase in the difference between last year's and this year's net inflows is expected in the last months of 2002, since the inflows of foreign currency were very high at the end of 2001. In the first six months of the year, the volume of **tolar savings** recorded 5.9% growth in real terms compared to December 2001, whereas short-term deposits (sight deposits excluded), equalling 61.6% of tolar savings at the end of June, decreased in real terms by 3.2%[58], and long-term deposits grew in real terms by 35.7%. A very important factor in this respect is the methodological change in the coverage of long-term savings deposits, i.e. the transfer of long-term savings deposits into long-term time deposits – which added around two thirds to the rapid growth of long-term deposits. In spite of the transfer of long-term savings deposits into time deposits, long-term savings grew by 11.5% in real terms in the first half of the year, also due to net inflows of deposits in the National Housing Savings Scheme. Net inflows of long-term tolar deposits (without net inflows related to the transfer of long-term savings deposits into long-term time deposits) in the first half of the year were higher than in the same period last year by 52.7% in real terms, and equalled SIT 22.3 billion - around SIT 12 billion of which were inflows in the National Housing Savings Scheme). According to estimates of this year's monthly inflows, the national savings scheme amounted to around SIT 40 billion at the end of June 2002.

The volume of **foreign currency savings** decreased in the first half of the year by 2% in real terms compared to December 2001 (in the same period last year it grew by 6.7% in real terms); real growth (2%) was recorded only by long-term foreign currency savings amounting to 12.5% of foreign currency savings at the end of June 2002. Short-term foreign currency savings decreased by 2.5% because part of the deposits related to the exchange of 12 national currencies into euros[59] was, as expected, exchanged for cash. However, the net outflow of foreign currency deposits in the first six months amounted to only **SIT 13.1 billion or 7% of the total foreign currency net inflow in the previous year**, which indicates that people trust the domestic banks. Foreign currency savings equalled 42.6% of total household savings at the end of June and were lower than in June 2001 by 1.1 percentage points, mostly due to this year's strong growth in long-term tolar savings.

In **July and August** the monthly growth rates of total household savings in banks were lower than in the first half of the year (a 0.3% increase in July and 0.1% decrease in real terms in August), mostly due to seasonal factors. The volume of tolar savings in real terms decreased in July, but remained unchanged in August, while foreign currency savings rose - after a five-month decline - by 1% in real

[58] The lowering of the volume of short-term savings this year results from the abolition of the tolar indexation rate (TOM) for short-term liabilities and claims.

[59] The total net foreign currency deposit inflows equalled SIT 187.6 billion last year. In the last quarter of 2002, the inflows of sight and savings foreign currency deposits, mostly because of the exchange of foreign currencies into euros, accounted for almost æ of net flows of foreign currency deposits; the inflows were strongest in December 2001 (SIT billion 78.4).

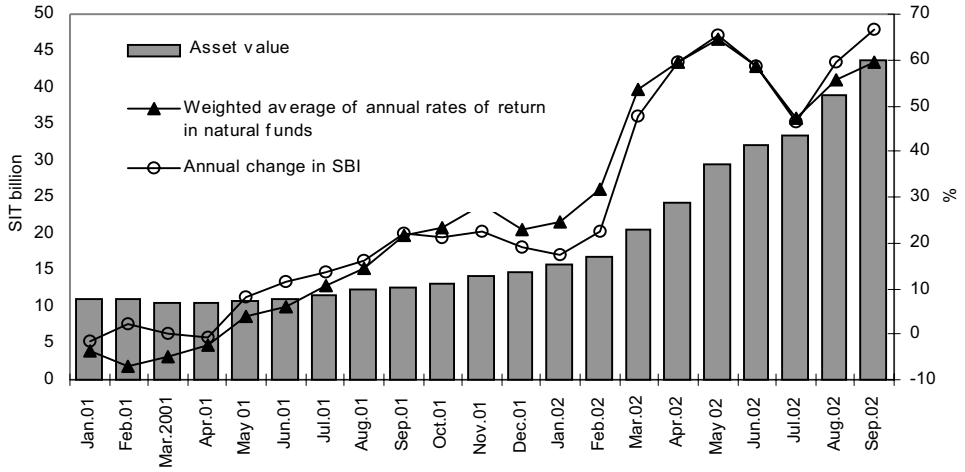
terms due to the increase of short-term foreign currency deposits; in August, they decreased again by 0.2% in real terms.

Mutual funds are becoming an increasingly important form of household savings; in the first half of the year, assets in mutual funds increased by more than two times (to SIT 32.2 billion). Net inflow in mutual funds equalled SIT 12.1 billion (it was negligible in the same period last year), and the average annual return reached 58.6% in June. Such a trend was due to the low interest rates on tolar deposits and favourable movements in the stock market (the SBI stock exchange index increased by 58.4%). Growth of mutual funds was high also in the third quarter of the year; their assets totalled SIT 43.6 billion in September (35% more than in the second quarter in nominal terms), and the annual return reached 59.4%. At the end of June, household savings in mutual funds represented only 1.7% of total household savings in banks, but an increase in this share is expected in the future, particularly if we take into account that the draft Investment Funds and Management Companies Act envisages new forms of investment in such funds (in foreign securities, implemented financial instruments, indexed investments), investments in foreign markets and new organisational forms. Savings in mutual funds will be additionally stimulated by the expected changes in the taxation of capital profit and interest rates.

The **volume of tolar household, government and corporate** (companies and other financial organisations – OFO) **loans** decreased by 2.9% in real terms in the first six months of the year compared to the end of 2001. In the maturity structure, the share of long-term loans increased by 1 percentage point and reached 58.4%.

Similarly to last year, in the first half of 2002 the volume of tolar **household loans** decreased (by 1.5% in real terms compared to December 2001), due also to lower household indebtedness and the continuing moderate growth of private consumption (see Chapter 2.2.2). While in the first half of 2001 the major decrease amongst

Picture 18: **Mutual funds assets[1], their weighted average annual return and annual SBI growth rates**



Source of data: www.finance-on.net, IMADís calculations
Note: [1] Data refer to the end of the month.

household loans was recorded by long-term loans (by 0.6% in real terms), this year saw a 11.9% decrease of overdrafts and advances (at the end of June their share in total household loans was 12.4% or 1.5 percentage points less than at the end of last year). The volume of long-term loans dropped by 0.1% in real terms, while the volume of short-term loans grew by 2.7% – which is 1 percentage point less than last year. Real growth in net flows of long-term tolar loans increased by 5.4%. **Net flows** of other tolar household loans decreased in real terms; total net year-on-year flows of household loans in the first half of the year were 8.6% lower in real terms. In **July and August** household indebtedness recorded a slight increase, in particular in the volume of overdrafts and advances (by 4.4% in real terms, mostly due to seasonal factors) as well as long-term loans (1.3%).

The **growth of tolar and foreign currency bank corporate loans** was modest in the first half of the year (1.2% compared to December 2001) and was behind the growth in the same period last year by 6.1 percentage points. Such slow growth was due to the lower real volume of tolar loans which became unattractive because of high tolar indexation clause (TOM) values, and recorded their first decrease since 1993. To the contrary, foreign currency loans in domestic banks, made possible by their high foreign currency liquidity, were more favourable and grew in the first six months of the year by 19.3% in real terms. They accounted for 30.2% of all domestic bank loans at the end of June. The lending activity of banks in foreign currency has been increasing since the middle of 2001 when the share of foreign currency loans equalled 24% of the total bank loans. Since overdrafts and advances as well as short-term and long-term tolar loans in the first half of the year decreased at similar rates (by 6.7% or 4.5% in real terms), no change occurred in the maturity structure of bank loans to enterprises. The **net flow** of tolar and foreign currency corporate loans made by banks was SIT 54 billion, whereby corporations and OFO took out net SIT 66.7 billion of foreign currency loans and paid off net SIT 12.7 billion of tolar loans. After considerable **corporate indebtedness abroad** in the past years, such flows have been slowing down in the last two years. In the first half of 2002, the net flow of corporate loans taken out abroad was SIT 22 billion[60] or 55.3% in real terms less than in the same period last year, as a result of net loan repayment in the first quarter of this year. Nevertheless, loans from abroad remain the second (after foreign currency loans from domestic banks) most important source of financing enterprises and represent 24.8% of disbursed foreign currency loans. The reasons for long-term loans taken out abroad are similar to those in the past years; loans are taken out abroad by bigger enterprises with high credit ratings and which are too big to take out loans from domestic banks because of the legal requirements of banks' credit exposure to the individual borrower. In **July and August,** tolar corporate indebtedness increased by 0.9% in real terms. Enterprises took out mostly tolar short-term loans intended for financing current operations.

In 2001, most **government borrowing** came from issuing securities, whereas this year the government mostly took out **loans from domestic banks**. Tolar and foreign currency government indebtedness grew in the first half of 2002 by 15.8% in real terms. Contrary to corporations, the government took out foreign currency loans

[60] Calculated in tolars according to the average monthly exchange rate (source of data: Table of Slovenia's financial flows, BS, September 2002) and deflated by the tolar's effective exchange rate.

from domestic banks as well as tolar loans which, however, grew more slowly (by 9.5% in real terms) than foreign currency loans (by 39.3% in real terms – which is the highest level reached since 1995). Net flows of tolar and foreign currency government loans made by domestic banks equalled SIT 35.8 billion in the first six months of 2001 (in the same period last year the government paid off SIT 15.3 billion), while the government loans taken out abroad were settled (net outflow SIT 8.1 billion). In July and August, the volume of tolar and foreign currency government loans dropped by 2.7% compared to June.

Interest rates were subject to changes. On 1 January 2002 the Bank Association of Slovenia started to publish daily the Slovenian Inter-bank Interest Rate (SMOM) for tolar liquidity loans and time deposits, which are formed in the domestic inter-bank money market. In the second half of the year, a first important step towards **nominal interest rates** was made with the elimination of short-term claims and liabilities indexation. For short-term interest rates the tolar indexation clause (TOM), i.e. the rate of price rises in the last twelve months, is no longer applied; the formation of the nominal interest rate now includes the expected inflation, which caused a significant lowering of short-term interest rates in July.

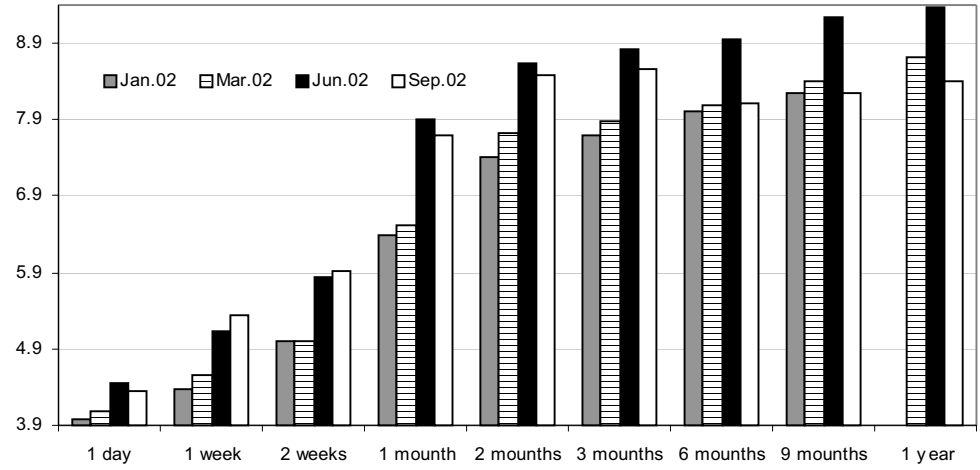
Nominal interest rates saw strong fluctuations in the first half of the year, a result of the fluctuations of TOM, which ranged between 7.3 and 8.6%; the average TOM was 7.9%. **The average loan interest rates on top of TOM** for long-term loans were lower in this period by 0.5 of a percentage point and equalled 7.4% at the end of June, while the average loan interest rates on top of TOM for short-term loans decreased by 0.3 of a percentage point, to 5.5%. Far more significant was the decrease of the **average interest rates on top of TOM for time deposits**, which dropped on average by an entire percentage point[61] and were at their lowest level compared to previous years. In the **third quarter**, interest rates continued to fall. Following the introduction of nominal interest rates, the short-term lending interest rates saw a significant **decrease**, by 1.2 percentage points, to 12.2%, and a lowering was also recorded by the average long-term interest rates on top of TOM, namely by 0.2 of a percentage point, to 7.2%. Due to the substantial reduction in the first half of the year, the average nominal interest rates for time deposits in the third quarter of 2002 dropped relatively less; short-term interest rates by only 0.7 of a percentage point, and long-term interest rates by 0.1 of a percentage point.

Following the lowering at the end of 2001 and at the beginning of 2002, the **average inter-bank interest rate** (being 4.5% in January) started to rise again in the second quarter of the year due to the low scope of meeting compulsory reserves[62], and at the end of July reached the highest level of the first seven months of 2002 (5.5%). In August and September, increased foreign currency inflows caused a new reduction of the inter-bank interest rate which was on average lower than in the second quarter

[61] Interest rates on top of TOM for time deposits dropped by 0.6 of a percentage point, by 1 percentage point for time deposits over 91 days, by 1.2 percentage points for time deposits over 181 days and up to 1 year, and by 1.3 percentage points for time deposits over one year.

[62] Due to institutional changes in payments (i.e. the introduction of transaction accounts for enterprises; the transfer of accounts was completed on 30 June 2002) and low inflows in the foreign exchange market in this period, the banks this year regulated their tolar liquidity mostly through the temporary sale of foreign exchange to the BS.

Picture 19: **Movement of SMOM in the first nine months of 2002**



Source of data: Bank Association of Slovenia.

of the year (being around 5%). The Slovenian Inter-bank Interest Rate (SMOM) moved similarly to the average inter-bank interest rate; the one-day SMOM was on average 4.4% in June, and the SMOM for one year was 9.4% – the spread between them increased by 0.3 of a percentage point compared to the first quarter of the year. In the third quarter of 2002, the SMOM saw a rapid reduction of long-term interest rates: in September, the SMOM for two and three months exceeded the SMOM for one year, which was 8.4%.

Contrary to **movements in share prices** in world financial markets, share prices on the **Ljubljana Stock Exchange** grew considerably in the first half of the year; the **SBI 20 – Slovenian stock exchange index –** increased by 33.5% (in the same period last year by only 0.3%) and at the end of June 2002 reached 2,872 points. The main reasons for the rises in share prices were the consolidation of ownership, positive business results, and merger and acquisition activities; of the industrial sector indexes the highest growth was recorded by the chemicals index (41.3%). The relatively modest response of share prices in the Ljubljana Stock Exchange to the movements of share prices in foreign capital markets is also due to the still relatively low participation of foreign investors. Non-residents' shareholding in Slovenian companies listed on the Ljubljana Stock Exchange reached 8.05% at the end of June 2002, and was – due to the exclusion of shares of a bank mostly owned by foreigners from the organised market – 4.46 structural points lower than at the end of May and 0.35 of a structural point lower than at the end of June 2001. Following the abolition of custody accounts for non-residents in July 2001, non-residents purchased securities in the organised market amounting to net SIT 3.9 billion in the first half of the year compared to just SIT 0.3 billion in the same period last year; their trading made up 4.6% of the total trading in the Ljubljana Stock Exchange.

The filling of the privatisation gap in March 2002 significantly affected the composition of assets of authorised investment funds (PID) and their market prices.

Table 7.2: **Trade by groups of securities on the Ljubljana Stock Exchange (SIT million)**

Period	Shares	Bonds	Authorised investment funds	Short-term securities	Pension coupons	Total
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
2001	237,139	51,620	55,402	2,830	1,652	348,644
1.1.2002-30.9.2002	194,912	71,853	56,892	0	2,399	326,055

Source of data: Ljubljana Stock Exchange.

Following the modest growth in previous years, the index of such funds (PIX) gained 45.5% in the first half of 2002 as a result of (on top of the factors which affected the entire securities market) the underestimated value of the shares of authorised investment funds compared to their assets[63]. Regardless of the trends in the capital market, the value of BIO in the first half of the year decreased compared to December 2001 by 1%.

As a result of share price rises and new government bonds being listed for trading, the **market capitalisation** of all securities on the stock exchange (excluding the securities of the investment funds) was SIT 1,612.3 billion at the end of June or 32.4% higher than at the end of 2001; the market capitalisation of shares increased by 27.5%, and that of bonds by 45.1%. In the first half of 2002, **turnover in securities** in the organised market exceeded the turnover of the same period last year by 42%, and the turnover in bonds by 113.5%. Because of the proposed Act on the Transformation of Authorised Investment Funds and First Pension Fund[64] the first half of 2002 saw a strong increase of turnover in pension coupons, 2.7 times higher than in the same period last year, yet still accounting for only 0.5% of the total turnover in the Ljubljana Stock Exchange. As the market capitalisation rose faster than turnover, the already low liquidity of equity securities (the ratio of doubled six-month turnover to market capitalisation on the last day of that period) recorded a further drop; for shares and shares of authorised investment funds it fell to 0.21 and 0.35 respectively (in the first six months of 2001 it equalled 0.24 and 0.46). The bond turnover ratio increased, equalling 0.19 (0.15 in the same period last year)[65].

The growth in share prices also continued in the **third quarter** of the year; the SBI 20 share index increased by 15.3% reaching 3,312 points at the end of September. Due to the intended acquisition of one of the pharmaceutical companies, the pharmaceuticals index increased by 27.9%. In the second half of October, stock exchange indexes grew further because of the revival of merger and acquisition activities and the good nine-month business results of companies listed on the Ljubljana Stock Exchange.

[63] For more information see Economic Mirror (IMAD) No. 5, 2002, p.10

[64] Envisaging that individuals may exchange a maximum of 30,000 pension coupons for the additional pension insurance policy; the law currently in force determines a maximum of 10,000 coupons. The proposal was rejected at the end of October 2002.

[65] Between 0.5 and 0.8 in developed markets.

8. Medium-term forecasts for 2005-2007

The dynamics of economic growth recovery after 2004 will be influenced by changes in the structure of gross domestic product growth, which were particularly evident in 2001 and 2002 and pointed out in the Spring Report 2002 – a lower share of investment in GDP, changes in the structure of spending available income – as well as by the delay in economic growth recovery in 2003 and a more pronounced cyclical movement of some domestic consumption components in the upcoming years. The main reason for discrepancy from the medium-term macroeconomic scenario of the Strategy for the Economic Development of Slovenia (IMAD, 2001), according to which real gross domestic product growth should be 5.3% to 5.7% in 2005 and 2006, is the pending structural reforms and their slow implementation. These shortcomings were also pointed out in the Development Report (IMAD, 2002). Exports will continue to be an important lever of economic growth, however, the average export growth rates expected after 2004 should be slightly lower than those projected in the SEDS. This reflects the slower increase in competitiveness caused by the structural problems mentioned above and the relatively lower volume of commercial investment, one of the key factors stimulating competitiveness. The trend of increasing economic growth envisaged by the SEDS should therefore be realised later than expected, resulting in a delayed bringing of economic growth to a higher medium-term level. Conditions necessary to achieve this goal are the qualitative changes proposed by the SEDS, which should result in investment restructuring, higher shares of education, telecommunications, international trade and foreign direct investment. These changes will facilitate the elimination of macroeconomic imbalances, which primarily concern the reduction of inflation to levels acceptable in the EU, the gradual elimination of the fiscal deficit, and keeping a sustainable current account deficit.

An important factor influencing the policy of reducing inflation in the next few years is the anticipated date of Slovenia's accession to the EU (in 2004), which also requires Slovenia to enter the exchange rate mechanism (ERM2). Before entering the ERM2, the structural and institutional causes of inflation should be eliminated,

Table 8: **Forecasts of the main macroeconomic indicators**

- real growth rates, %

	2005	2006	2007
Gross domestic product	4.5	4.7	4.7
Employment (% growth)	1.0	1.0	1.0
Labour productivity (% growth)	3.5	3.7	3.7
Gross wage per employee	2.5	2.5	2.5
Exports of goods and services	6.6	6.8	6..9
Imports of goods and services	6.5	6.7	6.8
Final consumption (government and private)	3.6	3.8	3.7
Gross fixed capital formation	6.3	6.5	6.5
Current account deficit (% of GDP)	-0.2	-0.3	-0.4
Inflation rate (annual average, %)	4.2	3.7	3.5

Source of data: the IMAD's forecasts.

so that after accession any price rises above the EU average would solely be the result of faster productivity growth in Slovenia relative to the EU average ("real convergence"), which could at first be partly offset by nominal depreciation within the allowed range of exchange rate fluctuations. This means that internal factors will have to contribute more to bringing inflation down to levels comparable to the EU than before, especially the conclusion of structural reforms in the labour market, the financial sector and economic infrastructure. These reforms will allow slower rises in administered prices (their contribution to inflation should become equal to their share in the price index as early as in 2003) and a more balanced wage growth in the public and private sectors, which will reduce upward pressures on prices exerted through higher prices of services, household spending and pressures to raise national budget expenditure. Monetary policy's measures, which play a key role in maintaining moderate price rises, will continue to be limited to managing exchange rate, especially as the current levels of foreign capital inflows are expected to be sustained. Hence, inflation should fall gradually in the next two years, but the rate is expected to exceed the level set by the Maastricht criteria on the anticipated date of entry into the ERM2 (1.5 percentage points above the average level of the three member states with the lowest inflation rates). This forecast takes into account the estimated effect of different levels of labour productivity growth in Slovenia and the EU (the Balassa-Samuelson effect[66]), due to which the difference between Slovenia and EU's inflation is being maintained. Given the current trends in productivity growth of tradable and non-tradable sectors, the Balassa-Samuelson effect is estimated to contribute 1 to 2 percentage points to inflation in the next few years.

On the assumption of relatively favourable conditions in the international economic environment and further diversification of Slovenia's external trade flows, export growth should accelerate after 2004 through improved international competitiveness. Bolstering real export growth will depend on the efforts to achieve bigger shares of high value added products, which calls for new production programmes and new products. Exports should continue to be an important lever of economic growth, but the average export growth rates expected after 2004 should be slightly lower than those projected in the SEDS.

After stagnating in 2000 and shrinking in 2001, real investment growth is gradually picking up, while in 2005-2007 investment should again rise at a rate above gross domestic product growth, but still lower than envisaged in the SEDS. A higher level of national savings is forecast to be accompanied by stronger net capital inflows in the form of direct and portfolio investments, which should increase the amount of funds available for investment and facilitate the restructuring of the economy. Public appropriations for investment increased in the budgets for 2002, 2003 and 2004, however, projections made under the assumption of balanced public finance show that the proportion of public funds in investment financing will again drop

[66] The Balassa-Samuelson effect is shown in the relatively faster rise in the prices of services relative to the prices of goods, resulting from different dynamics of factor productivity growth between sectors exposed to international competition and sectors mainly operating in the domestic market. Wage increases in mainly non-tradable sectors lead no improvement in productivity (as do in mainly tradable sectors), on the contrary, they lead to higher prices of services provided by these sectors (Spring Report 2001, IMAD).

slightly after 2002. Since increased borrowing needed to provide additional funding might undermine macroeconomic sustainability, the projections envisage the involvement of foreign private capital to finance infrastructure building on a concession basis and increased donations from the EU. The latter assumption depends on the possibilities of using structural funds and the outcome of negotiations over criteria and the level of inflows. Taking into account these assumptions, room for investing in machinery and equipment, technological development and information and communications technologies should gradually expand, the share of investment in economic infrastructure should increase, and the planned investment in residential building construction should be realised, with the share of investment in government services shrinking. Despite the growing share of investment, the investment-savings gap should be closed with the help of slightly lower average rates of domestic spending, further growth in domestic private savings, higher net inflows of transfers from the EU, and the envisaged gradual reduction of the fiscal deficit.

The medium-term macroeconomic scenario reveals a realistic path of development under the assumptions given above and the projected qualitative changes in economic growth, however, the **main risks** for its implementation also need to be pointed out. The first risk arises from the assumption of a stable and steadily growing international economic environment. According to alternative calculations, about 0.5 of a percentage point lower average economic growth in Slovenia's main trading partners could reduce Slovenia's real gross domestic product growth by 0.2 to 0.3 of a percentage point compared to the original scenario. Lower economic growth in these countries would undermine the strengthening of export demand envisaged in the original scenario, affecting primarily real export growth rates as well as investment consumption. Weaker growth in export orders would slow down manufacturing's production activity and, consequently, imports of intermediate goods. Imports would therefore be equally affected by the slow recovery of international economic activity, and import growth would be lower than projected in the original scenario. Another risk stems from the assumption of a sufficient level of domestic savings needed to maintain or slightly increase the current level of investment relative to gross domestic product. Should the assumptions about a moderate rise in domestic private savings and the gradual elimination of the fiscal deficit fail to come true, the share of investment in gross domestic product would start to decline or a need for greater external borrowing would emerge, which would in turn lead to a higher deficit in the current account of the balance of payments.

Part III

Methodology and Procedure of Making Forecasts and Assessment of their Quality

1. Description of methodology and forecasting procedure

1.1. Description of methodology

The Institute of Macroeconomic Analysis and Development is obliged by a government decision regulating its organisation and competence to make professional and unbiased forecasts. The Institute takes all responsibility for its forecasts, and is also in charge of disseminating information. This appendix aims to describe the methodology and procedure of making macroeconomic forecasts and evaluate the IMAD's performance compared to other international forecasting institutions.

Pursuant to the Decree on the Criteria and Procedures for Preparing the Draft National Budget, the IMAD makes forecasts twice a year (spring and autumn forecasts). These forecasts include projections of macroeconomic aggregates for the current and next two years and a scenario for the upcoming three years. Forecasts and the scenario are supplemented by an assessment of the main risks and conservative forecasts that take these risks into account.

A short explication accompanying the published forecasts provides the assumptions behind the forecasts, differences relative to the preceding forecasts, possible implications for economic policy, and a brief description of external experts' divergent opinions which have been collected in the process of testing forecasts (part of the preparation phase). Further **transparency of forecasts** is provided by a detailed analytical explication and extensive statistical appendix in the Spring and Autumn Reports, which the IMAD presents to the domestic and foreign public. Everyone can thus be informed about the assumptions and methodology, and they can also check the internal balance of forecasts. The realisation of forecasts is monitored through regular analyses of current economic developments, which are made with respect to the valid forecasts and with the objective of detecting any new risks. The results of the ongoing monitoring are published in the Slovenian Economic Mirror, the IMAD's monthly publication. The IMAD regularly communicates with experts and the media from the country and abroad and, if there are any major discrepancies between forecasts and actual trends, the IMAD accounts for the reasons and explains the extent of these differences.

The IMAD's forecasts **cover the whole system of national accounts** and provide projections of macroeconomic aggregates deriving from this system for the upcoming years. National accounts forecasts, a comprehensive and quantitative account of future economic developments, integrate a number of specific figures and projections into a system of national accounts (the 'bottom-up' approach). The first forecast of gross domestic product growth is made separately by kind of activity and type of expenditure, which enables an additional verification of the consistency of forecasts. Creating linkages between economic flows in the system of national accounts ensures the compatibility of the main macroeconomic aggregates and provides a useful tool for analysing current trends as well as projecting future economic developments.

The **'bottom-up'** approach ensures that all available information is taken into account

during the preparation phase. The analysis and forecasts of economic trends in specific areas are made by the IMAD's experts who participate in the national accounts team and various working groups. Individual forecasts are made by using various methods, which generally depend on data availability and quality. The main methods are: expert assessment, simple prognostic models and simulations, various institution-related rules and assessments, and econometric methods, which are currently extensively in the areas of inflation, export-import flows, and private consumption. The latter are expected to experience further development and thus contribute to profound amelioration of forecasting methodologies, particularly in areas where data and the nature of aggregates are susceptible to improvement. The biggest problems emerging from the application of econometric methods are caused by errors of measurement, the lack of data or their irreversible aggregation, and multi-collinearity. The minimum requirement of any in-depth econometric analysis of the Slovenian economy is the availability of quarterly data. Unfortunately, data broken down into adequate time sequences are only available for a few indicators. Most figures are available at the annual level and, since some databases have only been kept since 1991 and some of them have changed significantly due to the introduction of new methodologies, many time series are way too short. All these factors undermine the quality of econometric analyses that may help improve the accuracy of forecasts.

1.2. The procedure of making forecasts

The preparation of forecasts follows a precise sequence of steps and timetable, allowing forecasts to be made in the shortest time possible.

1. International environment – The first meeting of the national accounts team is dedicated to the exchange of information about changes in the international environment which have taken place since the IMAD's previous forecasting exercise. Participants discuss expectations concerning developments in the international environment as suggested by the latest forecasts of relevant international institutions: global economic growth, import growth in the main trading partners, import prices, and exchange rates. This paints a picture of current economic trends and future developments in the international economic environment, providing a framework for forecasting individual domestic aggregates.

2. *Factors of inflation* – At the first meeting, the anticipated trends in factors influencing inflation are also examined (movements in individual price groups, macroeconomic policy orientations – incomes policy, fiscal policy assumptions, a plan of administered price rises, the Bank of Slovenia's orientations in monetary and exchange rate policies), and then a consensus is reached about assumptions behind the inflation forecast.

3. *The analysis of quarterly gross domestic product figures* – The second meeting of the national accounts team takes place after the Statistical Office publishes figures on gross domestic product growth for the last quarter of the previous year (spring forecasts) or the second quarter of the current year (autumn forecasts). Members of the team compare the previous official forecasts to the latest statistical figures, point

out any discrepancies and give reasons for them.

4. *The forecast of inflation and exchange rate* – At the same meeting, the forecast of inflation and exchange rate is made on the basis of findings from the first meeting. The forecast of inflation depends on inflation's previous dynamics, and the estimation of the impact of economic policy measures (mainly monetary and exchange rate policies, incomes policy, fiscal policy, and administered prices policy) and changes in external factors (mainly inflation abroad and oil prices) on inflation in Slovenia. The tool used is the time series analysis, while other econometric models are applied to estimate movements and impacts of individual components (mainly single equations and systems of equation in a reduced form). After that, the consistency of the inflation forecast is tested against the forecasts of other macroeconomic aggregates; we examine the results of the econometric model as well as the opinions of the IMAD's experts, and consult other forecasting institutions. Finally, the official forecast of inflation is made, which is consistent with projections of all other macroeconomic aggregates. The underlying mechanism of forecasting the exchange rate is an expert assessment of the relationship between domestic inflation and the euro's nominal exchange rate; we also take into account the assessment of future conditions in the foreign exchange market (over-supply of or over-demand for foreign exchange) and the orientations of the Bank of Slovenia's monetary policy. Then, we select technical assumptions of the euro's exchange rate against other currencies.

5. *Partial forecasts of macroeconomic aggregates* – At the third meeting of the national accounts team, initial forecasts based on the findings of the preceding meetings are made for the following categories: wages, employment (productivity), consumption aggregates (exports, investment, private and government consumption), and value added for each sector. Specialists responsible for areas where forecasts are highly inter-dependent exchange their opinions and harmonise their first forecasts prior to this meeting (e.g. manufacturing and exports, construction and investment, employment, wages and private consumption).

6. *The first forecasts of gross domestic product and balance of payments* – After the forecasts of domestic consumption aggregates are finalised, forecasts of imports and taxes are made, which is followed by drafting of the first forecast of gross domestic product growth. As soon as import forecasts are made, the balance of payments team meets and makes its forecast of the current account of the balance of payments, which is necessary to project the investment-savings gap and gross national product.

7. *Verification of the gross domestic product forecast within the national accounts framework* – Gross domestic product is simultaneously and independently calculated on the basis of two methods (by kind of activity and type of expenditure). On one hand, GDP is the final result of activity of resident production units while, on the other, it is the sum of the value of goods intended for final domestic consumption and the value of the international exchange of goods and services. GDP in constant and current prices is calculated by both sector activities and consumption components, i.e. two basic national accounts methods – the production and consumption ones. The principle of using two methods for calculating the one macroeconomic aggregate allows a systematic examination of relations between economic flows, and provides an additional control of the accuracy of independent and partial forecasts of individual

categories of gross domestic product. The gross domestic product figure can also be arrived at by adding individual factor incomes (cost structure). After a thorough analysis is made by the national accounts team, and the iterative procedure of harmonising forecasts is finished by the core national accounts team, individual and selected forecasts are put into the national accounts balance and the balance is summed up.

8. *Verification of forecasts with external experts* – After being verified by the IMAD's national accounts team, the first forecasts are presented to other domestic forecasting institutions and experts (Bank of Slovenia's Analysis and Research Centre, Department of Economic Analysis and Economic Policy of the Chamber of Commerce and Industry). Before being published, forecasts are compared with the results of the quarterly econometric model developed by the Economic Institute of the Faculty of Law from Ljubljana and the results of the leading indicators model developed by the School of Business and Economics from Maribor. After being published, forecasts are also presented to international institutions. A regular formal exchange of opinions with the European Commission takes place twice a year, and that with the International Monetary Fund once or twice a year. Presentations of forecasts are also given to foreign rating agencies and foreign and international financial, government and forecasting institutions.

9. *Preparation of explication of forecasts* – The first publication of forecasts is accompanied by a short explication that aims to present the current and future economic background, the main assumptions concerning exogenous factors and economic policy, discrepancies from the previous forecasts, the main risks posed to the realisation of forecasts, and possible implications for economic policy-makers. A detailed analytical explication of forecasts and the statistical appendix of national accounts is published as the IMAD's Spring or Autumn Report.

2. A comparative analysis of the quality of forecasts

The quality of forecasts is assessed through two main factors: bias and accuracy.

Out of a pool of macroeconomic aggregates, two have been selected to assess whether the IMAD's projections are correct: economic growth measured by the annual percentage change in real gross domestic product (real GDP growth rate) and inflation measured by the average annual change in the consumer price index. These two indicators are usually at the centre of foreign institutions' analyses because they are of the utmost importance in making sound budget projections and, because of this, at the forefront of the general public interest.

We have assessed the quality of forecasts for the current year and the year ahead for the period from 1991 to 2001. *Forecasts for the current year* are published in the Spring Report and refer to the year in which the Report is published (figures showing the realisation of these projections are taken from next year's Spring Report). *Forecasts for the year ahead* are published in the Autumn Report and refer to the upcoming year (figures showing the realisation of these projections are taken from

the Autumn Report prepared two years later). This assessment is divided into *two sub-periods* in order to show that forecasts improved significantly in the second period thanks to improved methodology.

1 – Bias of forecasts. A forecast is biased when it systematically under- or over-estimates the actual value of the projected indicator. Bias is detected by calculating the mean error (the arithmetic average of forecast errors). Since negative and positive errors are cancelled out when calculating the average, the forecast is perfectly unbiased if the mean error equals 0. The sign in front of the mean error therefore shows the bias of forecasts[67].

The analysis of errors in the *forecasts of real GDP growth for the current year* shows that the current economic growth was slightly overestimated on average. Even though errors were relatively big in the first period, the mean error for 1991-2001 was just 0.35 of a percentage point of GDP and fell further to 0.06 after 1996. In the second period, forecasts were underestimated twice, particularly in 1999, and overestimated four times, the most in 2001 when all forecasting institutions made considerable mistakes owing to unstable economic conditions.

Autumn's projections of GDP growth for the year ahead were subject to greater uncertainty. In spite of this, the mean error for 1992-2001 was the same as that of forecasts for the current year, however, the sign was different. On average, economic growth was underestimated. After 1997, the value of errors dropped to -0.16. Over the last five years, the assessment of economic growth for the year ahead was underestimated twice and overestimated three times.

The *forecasts of inflation for the current year* follow the actual consumer price movements fairly closely. Forecasts became more accurate from year to year; in 1996-2001, spring forecasts for the current year recorded a mean error of 0.05 of a percentage point, suggesting that the projected average inflation was only slightly higher than the actual rate. Inflation for the current year was overestimated four times and underestimated two times, the most in 2000 when inflation was under the strong impact of external factors.

In 1998-2001, the *autumn forecast for the year ahead* was underestimated by an average of 0.62 of a percentage point. The forecast for the year ahead was first overestimated twice and then underestimated twice, with a particularly big discrepancy being seen in 2000.

2 – Accuracy of forecasts. The accuracy of forecasts is assessed by means of two standard measures of error, which reflect well the importance of quality forecasting. They are the mean absolute error (MAE)[68] and the root mean squared error (RMSE)[69],

[67] The negative sign shows that the indicator has been underestimated, while the positive sign shows that the indicator has been overestimated.

[68] The average of absolute errors where the arithmetic sign is not important.

[69] It is used because we want to impose greater punishment on big errors as they are obviously more harmful to accuracy than the small ones. First, all errors are squared, then their arithmetic mean is calculated, which is finally rooted.

which capture all deviations of forecasts from the actual values. They also single out any major discrepancies between forecasts and their realisation: if the value of RMSE diverges significantly from the value of MAE, the forecast differs radically from its realisation. The values of the two accuracy measures for the IMAD's forecasts and a comparison with the values for selected international and national institutions' forecasts is shown in the table below.

The accuracy of *economic growth forecasts for the current year* is reasonably satisfactory, especially in the second period (after 1996) when the MAE and RMSE values were 0.56 and 0.82 of a percentage point. This is particularly satisfactory if we look at the values for EU member states, which range between 0.29-2.08 and 0.46-2.83, respectively, or the values for the European Commission's forecasts of GDP growth for the EU as a whole, coming in at 0.53 and 0.77.

Similarly, the accuracy of *economic growth forecasts for the year ahead* improved markedly in the second period, when the value of MAE fell from 1.40 to 0.64 and the value of RMSE from 1.58 to 0.77. Measures for the second period show that the

Discrepancy between Economic Growth and Inflation Forecasts and their Realisation: Comparison of the IMAD and Selected Foreign Forecasting Institutions

	MEAN ABSOLUTE ERROR		ROOT MEAN SQUARED ERROR	
	Current year	Year ahead	Current year	Year ahead
Economic growth (real annual change in gross domestic product, %)				
IMAD, 1991-2001	1.26	1.40	1.59	1.85
IMAD, 1991(92)-1996[1]	2.10	2.16	2.18	2.50
IMAD, 1996(97)-2001[2]	0.56	0.64	0.82	0.77
ECFIN[3]	0.53	0.94	0.77	1.33
ECFIN, forecasts for member-states	0.56-1.60	0.94-2.36	0.77-2.01	1.18-2.71
EU member states, 1991-2001[4]	0.80	1.09	1.21	1.76
EU member states, 1998-2001[4]	0.63	1.33	1.06	1.92
EU member states, 1991-2001[5]	0.43-2.24		0.71-3.24	
EU member states, 1998-2001[5]	0.29-2.08		0.46-2.83	
IMF[6]	0.65	1.17		
Inflation (consumer price index or consumption deflator (OECD)				
IMAD, 1995-2001	0.79	1.03	1.10	1.43
IMAD, 1996(97)-2001[2]	0.52	1.03	0.66	1.43
ECFIN[3]	0.37	0.99	0.49	1.51
ECFIN, forecasts for member states	0.33-1.15	0.57-2.08	0.52-1.53	0.84-3.04
OECD, 1971-1997[7]				**0.72-2.73**
OECD, 1985-1997[7]				0.61-1.28

Notes:
[1] Current year forecasts, the 1991-1995 period; forecasts for the year ahead, the 1992-1996 period,
[2] Current year forecasts, the 1996-2001 period; forecasts for the year ahead, the 1997-2001 period,
[3] The European Commission's forecasts refer to the aggregate rate of economic growth in the EU as a whole for 1969-1997 (source: EC Economic Papers),
[4] Errors in forecasts have been calculated as the average of errors made by 15 EU member-states (source: ECB),
[5] A collection of forecasts made by national forecasting institutions (source: ECB),
[6] IMF's forecasts cover industrialised European countries in 1976-1995 (source: World Economic Outlook),,
[7] OECD forecasts bring together forecasts for 13 selected European countries (source: Economic Outlook).

IMAD recorded a higher level of accuracy than the European Commission or the International Monetary Fund.

Particularly good results were seen in *inflation forecasts*, with the two accuracy measures being lower than in economic growth forecasts. After 1996, the values of MAE and RMSE were 0.52 and 0.66, respectively, for current year forecasts and 1.03 and 1.43 for forecasts for the year ahead. Inflation forecasts were therefore as accurate as those of the European Commission for individual member states.

To conclude, statistical calculations show that the **IMAD's forecasts are significantly not biased** and that **their accuracy is satisfactory**. Statistical measures of error, which were used to examine economic growth and inflation forecasts, put Slovenia in the lower end as regards the size of error compared to similar national and international forecasting institutions. The mean statistics show that the IMAD can make reliable forecasts of current as well as more distant trends. Greatest accuracy was seen in inflation forecasts for the current year, partly as a result of the availability of monthly figures and the minor corrections made to these figures later on. The largest discrepancy between forecasts and actual trends was recorded in periods when there was a turn in the business cycle, or any turnaround in the main economic aggregates which was difficult to predict. In order to improve the accuracy of forecasts, the IMAD is constantly improving its forecasting methods. New, more sophisticated techniques make forecasts more accurate, as clearly revealed by the much better results of the last few years.

Statistical Appendix

Table of Contents

Table 1: Main macroeconomic indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998	1999
GROSS DOMESTIC PRODUCT	4.1	3.5	4.6	3.8	5.2
Structure in value added in % [1]					
Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.2	3.7
Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.5	38.3
- Industry (C+D+E)	33.4	32.8	32.5	32.8	32.0
- Construction F	5.1	5.7	5.7	5.7	6.3
Services (G...O)	59.2	59.5	59.8	59.7	60.3
FISIM	-2.3	-2.5	-2.3	-2.4	-2.2
GDP in mil. SIT (current prices)	2,221,459	2,555,369	2,907,277	3,253,751	3,648,401
GDP in mil. EUR	14,508	15,075	16,116	17,468	18,843
GDP in mil. US$	18,745	18,878	18,206	19,585	20,071
GDP per capita in EUR	7,300	7,571	8,111	8,811	9,490
GDP per capita in US$	9,431	9,481	9,163	9,878	10,109
GDP per capita (PPS)*	11,300	11,800	12,800	13,500	14,500
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS					
Exports of goods and services- real [2]	1.1	3.6	11.6	6.7	1.7
Exports of goods	3.0	2.4	13.3	9.2	2.7
Exports of services	-6.3	8.7	4.9	-3.6	-2.7
Imports of goods and services- real [2]	11.3	2.1	11.9	10.4	8.2
Imports of goods	13.1	1.8	13.3	10.9	8.8
Imports of services	-1.2	3.6	3.1	7.0	3.6
Exports of goods and serv. in mil. US$	10,377	10,487	10,446	11,116	10,499
As a % of GDP	55.4	55.6	57.4	56.8	52.3
Imports of goods and services in mil. US$	10,753	10,679	10,601	11,415	11,403
As a % of GDP	57.4	56.6	58.2	58.3	56.8
Trade balance in mil. US$ [2]	-954	-826	-775	-792	-1,235
As a % of GDP	-5.1	-4.4	-4.3	-4.0	-6.2
Current account balance in mil. US$	-75	55	51	-118	-698
As a % of GDP	-0.4	0.3	0.3	-0.6	-3.5
Foreign exchange reserves in mil. US$	3,426	4,124	4,377	4,781	4,115
External debt in mil. US$	2,970	3,981	4,123	4,915	5,400
As a % of GDP	15.8	21.1	22.6	25.1	26.9

Continued on next page.

Table 1: Main macroeconomic indicators of Slovenia

- Real growth rates in %

	2000	2001	2002	2003	2004
			Forecast		
GROSS DOMESTIC PRODUCT	4.6	3.0	3.2	3.7	4.3
Structure in value added in % [1]					
Agriculture, forestry, fishing (A+B)	3.3	3.1	3.1	3.1	3.0
Industry and construction (C+D+E+F)	38.3	37.6	37.2	36.9	36.7
- Industry (C+D+E)	32.1	31.6	31.4	31.1	30.9
- Construction F	6.2	6.0	5.8	5.8	5.8
Services (G...O)	60.6	61.3	61.7	62.0	62.2
FISIM	-2.2	-2.0	-2.0	-1.9	-1.9
GDP in mil. SIT (current prices)	4,035,518	4,566,191	5,070,000	5,546,700	6,034,000
GDP in mil. EUR	19,682	21,024	22,414	23,981	25,930
GDP in mil. US$	18,122	18,810	21,037	23,613	25,535
GDP per capita in EUR	9,889	10,564	11,269	12,061	13,052
GDP per capita in US$	9,105	9,451	10,577	11,876	12,853
GDP per capita (PPS)*	15,600	16,300			
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS					
Exports of goods and services- real [2]	12.7	6.2	4.9	5.7	6.3
Exports of goods	12.8	6.6	4.5	5.8	6.5
Exports of services	11.8	4.1	6.9	5.0	5.4
Imports of goods and services- real [2]	6.1	2.1	3.9	4.7	6.9
Imports of goods	6.1	2.2	3.1	4.7	7.0
Imports of services	6.0	1.1	9.0	4.4	6.2
Exports of goods and serv. in mil. US$	10,696	11,302	12,073	13,440	14,602
As a % of GDP	59.0	60.1	57.4	56.9	57.2
Imports of goods and serv. in mil. US$	11,385	11,420	12,025	13,334	14,616
As a % of GDP	62.8	60.7	57.2	56.5	57.2
Trade balance in mil. US$ [2]	-1,139	-619	-457	-394	-528
As a % of GDP	-6.3	-3.3	-2.2	-1.7	-2.1
Current account balance in mil. US$	-548	31	58	86	-9
As a % of GDP	-3.0	0.2	0.3	0.4	0.0
Foreign exchange reserves in mil. US$	4,376	5,747 [3]	6.399 [3]		
External debt in mil. US$	6,217	6,717 [4]	7.802 [4]		
As a % of GDP	34.3	35.7			

Continued on next page.

Table 1: Main macroeconomic indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998	1999
EMPLOYMENT, WAGES AND PRODUCTIVITY					
Employment in full-time equivalent	1.0	-1.0	-0.5	0.0	1.2
Registered unemployed (annual average in thousand)	121.5	119.8	125.2	126.1	119.0
Rate of registered unemployment in %	13.9	13.9	14.4	14.5	13.6
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9	7.6
Gross wage per employee	5.1	5.1	2.4	1.6	3.3
Labour productivity	2.5	4.4	5.2	3.6	3.4
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS					
Final consumption	7.4	2.3	3.2	3.9	5.6
As a % of GDP	78.7	77.6	76.7	75.9	76.0
in which:					
Private consumption	9.1	2.0	2.8	3.3	6.0
As a % of GDP	58.5	57.5	56.4	55.7	55.8
Government consumption	2.5	3.4	4.3	5.8	4.6
As a % of GDP	20.1	20.1	20.4	20.3	20.2
Gross fixed capital formation	16.8	8.9	11.6	11.3	19.1
As a % of GDP	21.4	22.5	23.4	24.6	27.4
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY					
General government revenue as a % of GDP	43.1	42.7	42.0	43.0	43.6
General government expenditure as a % of GDP	43.1	42.4	43.2	43.8	44.2
Surplus/deficit as a % of GDP	0.0	0.3	-1.2	-0.8	-0.6
EXCHANGE RATE AND PRICES					
Average exchange rate [6] SIT/US$	118.5	135.4	159.7	166.1	181.8
Average exchange rate SIT/EUR	153.1	169.5	180.4	186.3	193.6
Effective exchange rate [7]	10.3	-2.8	0.7	3.9	-0.7
Inflation (end year) [9]	8.6	8.8	9.4	6.5	8.0
Inflation (annual average) [8,9]	12.6	9.7	9.1	7.9	6.1

Continued on next page.

Table 1: Main macroeconomic indicators of Slovenia

- Real growth rates in %

	2000	2001	2002	2003	2004
			Forecast		
EMPLOYMENT, WAGES AND PRODUCTIVITY					
Employment - SNA methodology	1.1	0.6	0.2	0.7	0.9
Registered unemployed (annual average in thousand)	106.6	101.9	103.9[10]	99.3[10]	94.9[10]
Rate of registered unemployment in %	12.2	11.6	11.7	11.0	10.5
Rate of unemployment by ILO in %	7.0	6.4	6.5	6.2	5.9
Gross wage per employee	1.6	3.2	2.0	2.0	2.5
Labour productivity**	4.0	2.5	3.2	3.2	3.4
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS					
Final consumption	1.4	2.1	2.2	2.7	4.0
As a % of GDP	75.8	74.9	74.4	73.9	74.1
in which:					
Private consumption	0.8	1.7	2.1	2.7	3.9
As a % of GDP	54.9	53.6	53.1	52.8	53.1
Government consumption	3.1	3.2	2.5	2.8	4.1
As a % of GDP	20.8	21.3	21.3	21.1	21.0
Gross fixed capital formation	0.2	-1.9	2.9	4.8	6.3
As a % of GDP	26.7	24.9	24.8	24.9	25.4
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY					
General government revenue as a % of GDP	42.8	43.1	41.5 [5]	42.8 [5]	42.5 [5]
General government expenditure as a % of GDP	44.2	44.5	44.5 [5]	44.0 [5]	43.4 [5]
Surplus/deficit as a % of GDP	-1.4	-1.4	-3.0 [5]	-1.2 [5]	-0.9 [5]
EXCHANGE RATE AND PRICES					
Average exchange rate [6] SIT/US$	222.7	242.7	241.0	234.9	236.3
Average exchange rate SIT/EUR	205.0	217.2	226.2	231.3	232.7
Effective exchange rate [7]	-2.1	-0.3	2.7	2.3	1.9
Inflation (end year) [9]	8.9	7.0	7.2[11]	5.1	4.3
Inflation (annual average) [8, 9]	8.9	8.4	7.5[11]	5.5	4.3

Source of data: SORS, BS, Ministry of Finance, * Eurostat, IMAD forecast.
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] August 2002,
[4] July 2002,
[5] Ministry of finance; the revised budget for 2002, proposed budget revisions for 2003. Proposed budget for 2004. Shares relative to the forecast GDP calculated by the IMAD,
[6] Technical assumption of an unchanged EUR/USD exchange rate as seen on 1 October 2002,
[7] Growth in index denotes appreciation of tolar and vice versa,
[8] Retail prices as a measure of inflation until 1998, after 1998 consumer price index,
[9] An estimate made for the environment of more restrictive economic policies. If economic policy orientations remained the same, the average inflation rate would be 5.9% in 2003 and 4.9% in 2004,
[10] Figures do not observe the reclassification of people registered at Employment Service Offices under a special record due to their exercising of rights provided by laws other than the Employment and Insurance against Unemployment Act. This reclassification is prescribed by Article 9 of the Act Amending the Employment and Insurance against Unemployment Act (Ur. l. RS 67/2002). No figures that would take into account this reclassification are as yet available for 2002.
[11] Actual data.

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

- Current prices, SIT million

		1995	1996	1997	1998	1999
A.	Agriculture, hunting, forestry	87,072	98,260	107,700	116,215	114,552
B.	Fishing	386	439	484	519	520
C.	Mining and quarrying	26,006	30,683	33,908	36,023	36,825
D.	Manufacturing	545,730	616,410	706,266	782,651	859,603
E.	Electricity, gas and water supply	56,693	65,032	73,492	96,503	98,108
F.	Construction	96,588	123,827	143,158	159,312	195,879
G.	Wholesale, retail, trade, repair	232,286	257,269	294,293	326,778	365,101
H.	Hotels and restaurants	57,164	68,467	77,314	84,124	94,979
I.	Transport, storage, communications	148,746	169,275	204,827	233,079	259,090
J.	Financial intermediation	77,067	93,185	108,916	119,023	134,177
K.	Real estate, renting and business activities	224,830	263,568	291,572	334,244	380,744
L.	Public administration and com. soc. sec.	102,937	121,447	149,612	161,704	178,540
M.	Education	108,002	123,881	146,687	157,735	177,098
N.	Health and social work	101,172	118,454	134,589	148,882	169,420
O.	Other community and personal activities	63,580	77,431	88,243	100,449	115,126
	FISIM	-43,947	-55,127	-58,554	-66,343	-69,351
1. TOTAL VALUE ADDED (basic prices)		1,884,312	2,172,501	2,502,509	2,790,898	3,110,409
2. CORRECTIONS [1]		337,147	382,868	404,768	462,853	537,993
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**
TOTAL VALUE ADDED (basic prices)		1,884,312	2,172,501	2,502,509	2,790,898	3,110,409
in which:						
1. Agriculture, forestry, fishing (A + B)		87,458	98,699	108,184	116,734	115,072
2. Industry and construction (C + D + E + F)		725,017	835,952	956,824	1,074,489	1,190,415
- Industry (C + D + E)		628,429	712,125	813,666	915,177	994,536
- Construction F		96,588	123,827	143,158	159,312	195,879
3. Services (G ... O)		1,115,784	1,292,977	1,496,055	1,666,018	1,874,273
4. FISIM		-43,947	-55,127	-58,554	-66,343	-69,351

Continued on next page.

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

- Current prices, SIT million

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	115,101	124,161	136,269	146,639	154,475
B.	Fishing	534	460	500	532	561
C.	Mining and quarrying	36,763	36,393	40,922	42,274	43,947
D.	Manufacturing	970,014	1,082,244	1,189,948	1,302,558	1,412,718
E.	Electricity, gas and water supply	112,768	134,556	147,733	154,233	161,135
F.	Construction	214,935	236,420	255,685	278,814	305,566
G.	Wholesale, retail, trade, repair	403,227	460,079	509,874	560,212	609,202
H.	Hotels and restaurants	111,721	131,266	146,180	161,329	177,969
I.	Transport, storage, communications	282,646	313,330	350,615	388,970	429,089
J.	Financial intermediation	156,326	176,644	198,995	221,814	245,853
K.	Real estate, renting and business activities	421,884	489,887	545,545	598,310	653,761
L.	Public administration and com. soc. sec.	203,034	236,766	267,489	295,338	322,710
M.	Education	205,041	240,022	267,033	291,690	315,673
N.	Health and social work	195,243	227,855	252,517	274,780	295,935
O.	Other community and personal activities	133,145	153,066	172,105	189,932	209,645
	FISIM	-77,324	-79,058	-86,821	-93,476	-99,743
1. TOTAL VALUE ADDED (basic prices)		3,485,059	3,964,092	4,394,589	4,813,948	5,238,495
2. CORRECTIONS [1]		550,460	602,099	675,412	732,751	795,505
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4,035,518**	**4,566,191**	**5,070,000**	**5,546,700**	**6,034,000**
TOTAL VALUE ADDED (basic prices)		3,485,059	3,964,092	4,394,589	4,813,948	5,238,495
in which:						
1. Agriculture, forestry, fishing (A + B)		115,635	124,621	136,769	147,172	155,036
2. Industry and construction (C + D + E + F)		1,334,480	1,489,613	1,634,288	1,777,878	1,923,366
- Industry (C + D + E)		1,119,545	1,253,193	1,378,603	1,499,065	1,617,800
- Construction F		214,935	236,420	255,685	278,814	305,566
3. Services (G ... O)		2,112,268	2,428,916	2,710,353	2,982,374	3,259,837
4. FISIM		-77,324	-79,058	-86,821	-93,476	-99,743

Source of data: SORS, IMAD's forecast.
Note: [1] Taxes on products and services, minus subsidies on products and services.

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

- Shares in GDP in %, current prices

		1995	1996	1997	1998	1999
A.	Agriculture, hunting, forestry	3.9	3.8	3.7	3.6	3.1
B.	Fishing	0.0	0.0	0.0	0.0	0.0
C.	Mining and quarrying	1.2	1.2	1.2	1.1	1.0
D.	Manufacturing	24.6	24.1	24.3	24.1	23.6
E.	Electricity, gas and water supply	2.6	2.5	2.5	3.0	2.7
F.	Construction	4.3	4.8	4.9	4.9	5.4
G.	Wholesale, retail, trade, repair	10.5	10.1	10.1	10.0	10.0
H.	Hotels and restaurants	2.6	2.7	2.7	2.6	2.6
I.	Transport, storage, communications	6.7	6.6	7.0	7.2	7.1
J.	Financial intermediation	3.5	3.6	3.7	3.7	3.7
K.	Real estate, renting and business activities	10.1	10.3	10.0	10.3	10.4
L.	Public administration and com. soc. sec.	4.6	4.8	5.1	5.0	4.9
M.	Education	4.9	4.8	5.0	4.8	4.9
N.	Health and social work	4.6	4.6	4.6	4.6	4.6
O.	Other community and personal activities	2.9	3.0	3.0	3.1	3.2
	FISIM	-2.0	-2.2	-2.0	-2.0	-1.9
1. TOTAL VALUE ADDED (basic prices)		84.8	85.0	86.1	85.8	85.3
2. CORRECTIONS [1]		15.2	15.0	13.9	14.2	14.7
3. GROSS DOMESTIC PRODUCT (3=1+2)		100.0	100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:						
1. Agriculture, forestry, fishing (A + B)		3.9	3.9	3.7	3.6	3.2
2. Industry and construction (C + D + E + F)		32.6	32.7	32.9	33.0	32.6
- Industry (C + D + E)		28.3	27.9	28.0	28.1	27.3
- Construction F		4.3	4.8	4.9	4.9	5.4
3. Services (G ... O)		50.2	50.6	51.5	51.2	51.4
4. FISIM		-2.0	-2.2	-2.0	-2.0	-1.9
5. Corrections [1]		15.2	15.0	13.9	14.2	14.7
Shares in value added in %						
TOTAL VALUE ADDED		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:						
1. Agriculture, forestry, fishing (A + B)		4.6	4.5	4.3	4.2	3.7
2. Industry and construction (C + D + E + F)		38.5	38.5	38.2	38.5	38.3
- Industry (C + D + E)		33.4	32.8	32.5	32.8	32.0
- Construction F		5.1	5.7	5.7	5.7	6.3
3. Services (G ... O)		59.2	59.5	59.8	59.7	60.3
4. FISIM		-2.3	-2.5	-2.3	-2.4	-2.2

Continued on next page.

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

- Shares in GDP in %, current prices

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	2.9	2.7	2.7	2.6	2.6
B.	Fishing	0.0	0.0	0.0	0.0	0.0
C.	Mining and quarrying	0.9	0.8	0.8	0.8	0.7
D.	Manufacturing	24.0	23.7	23.5	23.5	23.4
E.	Electricity, gas and water supply	2.8	2.9	2.9	2.8	2.7
F.	Construction	5.3	5.2	5.0	5.0	5.1
G.	Wholesale, retail, trade, repair	10.0	10.1	10.1	10.1	10.1
H.	Hotels and restaurants	2.8	2.9	2.9	2.9	2.9
I.	Transport, storage, communications	7.0	6.9	6.9	7.0	7.1
J.	Financial intermediation	3.9	3.9	3.9	4.0	4.1
K.	Real estate, renting and business activities	10.5	10.7	10.8	10.8	10.8
L.	Public administration and com. soc. sec.	5.0	5.2	5.3	5.3	5.3
M.	Education	5.1	5.3	5.3	5.3	5.2
N.	Health and social work	4.8	5.0	5.0	5.0	4.9
O.	Other community and personal activities	3.3	3.4	3.4	3.4	3.5
	FISIM	-1.9	-1.7	-1.7	-1.7	-1.7
1. TOTAL VALUE ADDED (basic prices)		86.4	86.8	86.7	86.8	86.8
2. CORRECTIONS [1]		13.6	13.2	13.3	13.2	13.2
3. GROSS DOMESTIC PRODUCT (3=1+2)		100.0	100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:						
1. Agriculture, forestry, fishing (A + B)		2.9	2.7	2.7	2.7	2.6
2. Industry and construction (C + D + E + F)		33.1	32.6	32.2	32.1	31.9
- Industry (C + D + E)		27.7	27.4	27.2	27.0	26.8
- Construction F		5.3	5.2	5.0	5.0	5.1
3. Services (G ... O)		52.3	53.2	53.5	53.8	54.0
4. FISIM		-1.9	-1.7	-1.7	-1.7	-1.7
5. Corrections [1]		13.6	13.2	13.3	13.2	13.2
Shares in value added in %						
TOTAL VALUE ADDED		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:						
1. Agriculture, forestry, fishing (A + B)		3.3	3.1	3.1	3.1	3.0
2. Industry and construction (C + D + E + F)		38.3	37.6	37.2	36.9	36.7
- Industry (C + D + E)		32.1	31.6	31.4	31.1	30.9
- Construction F		6.2	6.0	5.8	5.8	5.8
3. Services (G ... O)		60.6	61.3	61.7	62.0	62.2
4. FISIM		-2.2	-2.0	-2.0	-1.9	-1.9

Source of data: SORS, IMAD's forecast.
Note: [1] Taxes on products and services, minus subsidies on products and services.

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

- Prices 1995, SIT million

		1995	1996	1997	1998	1999
A.	Agriculture, hunting, forestry	87,072	87,956	85,362	88,028	86,186
B.	Fishing	386	423	430	411	424
C.	Mining and quarrying	26,006	26,495	27,328	27,348	27,627
D.	Manufacturing	545,730	554,260	590,671	618,131	637,279
E.	Electricity, gas and water supply	56,693	57,365	59,750	60,303	59,799
F.	Construction	96,588	109,382	117,792	123,199	142,637
G.	Wholesale, retail, trade, repair	232,286	239,175	245,870	252,793	268,802
H.	Hotels and restaurants	57,164	59,680	61,826	62,404	64,336
I.	Transport, storage, communications	148,746	152,612	159,052	167,272	172,604
J.	Financial intermediation	77,067	85,509	85,555	89,445	92,358
K.	Real estate, renting and business activities	224,830	234,121	240,033	245,682	257,322
L.	Public administration and com. soc. sec.	102,937	108,438	119,592	125,568	132,332
M.	Education	108,002	109,175	114,476	118,048	122,096
N.	Health and social work	101,172	107,685	111,035	112,901	120,092
O.	Other community and personal activities	63,580	66,671	69,372	73,376	77,470
	FISIM	-43,947	-50,253	-48,924	-51,043	-50,289
1. TOTAL VALUE ADDED, (basic prices)		1,884,312	1,948,694	2,039,221	2,113,866	2,211,072
2. CORRECTIONS [1]		337,147	351,206	365,543	382,090	414,870
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,221,459**	**2,299,900**	**2,404,764**	**2,495,956**	**2,625,942**
TOTAL VALUE ADDED, (basic prices)		1,884,312	1,948,694	2,039,221	2,113,866	2,211,072
in which:						
1. Agriculture, forestry, fishing (A + B)		87,458	88,379	85,792	88,439	86,610
2. Industry and construction (C + D + E + F)		725,017	747,502	795,541	828,981	867,342
- Industry (C + D + E)		628,429	638,120	677,749	705,782	724,705
- Construction F		96,588	109,382	117,792	123,199	142,637
3. Services (G ... O)		1,115,784	1,163,066	1,206,812	1,247,489	1,307,409
4. FISIM		-43,947	-50,253	-48,924	-51,043	-50,289

Continued on next page.

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

- Prices 1995, SIT million

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	85,309	83,535	85,206	86,910	87,779
B.	Fishing	409	414	418	422	426
C.	Mining and quarrying	27,253	25,324	26,843	26,562	26,694
.D.	Manufacturing	692,199	722,325	748,690	785,001	823,074
E.	Electricity, gas and water supply	61,513	65,254	67,538	67,538	68,213
F.	Construction	146,663	141,498	144,257	150,677	159,642
G.	Wholesale, retail, trade, repair	275,444	280,974	287,515	295,997	307,955
H.	Hotels and restaurants	70,635	74,174	76,399	79,035	82,596
I.	Transport, storage, communications	180,708	188,870	195,480	203,202	213,464
J.	Financial intermediation	97,833	102,777	107,402	112,396	118,634
K.	Real estate, renting and business activities	264,951	273,884	283,251	293,023	304,304
L.	Public administration and com. soc. sec.	139,909	147,244	154,238	161,873	169,238
M.	Education	126,659	129,888	134,369	138,870	143,641
N.	Health and social work	125,101	129,668	133,882	137,832	142,022
O.	Other community and personal activities	80,961	84,065	87,301	91,186	95,290
	FISIM	-51,230	-52,573	-53,605	-54,686	-55,753
1. TOTAL VALUE ADDED, (basic prices)		2,324,317	2,397,321	2,479,186	2,575,837	2,687,219
2. CORRECTIONS [1]		422,705	431,088	439,314	450,163	468,781
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,747,021**	**2,828,409**	**2,918,500**	**3,026,000**	**3,156,000**
TOTAL VALUE ADDED, (basic prices)		2,324,317	2,397,321	2,479,186	2,575,837	2,687,219
in which:						
1. Agriculture, forestry, fishing (A + B)		85,718	83,949	85,624	87,332	88,205
2. Industry and construction (C + D + E + F)		927,628	954,401	987,328	1,029,777	1,077,623
- Industry (C + D + E)		780,965	812,903	843,071	879,101	917,982
- Construction F		146,663	141,498	144,257	150,677	159,642
3. Services (G ... O)		1,362,201	1,411,544	1,459,838	1,513,414	1,577,143
4. FISIM		-51,230	-52,573	-53,605	-54,686	-55,753

Source of data: SORS, IMAD's forecast.
Note: [1] Taxes on products and services, minus subsidies on products and services.

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

- Real growth rates in % (prices 1995)

		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 % (prices 1995)

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	-1.0	-2.1	2.0	2.0	1.0
B.	Fishing	-3.5	1.2	1.0	1.0	1.0
C.	Mining and quarrying	-1.4	-7.1	6.0	-1.0	0.5
D.	Manufacturing	8.6	4.4	3.7	4.9	4.9
E.	Electricity, gas and water supply	2.9	6.1	3.5	0.0	1.0
F.	Construction	2.8	-3.5	2.0	4.5	6.0
G.	Wholesale, retail, trade, repair	2.5	2.0	2.3	3.0	4.0
H.	Hotels and restaurants	9.8	5.0	3.0	3.5	4.5
I.	Transport, storage, communications	4.7	4.5	3.5	4.0	5.0
J.	Financial intermediation	5.9	5.1	4.5	4.7	5.5
K.	Real estate, renting and business activities	3.0	3.4	3.4	3.5	3.8
L.	Public administration and com. soc. sec.	5.7	5.2	4.7	5.0	4.5
M.	Education	3.7	2.5	3.4	3.4	3.4
N.	Health and social work	4.2	3.7	3.2	3.0	3.0
O.	Other community and personal activities	4.5	3.8	3.8	4.5	4.5
	FISIM	1.9	2.6	2.0	2.0	2.0
1. TOTAL VALUE ADDED, (basic prices)		5.1	3.1	3.4	3.9	4.3
2. CORRECTIONS [1]		1.9	2.0	1.9	2.5	4.1
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4.6**	**3.0**	**3.2**	**3.7**	**4.3**
TOTAL VALUE ADDED, (basic prices)		5.1	3.1	3.4	3.9	4.3
in which:						
1. Agriculture, forestry, fishing (A + B)		-1.0	-2.1	2.0	2.0	1.0
2. Industry and construction (C + D + E + F)		7.0	2.9	3.5	4.3	4.6
- Industry (C + D + E)		7.8	4.1	3.7	4.3	4.4
- Construction F		2.8	-3.5	2.0	4.5	5.9
3. Services (G ... O)		4.2	3.6	3.4	3.7	4.2
4. FISIM		1.9	2.6	2.0	2.0	2.0

Source of data: SORS, IMAD's forecast.
Note: [1] Taxes on products and services, minus subsidies on products and services.

Table 4: Gross domestic product and primary incomes

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									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**	**4,566,191**	**5,070,000**	**5,546,700**	**6,034,000**
2	Compensation of employees	1,271,699	1,400,005	1,558,696	1,700,323	1,889,714	2,122,115	2,405,581	2,655,579	2,883,781	3,108,909
	Wages and salaries	1,070,010	1,213,825	1,363,936	1,482,608	1,646,253	1,847,245	2,091,871	2,307,361	2,506,066	2,701,065
	Employees' actual soc. cont.	201,689	186,180	194,760	217,716	243,462	274,869	313,710	348,218	377,715	407,844
3	Taxes on production and imports	377,964	444,708	493,398	572,126	668,115	697,701	773,377	872,037	952,410	1,035,900
4	Subsidies	48,001	52,873	59,868	71,771	79,200	77,108	81,853	89,500	102,200	109,200
5	Gross operating surplus and gross mixed income	619,797	763,529	915,051	1,053,073	1,169,772	1,292,810	1,469,086	1,631,884	1,812,709	1,998,391
	in which:										
6	Consumption of fixed capital	390,891	463,466	522,945	580,989	634,144	706,093	789,655	877,488	975,157	1,070,070
	Net operatin surplus and net mixed income	228,906	300,063	392,106	472,084	535,628	586,717	679,431	754,396	837,552	928,321

Continued on next page.

Table 4: Gross domestic product and primary incomes

- As a share in GDP in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									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**	**100.0**	**100.0**
2	Compensation of employees	57.2	54.8	53.6	52.3	51.8	52.6	52.7	52.4	52.0	51.5
	Wages and salaries	48.2	47.5	46.9	45.6	45.1	45.8	45.8	45.5	45.2	44.8
	Employees' actual soc. cont.	9.1	7.3	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.8
3	Taxes on production and imports	17.0	17.4	17.0	17.6	18.3	17.3	16.9	17.2	17.2	17.2
4	Subsidies	2.2	2.1	2.1	2.2	2.2	1.9	1.8	1.8	1.8	1.8
5	Gross operating surplus and gross mixed income	27.9	29.9	31.5	32.4	32.1	32.0	32.2	32.2	32.7	33.1
	in which:										
6	Consumption of fixed capital	17.6	18.1	18.0	17.9	17.4	17.5	17.3	17.3	17.6	17.7
	Net operatin surplus and net mixed income	10.3	11.7	13.5	14.5	14.7	14.5	14.9	14.9	15.1	15.4

Source of data: SORS, IMAD's forecast.

Table 5a: Expenditure on gross domestic product

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									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**	**4,566,191**	**5,070,000**	**5,546,700**	**6,034,000**
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,424,628	1,669,985	1,842,906	1,916,217	2,386,009	2,743,370	2,909,535	3,157,110	3,450,510
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,451,273	1,693,895	1,892,614	2,077,530	2,529,423	2,760,711	2,898,052	3,132,146	3,453,786
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-26,645	-23,910	-49,708	-161,313	-143,414	-17,341	11,483	24,964	-3,276
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	4,583,532	5,058,517	5,521,737	6,037,276
6	FINAL CONSUMPTION (6=7+8)	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,421,452	3,771,312	4,099,708	4,470,956
7	PRIVATE CONSUMPTION	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,447,405	2,689,893	2,930,875	3,206,709
	- households	1,275,971	1,443,649	1,609,667	1,780,915	2,000,581	2,179,351	2,405,631	2,643,981	2,880,832	3,151,975
	- non-profit institutions	24,353	25,493	29,015	30,815	33,434	36,823	41,774	45,911	50,043	54,734
8	GOVERNMENT CONSUMPTION	447,519	514,518	592,535	658,989	738,388	841,108	974,047	1,081,419	1,168,833	1,264,247
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,162,080	1,287,206	1,422,028	1,566,320
10	GROSS FIXED CAPITAL FORMATION	474,626	574,631	679,465	800,629	999,183	1,076,840	1,138,673	1,255,321	1,383,569	1,529,921
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	23,722	20,505	32,111	38,128	44,810	23,407	31,886	38,460	36,398

Continued on next page.

Table 5a: Expenditure on gross domestic product

- Structure in % (current prices)

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	EXPORTS OF GOODS AND SERVICES	55.2	55.8	57.4	56.6	52.5	59.1	60.1	57.4	56.9	57.2
3	IMPORT OF GOODS AND SERVICES	57.2	56.8	58.3	58.2	56.9	62.7	60.5	57.2	56.5	57.2
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-2.0	-1.0	-0.8	-1.5	-4.4	-3.6	-0.4	0.2	0.5	-0.1
5	TOTAL DOMESTIC DEMAND (5=6+9)	102.0	101.0	100.8	101.5	104.4	103.6	100.4	99.8	99.5	100.1
6	FINAL CONSUMPTION (6=7+8)	78.7	77.6	76.7	75.9	76.0	75.8	74.9	74.4	73.9	74.1
7	PRIVATE CONSUMPTION	58.5	57.5	56.4	55.7	55.8	54.9	53.6	53.1	52.8	53.1
	- households	57.4	56.5	55.4	54.7	54.8	54.0	52.7	52.1	51.9	52.2
	- non-profit institutions	1.1	1.0	1.0	0.9	0.9	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	21.3	21.3	21.1	21.0
9	GROSS CAPITAL FORMATION (9=10+11)	23.3	23.4	24.1	25.6	28.4	27.8	25.4	25.4	25.6	26.0
10	GROSS FIXED CAPITAL FORMATION	21.4	22.5	23.4	24.6	27.4	26.7	24.9	24.8	24.9	25.4
11	CHANGES IN INVENTORIES AND VALUABLES	2.0	0.9	0.7	1.0	1.0	1.1	0.5	0.6	0.7	0.6

Source of data: SORS, BS, IMAD's forecast.
Note: Export and import figures for the period up to 2001 are taken from the SORS' national accounts which do not take into account the revised balance of payments of the Bank of Slovenia, forecasts are based on the revised balance of payments (August 2002), so data are incomparable with forecasts.

Table 5b: Expenditure on gross domestic product

- Prices 1995, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									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	2,828,409	2,918,500	3,026,000	3,156,000
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,270,085	1,416,863	1,512,395	1,538,789	1,733,512	1,840,412	1,931,512	2,040,643	2,169,569
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,297,490	1,451,977	1,602,804	1,733,995	1,839,624	1,878,466	1,950,787	2,043,449	2,184,391
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-27,405	-35,114	-90,409	-195,206	-106,112	-38,054	-19,275	-2,806	-14,822
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	2,866,463	2,937,775	3,028,806	3,170,821
6	FINAL CONSUMPTION (6=7+8)	1,747,844	1,788,413	1,845,160	1,917,730	2,025,866	2,054,222	2,097,417	2,144,426	2,203,231	2,291,157
7	PRIVATE CONSUMPTION	1,300,324	1,325,902	1,362,595	1,407,115	1,491,768	1,503,349	1,528,963	1,561,761	1,604,251	1,667,619
	- households	1,275,971	1,302,942	1,338,965	1,383,268	1,467,679	1,478,792	1,503,449	1,535,698	1,577,485	1,639,795
	- non-profit institutions	24,353	22,960	23,630	23,847	24,089	24,557	25,514	26,063	26,766	27,824
8	GOVERNMENT CONSUMPTION	447,519	462,511	482,565	510,615	534,098	550,873	568,454	582,665	598,980	623,538
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	538,892	594,719	668,635	795,282	798,911	769,045	793,349	825,575	879,664
10	GROSS FIXED CAPITAL FORMATION	474,626	516,828	576,673	642,087	764,422	766,172	751,775	773,952	810,715	862,195
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	22,064	18,046	26,548	30,860	32,739	17,270	19,397	14,860	17,470

Continued on next page.

Table 5b: Expenditure on gross domestic product

- Real growth rates in % (prices 1995)

		1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
1	GROSS DOMESTIC PRODUCT (1=4+5)	3.5	4.6	3.8	5.2	4.6	3.0	3.2	3.7	4.3
2	EXPORTS OF GOODS AND SERVICES	3.6	11.6	6.7	1.7	12.7	6.2	4.9	5.7	6.3
3	IMPORT OF GOODS AND SERVICES	2.1	11.9	10.4	8.2	6.1	2.1	3.9	4.7	6.9
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	0.5	2.5	3.1	4.7
6	FINAL CONSUMPTION (6=7+8)	2.3	3.2	3.9	5.6	1.4	2.1	2.2	2.7	4.0
7	PRIVATE CONSUMPTION	2.0	2.8	3.3	6.0	0.8	1.7	2.1	2.7	3.9
	- households	2.1	2.8	3.3	6.1	0.8	1.7	2.1	2.7	3.9
	- non-profit institutions	-5.7	2.9	0.9	1.0	1.9	3.9	2.1	2.7	3.9
8	GOVERNMENT CONSUMPTION GROSS CAPITAL FORMATION	3.3	4.3	5.8	4.6	3.1	3.2	2.5	2.8	4.1
9	GROSS CAPITAL FORMATION	3.9	10.4	12.4	18.9	0.5	-3.7	3.2	4.1	6.6
	in which:									
	GROSS FIXED CAPITAL FORMATION	8.9	11.6	11.3	19.1	0.2	-1.9	2.9	4.8	6.3

Source of data: SORS, BS, IMAD's forecast.
Note: Export and import figures for the period up to 2001 are taken from the SORS' national accounts which do not take into account the revised balance of payments of the Bank of Slovenia, forecasts are based on the revised balance of payments (August 2002), so data are incomparable with forecasts.

Table 6: Main aggregates of national accounts

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,566,191**	**5,070,000**	**5,546,700**	**6,034,000**
2	Net primary income from the rest of the world	21,023	17,528	5,680	5,048	-6,250	-14,941	-17,515	-28,920	-36,410	-38,990
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	4,548,676	5,041,080	5,510,291	5,995,011
4	Net current transfers from the rest of the world	11,273	11,625	19,472	20,701	22,890	27,809	30,931	31,330	31,712	40,171
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	2,253,754	2,584,522	2,932,429	3,279,500	3,665,041	4,048,386	4,579,607	5,072,410	5,542,002	6,035,182
6	FINAL CONSUMPTION EXPENDITURE	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,421,452	3,771,312	4,099,708	4,470,956
	- private consumption	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,447,405	2,689,893	2,930,875	3,206,709
	- government consumption	447,519	514,518	592,535	658,989	738,388	841,108	974,047	1,081,419	1,168,833	1,264,247
7	GROSS SAVING (7=5-6)	505,911	600,861	701,212	808,781	892,638	991,104	1,158,155	1,301,098	1,442,294	1,564,226
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-12,691	2,508	1,242	-23,959	-144,673	-130,546	-3,925	13,893	20,266	-2,094
9	GROSS CAPITAL FORMATION (9=7-8)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,162,080	1,287,205	1,422,028	1,566,320
	in which:										
	- gross fixed capital formation	474,626	574,631	679,465	800,629	999,183	1,076,840	1,138,673	1,255,321	1,383,569	1,529,921
	- changes in inventories and valuables	43,976	23,722	20,505	32,111	38,128	44,810	23,407	31,886	38,460	36,398
10	CONSUMPTION OF FIXED CAPITAL	390,891	463,466	522,945	580,989	634,144	706,093	789,655	877,488	975,157	1,070,070
11	NET CAPITAL FORMATION (11=9-10)	127,711	134,887	177,025	251,751	403,167	415,557	372,425	409,719	446,871	496,250

Continued on next page.

Table 6: Main aggregates of national accounts

- As a share in GDP in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Net primary income from the rest of the world	0.9	0.7	0.2	0.2	-0.2	-0.4	-0.4	-0.6	-0.7	-0.6
3	GROSS NATIONAL INCOME (3=1+2)	100.9	100.7	100.2	100.2	99.8	99.6	99.6	99.4	99.3	99.4
4	Net current transfers from the rest of the world	0.5	0.5	0.7	0.6	0.6	0.7	0.7	0.6	0.6	0.7
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	101.5	101.1	100.9	100.8	100.5	100.3	100.3	100.0	99.9	100.0
6	FINAL CONSUMPTION EXPENDITURE	78.7	77.6	76.7	75.9	76.0	75.8	74.9	74.4	73.9	74.1
	- private consumption	58.5	57.5	56.4	55.7	55.8	54.9	53.6	53.1	52.8	53.1
	- government consumption	20.1	20.1	20.4	20.3	20.2	20.8	21.3	21.3	21.1	21.0
7	GROSS SAVING (7=5-6)	22.8	23.5	24.1	24.9	24.5	24.6	25.4	25.7	26.0	25.9
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-0.6	0.1	0.0	-0.7	-4.0	-3.2	-0.1	0.3	0.4	0.0
9	GROSS CAPITAL FORMATION (9=7-8)	23.3	23.4	24.1	25.6	28.4	27.8	25.4	25.4	25.6	26.0
	in which:										
	- gross fixed capital formation	21.4	22.5	23.4	24.6	27.4	26.7	24.9	24.8	24.9	25.4
	- changes in inventories and valuables	2.0	0.9	0.7	1.0	1.0	1.1	0.5	0.6	0.7	0.6
10	CONSUMPTION OF FIXED CAPITAL	17.6	18.1	18.0	17.9	17.4	17.5	17.3	17.3	17.6	17.7
11	NET CAPITAL FORMATION (11=9-10)	5.7	5.3	6.1	7.7	11.1	10.3	8.2	8.1	8.1	8.2

Source of data: SORS, IMAD's forecast.
Note: Net primary income from the rest of the world, net current transfers from the rest of the world and surplus of the nation on current transactions figures for the period up to 2001 are taken from the SORS' national accounts which do not take into account the revised balance of payments of the Bank of Slovenia, forecasts are based on the revised balance of payments (August 2002), so data are incomparable with forecasts.

Table 7: Balance of payments

- US$ million

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
I. CURRENT ACCOUNT	**-75**	**55**	**51**	**-118**	**-698**	**-548**	**31**	**58**	**86**	**-9**
1. TRADE BALANCE	**-954**	**-826**	**-775**	**-792**	**-1,235**	**-1,139**	**-619**	**-457**	**-394**	**-528**
1.1. Exports fob	8,350	8,353	8,406	9,091	8,623	8,808	9,343	9,988	11,275	12,320
1.2. Imports fob	9,304	9,179	9,181	9,883	9,858	9,947	9,962	10,445	11,669	12,848
2. SERVICES	583	640	636	501	353	450	502	505	500	514
2.1. Receipts	2,027	2,135	2,040	2,025	1,875	1,888	1,960	2,085	2,165	2,282
- Transport	505	481	464	540	521	492	500	542	567	604
- Travel	1,084	1,240	1,181	1,088	958	961	1,001	1,045	1,076	1,120
- Other	438	414	395	397	396	435	459	498	522	558
2.2. Expenditure	1,444	1,494	1,405	1,524	1,522	1,438	1,458	1,580	1,665	1,768
- Transport	438	409	369	412	380	354	318	325	344	368
- Travel	575	604	518	561	541	511	528	573	594	617
- Other	431	482	518	551	600	573	611	682	727	783
1-2. GOODS AND SERVICES	**-371**	**-186**	**-139**	**-291**	**-882**	**-689**	**-117**	**48**	**106**	**-14**
Exports	10,377	10,487	10,446	11,116	10,499	10,696	11,302	12,073	13,440	14,602
Imports	10,748	10,673	10,585	11,407	11,380	11,385	11,420	12,025	13,334	14,616
3. FACTOR SERVICES	**201**	**153**	**75**	**56**	**64**	**26**	**19**	**-120**	**-155**	**-165**
3.1. Receipts	406	413	392	413	427	434	463	484	515	545
- Labour income	216	234	206	206	207	188	182	188	195	215
- Investment income	190	179	186	207	220	246	281	296	320	330
3.2. Expenditure	204	260	316	357	363	408	443	604	670	710
- Profits from direct investment	25	24	26	27	25	27	27	28	30	30
- Interest	179	236	290	330	338	381	417	576	640	680
4. UNREQUITED TRANSFERS	**95**	**88**	**114**	**117**	**120**	**115**	**129**	**130**	**135**	**170**
4.1. Receipts	248	251	260	300	335	341	390	430	445	641
4.2. Expenditure	152	163	145	182	215	225	261	300	310	472

Continued from next page.

Table 7: Balance of payments

- US$ million

	1995	1996	1997	1998	1999	2000	2001
II. CAPITAL AND FINANCIAL ACCOUNT	**269**	**-57**	**-124**	**57**	**657**	**505**	**-84**
A. CAPITAL ACCOUNT	**-7**	**-2**	**1**	**-1**	**-1**	**4**	**-4**
1. Capital transfers	-5	1	2	0	0	1	1
2. Non-produced non-financial assets	-2	-3	-1	-1	-1	3	-4
B. FINANCIAL ACCOUNT	**276**	**-56**	**-126**	**58**	**657**	**502**	**-80**
1. Direct investment	161	166	303	221	59	71	371
- Foreign in Slovenia	150	173	334	215	107	136	503
- Domestic abroad	10	-7	-31	5	-48	-65	-133
2. Portfolio investment	-14	637	236	90	354	188	81
3. Other long-term capital	366	-271	622	-95	163	422	752
3.1. Assets	-243	-442	262	-465	-569	-519	207
3.2. Liabilities	609	171	360	370	732	941	546
4. International reserves	-237	-587	-1,287	-158	81	-178	-1,285
III. STATISTICAL ERRORS	-195	2	74	61	42	42	53

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

Table 8: Balance of payments

EUR million

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
I. CURRENT ACCOUNT	**-52**	**32**	**43**	**-108**	**-664**	**-583**	**31**	**62**	**88**	**-9**
1. TRADE BALANCE	**-731**	**-671**	**-684**	**-708**	**-1,164**	**-1,227**	**-690**	**-486**	**-402**	**-539**
1.1. Exports fob	6,456	6,671	7,438	8,088	8,103	9,574	10,448	10,625	11,505	12,571
1.2. Imports fob	7,187	7,342	8,122	8,796	9,267	10,801	11,138	11,111	11,907	13,110
2. SERVICES	450	511	561	447	330	489	560	537	510	525
2.1. Receipts	1,565	1,704	1,810	1,804	1,763	2,052	2,194	2,218	2,209	2,329
- Transport	390	384	412	481	490	534	559	577	578	616
- Travel	837	989	1,048	971	900	1,045	1,121	1,111	1,098	1,143
- Other	338	331	350	352	373	473	514	530	533	570
2.2. Expenditure	1,115	1,193	1,249	1,357	1,434	1,562	1,634	1,681	1,699	1,804
- Transport	338	327	327	366	357	385	356	346	351	375
- Travel	443	481	463	501	512	556	594	610	606	630
- Other	334	385	459	490	565	621	684	725	742	799
1-2. GOODS AND SERVICES	**-281**	**-160**	**-123**	**-261**	**-835**	**-738**	**-130**	**51**	**108**	**-13**
Exports	8,021	8,375	9,248	9,893	9,867	11,626	12,642	12,843	13,714	14,900
Imports	8,302	8,534	9,372	10,154	10,701	12,364	12,772	12,792	13,606	14,914
3. FACTOR SERVICES	**156**	**122**	**66**	**49**	**58**	**29**	**17**	**-128**	**-158**	**-168**
3.1. Receipts	314	330	346	368	400	471	516	515	526	556
- Labour income	167	187	182	183	194	204	203	200	199	219
- Investment income	147	143	165	184	206	268	313	315	327	337
3.2. Expenditure	158	208	281	319	342	442	499	643	684	724
- Profits from direct investment	20	19	23	24	23	29	30	30	31	31
- Interest	138	189	257	294	319	413	469	613	653	694
4. UNREQUITED TRANSFERS	**74**	**70**	**101**	**104**	**112**	**125**	**144**	**138**	**138**	**173**
4.1. Receipts	191	200	230	266	316	371	436	457	454	655
4.2. Expenditure	118	130	129	162	203	245	293	319	316	482

Continued from next page.

Table 8: Balance of payments

EUR million

	1995	1996	1997	1998	1999	2000	2001
II. CAPITAL AND FINANCIAL ACCOUNT	**201**	**-34**	**-111**	**53**	**625**	**542**	**-108**
A. CAPITAL ACCOUNT	**-5**	**-1**	**1**	**-1**	**-1**	**4**	**-4**
1. Capital transfers	-4	1	2	0	0	1	1
2. Non-produced non-financial assets	-2	-2	-1	-1	-1	3	-5
B. FINANCIAL ACCOUNT	**206**	**-32**	**-112**	**54**	**625**	**538**	**-104**
1. Direct investment	125	133	267	199	55	77	415
- Foreign in Slovenia	117	138	295	194	99	149	562
- Domestic abroad	8	-6	-28	5	-45	-72	-148
2. Portfolio investment	-11	508	212	82	324	185	80
3. Other long-term capital	272	-209	549	-81	159	462	849
3.1. Assets	-197	-344	230	-405	-540	-576	234
3.2. Liabilities	469	134	319	324	699	1,038	615
4. International reserves	-181	-463	-1,141	-146	88	-187	-1,448
III. STATISTICAL ERRORS	-149	2	68	55	40	41	77

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

Table 9: Exports and imports of goods and services by end-use of products

- Million US $; current exchange rates

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1.	Exports of goods	8,350	8,353	8,406	9,091	8,623	8,808	9,343	9,988	11,275	12,320
	investment goods	944	1,002	1,069	1,174	1,089	1,127	1,281	1,368	1,567	1,725
	intermediate goods	3,941	3,767	3,824	4,123	4,052	4,316	4,550	4,854	5,514	6,049
	consumer goods	3,465	3,584	3,513	3,794	3,482	3,365	3,513	3,765	4,194	4,546
2.	Exports of services	2,027	2,135	2,040	2,025	1,875	1,888	1,960	2,085	2,165	2,282
3.	**EXPORTS TOTAL**	**10,377**	**10,487**	**10,446**	**11,116**	**10,499**	**10,696**	**11,302**	**12,073**	**13,440**	**14,602**
4.	Imports of goods	9,304	9,179	9,181	9,883	9,858	9,947	9,962	10,445	11,669	12,848
	investment goods	1,573	1,479	1,480	1,765	1,893	1,791	1,763	1,826	2,031	2,304
	intermediate goods	5,627	5,259	5,352	5,644	5,422	5,938	5,888	6,215	7,011	7,688
	consumer goods	2,104	2,441	2,349	2,474	2,543	2,218	2,311	2,404	2,627	2,856
5.	Imports of services	1,444	1,494	1,405	1,524	1,522	1,438	1,458	1,580	1,665	1,768
6.	**IMPORTS TOTAL**	**10,748**	**10,673**	**10,585**	**11,407**	**11,380**	**11,385**	**11,420**	**12,025**	**13,334**	**14,616**
7.	BALANCE	-371	-186	-139	-291	-882	-689	-117	48	106	-14
	Services	583	640	636	501	353	450	502	505	500	514
	Goods	-954	-826	-775	-792	-1,235	-1,139	-619	-457	-394	-528
8.	Exports to imports ratio (in %)	90	91	92	92	87	89	94	96	97	96

Continued from next page.

Table 9: Exports and imports of goods and services by end-use of products

- Per cent change

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1.	Exports of goods	22.2	0.0	0.6	8.1	-5.1	2.1	6.1	6.9	12.9	9.3
	investment goods	23.2	6.1	6.7	9.8	-7.2	3.5	13.6	6.8	14.5	10.1
	intermediate goods	29.0	-4.4	1.5	7.8	-1.7	6.5	5.4	6.7	13.6	9.7
	consumer goods	15.1	3.4	-2.0	8.0	-8.2	-3.4	4.4	7.2	11.4	8.4
2.	Exports of services	12.1	5.3	-4.4	-0.8	-7.4	0.7	3.8	6.4	3.8	5.4
3.	**EXPORTS TOTAL**	**20.1**	**1.1**	**-0.4**	**6.4**	**-5.6**	**1.9**	**5.7**	**6.8**	**11.3**	**8.6**
4.	Imports of goods	29.8	-1.3	0.0	7.6	-0.3	0.9	5.0	4.9	11.7	10.1
	investment goods	37.4	-6.0	0.1	19.3	7.3	-5.4	-1.6	3.6	11.2	13.4
	intermediate goods	27.7	-6.5	1.8	5.5	-3.9	9.5	-0.8	5.6	12.8	9.7
	consumer goods	30.0	16.0	-3.8	5.3	2.8	-12.8	4.2	4.0	9.3	8.7
5.	Imports of services	24.3	3.5	-6.0	8.5	-0.1	-5.5	1.4	8.4	5.4	6.2
6.	**IMPORTS TOTAL**	**29.0**	**-0.7**	**-0.8**	**7.8**	**-0.2**	**0.0**	**0.3**	**5.3**	**10.9**	**9.6**

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

Table 10a: Foreign trade by geographical area

- US$ million

	EXPORTS (f.o.b.)								IMPORTS (f.o.b.)							
	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002
TOTAL	8,316	8,310	8,369	9,051	8,546	8,732	9,252	6,585	9,492	9,421	9,366	10,111	10,083	10,116	10,148	6,896
DEVELOPED INDUSTRIAL COUNTRIES	6,086	5,842	5,796	6,453	6,199	6,176	6,303	4,386	7,423	7,325	7,205	7,963	8,043	7,918	7,830	5,359
EUROPEAN UNION	5,575	5,367	5,320	5,928	5,650	5,580	5,758	3,955	6,532	6,360	6,312	7,017	6,945	6,856	6,865	4,713
Germany	2,508	2,545	2,460	2,572	2,626	2,376	2,428	1,647	2,206	2,044	1,936	2,089	2,072	1,919	1,949	1,324
Italy	1,212	1,103	1,248	1,255	1,176	1,188	1,158	799	1,611	1,593	1,558	1,697	1,686	1,761	1,793	1,226
France	682	598	463	748	491	619	628	453	798	925	980	1,258	1,100	1,043	1,079	736
United Kingdom	229	162	150	161	170	186	259	161	190	208	241	233	307	310	260	166
Netherlands	117	125	123	142	144	150	154	109	207	194	200	225	208	211	197	148
Belgium	71	76	85	158	134	98	100	62	144	145	149	155	149	147	158	101
Spain	42	44	53	69	76	84	90	72	225	170	199	233	234	265	264	218
Denmark	42	47	54	75	79	81	87	58	46	42	46	55	53	52	56	38
Greece	32	23	24	23	24	24	29	22	11	13	15	19	24	22	32	22
Ireland	17	4	5	5	9	14	14	8	20	29	26	35	38	38	38	22
Portugal	9	13	14	12	12	16	15	14	5	5	11	14	11	12	15	12
Luxembourg	2	2	1	3	10	4	3	2	10	8	10	17	18	19	22	17
Austria	535	551	565	621	623	656	693	472	919	835	789	802	805	832	844	575
Finland	18	20	18	19	17	23	27	18	39	39	41	43	53	58	55	39
Sweden	58	54	56	65	61	61	73	58	101	111	110	143	185	167	103	69
EFTA	87	83	87	98	112	124	120	127	237	249	194	208	239	213	172	121
Switzerland	71	68	70	78	89	101	97	112	199	178	162	172	215	162	152	110
Norway	12	12	14	16	18	17	17	12	34	68	30	36	22	49	18	10
Liechtenstein	3	3	2	3	3	5	5	3	4	2	1	1	1	2	1	1
Iceland	0	0	0	1	2	1	1	0	0	1	1	0	0	0	0	0

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Table 10a: Foreign trade by geographical area

- US$ million

	EXPORTS (f.o.b.)								IMPORTS (f.o.b.)							
	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002
OTHER OECD	361	340	340	382	387	404	357	257	549	585	546	737	717	681	654	431
in which:																
United States of America	261	245	243	252	258	270	244	163	291	325	287	296	293	299	297	205
Other countries	100	95	97	130	129	134	113	94	258	260	259	441	424	382	357	226
OTHER DEVELOPED COUNTRIES	64	53	50	45	50	67	68	47	105	132	153	135	142	168	138	94
DEVELOPING COUNTRIES	2,230	2,462	2,568	2,592	2,343	2,554	2,949	2,199	2,069	2,095	2,160	2,148	2,039	2,197	2,317	1,537
COUNTRIES OF EX-YUGOSLAVIA	1,209	1,385	1,387	1,397	1,296	1,363	1,564	1,172	671	709	594	593	572	594	540	329
Croatia	891	855	837	815	671	688	799	585	576	590	466	432	444	447	404	241
Macedonia	189	170	149	161	177	158	132	94	86	72	56	47	37	48	27	15
Bosnia and Hercegovina	119	264	288	319	363	374	397	299	8	15	30	47	55	58	62	40
FR Yugoslavia	9	96	112	103	85	143	236	194	2	32	42	68	36	41	47	33
FORMER USSR COUNTRIES	375	390	432	330	213	281	410	292	275	236	284	216	201	263	323	199
in which:																
Russian Federation	305	298	326	235	129	191	281	180	241	209	250	178	159	231	281	160
CEFTA COUNTRIES	438	482	515	607	622	692	739	556	690	649	720	777	851	919	967	665
in which:																
Czech Republic	132	147	147	150	159	151	168	120	247	237	234	264	281	252	249	172
Slovakia	52	57	56	73	62	69	83	73	82	92	103	90	91	132	143	99
Hungary	115	105	120	141	145	168	157	115	267	239	293	244	267	294	315	203
Poland	105	142	155	181	190	227	242	176	38	48	58	78	111	137	144	99
Romania	21	22	24	43	42	49	58	48	33	25	17	49	46	58	85	65
Bulgaria	13	9	13	19	25	28	32	24	23	8	15	52	55	46	31	27
Other European countries	7	13	10	7	6	7	12	9	17	15	3	2	3	3	5	2
OTHER COUNTRIES	201	193	225	251	207	211	224	170	416	485	559	423	411	417	482	342
Unclassified	0	6	4	6	4	2	0	0	0	1	1	0	1	1	0	0

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

Table 10b: Foreign trade by geographical area

- structure in %

	EXPORTS (f.o.b.)								IMPORTS (f.o.b.)							
	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002
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	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	73.2	70.3	69.3	71.3	72.5	70.7	68.1	66.6	78.2	77.8	76.9	78.8	79.8	78.3	77.2	77.7
EUROPEAN UNION	67.0	64.6	63.6	65.5	66.1	63.9	62.2	60.1	68.8	67.5	67.4	69.4	68.9	67.8	67.6	68.3
Germany	30.2	30.6	29.4	28.4	30.7	27.2	26.2	25.0	23.2	21.7	20.7	20.7	20.5	19.0	19.2	19.2
Italy	14.6	13.3	14.9	13.9	13.8	13.6	12.5	12.1	17.0	16.9	16.6	16.8	16.7	17.4	17.7	17.8
France	8.2	7.2	5.5	8.3	5.7	7.1	6.8	6.9	8.4	9.8	10.5	12.4	10.9	10.3	10.6	10.7
United Kingdom	2.8	1.9	1.8	1.8	2.0	2.1	2.8	2.4	2.0	2.2	2.6	2.3	3.0	3.1	2.6	2.4
Netherlands	1.4	1.5	1.5	1.6	1.7	1.7	1.7	1.7	2.2	2.1	2.1	2.2	2.1	2.1	1.9	2.1
Belgium	0.9	0.9	1.0	1.7	1.6	1.1	1.1	0.9	1.5	1.5	1.6	1.5	1.5	1.5	1.5	1.5
Spain	0.5	0.5	0.6	0.8	0.9	1.0	1.0	1.1	2.4	1.8	2.1	2.3	2.3	2.6	2.6	3.2
Denmark	0.5	0.6	0.7	0.8	0.9	0.9	0.9	0.9	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.6
Greece	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Ireland	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.3
Portugal	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Luxembourg	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Austria	6.4	6.6	6.8	6.9	7.3	7.5	7.5	7.2	9.7	8.9	8.4	7.9	8.0	8.2	8.3	8.3
Finland	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.5	0.6
Sweden	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.9	1.1	1.2	1.2	1.4	1.8	1.7	1.0	1.0
EFTA	1.0	1.0	1.0	1.1	1.3	1.4	1.3	1.9	2.5	2.6	2.1	2.1	2.4	2.1	1.7	1.8
Switzerland	0.9	0.8	0.8	0.9	1.0	1.2	1.0	1.7	2.1	1.9	1.7	1.7	2.1	1.6	1.5	1.6
Norway	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.7	0.3	0.4	0.2	0.5	0.2	0.1
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	0.0	0.0	0.0
Iceland	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	0.0	0.0

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Table 10a: Foreign trade by geographical area

- structure in %

	EXPORTS (f.o.b.)								IMPORTS (f.o.b.)							
	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002	1995	1996	1997	1998	1999	2000	2001	I-VIII 2002
OTHER OECD	4.3	4.1	4.1	4.2	4.5	4.6	3.9	3.9	5.8	6.2	5.8	7.3	7.1	6.7	6.4	6.3
in which:																
United States of America	3.1	3.0	2.9	2.8	3.0	3.1	2.6	2.5	3.1	3.4	3.0	2.9	2.9	3.0	2.9	3.0
Other countries	1.2	1.1	1.2	1.4	1.5	1.5	1.2	1.4	2.7	2.8	2.8	4.4	4.2	3.8	3.5	3.3
OTHER DEVELOPED COUNTRIES	0.8	0.6	0.6	0.5	0.6	0.8	0.7	0.7	1.1	1.4	1.6	1.3	1.4	1.7	1.4	1.4
DEVELOPING COUNTRIES	26.8	29.6	30.7	28.6	27.4	29.3	31.9	33.4	21.8	22.2	23.1	21.2	20.2	21.7	22.8	22.3
COUNTRIES OF EX-YUGOSLAVIA	14.5	16.7	16.6	15.4	15.2	15.6	16.9	17.8	7.1	7.5	6.3	5.9	5.7	5.9	5.3	4.8
Croatia	10.7	10.3	10.0	9.0	7.9	7.9	8.6	8.9	6.1	6.3	5.0	4.3	4.4	4.4	4.0	3.5
Macedonia	2.3	2.1	1.8	1.8	2.1	1.8	1.4	1.4	0.9	0.8	0.6	0.5	0.4	0.5	0.3	0.2
Bosnia and Hercegovina	1.4	3.2	3.4	3.5	4.2	4.3	4.3	4.5	0.1	0.2	0.3	0.5	0.5	0.6	0.6	0.6
FR Yugoslavia	0.1	1.2	1.3	1.1	1.0	1.6	2.6	2.9	0.0	0.3	0.4	0.7	0.4	0.4	0.5	0.5
FORMER USSR COUNTRIES	4.5	4.7	5.2	3.6	2.5	3.2	4.4	4.4	2.9	2.5	3.0	2.1	2.0	2.6	3.2	2.9
in which:																
Russian Federation	3.7	3.6	3.9	2.6	1.5	2.2	3.0	2.7	2.5	2.2	2.7	1.8	1.6	2.3	2.8	2.3
CEFTA COUNTRIES	5.3	5.8	6.2	6.7	7.3	7.9	8.0	8.4	7.3	6.9	7.6	7.7	8.4	9.1	9.5	9.6
in which:																
Czech Republic	1.6	1.8	1.8	1.7	1.9	1.7	1.8	1.8	2.6	2.5	2.5	2.6	2.8	2.5	2.5	2.5
Slovakia	0.6	0.7	0.7	0.8	0.7	0.8	0.9	1.1	0.9	1.0	1.1	0.9	0.9	1.3	1.4	1.4
Hungary	1.4	1.3	1.4	1.6	1.7	1.9	1.7	1.7	2.8	2.5	3.1	2.4	2.6	2.9	3.1	2.9
Poland	1.3	1.7	1.9	2.0	2.2	2.6	2.6	2.7	0.4	0.5	0.6	0.8	1.1	1.4	1.4	1.4
Romania	0.3	0.3	0.3	0.5	0.5	0.6	0.6	0.7	0.3	0.3	0.2	0.5	0.5	0.6	0.8	0.9
Bulgaria	0.2	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.2	0.1	0.2	0.5	0.5	0.5	0.3	0.4
Other European countries	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
OTHER COUNTRIES	2.4	2.3	2.7	2.8	2.4	2.4	2.4	2.6	4.4	5.1	6.0	4.2	4.1	4.1	4.8	5.0
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	0.0	0.0

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

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	2002	2003	2004
									Estimate	Forecast	
		ACTUAL									
I.	**TOTAL GENERAL GOVERNMENT REVENUES**	**958,186**	**1,091,815**	**1,222,587**	**1,397,903**	**1,590,017**	**1,726,724**	**1,967,786**	**2,101,897**	**2,374,833**	**2,561,745**
	TAX REVENUES	**916,328**	**1,032,285**	**1,156,099**	**1,302,752**	**1,499,430**	**1,599,594**	**1,798,344**	**1,922,328**	**2,178,526**	**2,363,679**
	TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	311,429	357,877	402,226	443,923	479,914
	Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634	289,102	326,730	358,234	381,512
	Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795	68,775	75,496	85,689	98,402
	SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	496,371	552,574	620,908	688,334	744,608	810,772
	TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071	83,369	96,596	107,891	121,871
	Payroll tax	809	14,943	33,994	42,058	51,454	63,849	79,031	92,030	102,712	116,453
	Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222	4,338	4,566	5,179	5,418
	TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513	32,965	33,522	35,845	38,616
	DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895	673,380	669,236	813,707	877,834
	TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089	29,607	32,182	32,317	34,426
	OTHER TAXES	451	241	208	787	100	23	238	232	235	246
	NON-TAX REVENUES	**39,564**	**56,851**	**60,924**	**88,230**	**79,825**	**110,035**	**148,455**	**140,606**	**154,276**	**155,302**
	CAPITAL REVENUES, VOLONTARY DONATIONS	**2,294**	**2,678**	**5,565**	**6,920**	**10,762**	**17,095**	**20,987**	**38,963**	**42,031**	**42,764**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	59,212	66,199	80,435	91,116	99,445	105,722

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	2002	2003	2004
									Estimate	Forecast	
		ACTUAL									
I.	**TOTAL GENERAL GOVERNMENT REVENUES**	**43.1**	**42.7**	**42.0**	**43.0**	**43.6**	**42.8**	**43.1**	**41.5**	**42.8**	**42.5**
	TAX REVENUES	**41.2**	**40.4**	**39.8**	**40.0**	**41.1**	**39.6**	**39.4**	**37.9**	**39.3**	**39.2**
	TAXES ON INCOME AND PROFIT	7.2	7.7	7.8	7.8	7.5	7.7	7.8	7.9	8.0	8.0
	Personal income tax	6.6	6.8	6.7	6.6	6.3	6.4	6.3	6.4	6.5	6.3
	Corporate income tax	0.6	0.9	1.2	1.2	1.2	1.3	1.5	1.5	1.5	1.6
	SOCIAL SECURITY CONTRIBUTIONS	16.3	14.7	13.8	13.8	13.6	13.7	13.6	13.6	13.4	13.4
	TAXSES ON PAYROLL AND WORKFORCE	0.2	0.7	1.3	1.4	1.5	1.7	1.8	1.9	1.9	2.0
	Payroll tax	0.0	0.6	1.2	1.3	1.4	1.6	1.7	1.8	1.9	1.9
	Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	TAXES ON PROPERTY	0.6	0.6	0.7	0.9	0.7	0.7	0.7	0.7	0.6	0.6
	DOMESTIC TAXES ON GOODS AND SERVICES	13.4	13.7	14.2	14.7	16.5	14.9	14.7	13.2	14.7	14.5
	TAXES ON INTERN. TRADE AND TRANSACTIONS	3.5	3.0	2.0	1.5	1.3	0.9	0.6	0.6	0.6	0.6
	OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	NON-TAX REVENUES	**1.8**	**2.2**	**2.1**	**2.7**	**2.2**	**2.7**	**3.3**	**2.8**	**2.8**	**2.6**
	CAPITAL REVENUES, VOLONTARY DONATIONS	**0.1**	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**	**0.8**	**0.8**	**0.7**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6	1.6	1.8	1.8	1.8	1.8

Source of data: Ministry of finance; the revised budget for 2002, proposed budget revisions for 2003. Proposed budget for 2004. Shares relative to the forecast GDP calculated by the IMAD.

Table 12: Consolidated general government expenditures; GFS - IMF Methodology

- Current prices, SIT million

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Estimate	Forecast	
		ACTUAL									
II.	**TOTAL EXPENDITURE**	**957,273**	**1,083,586**	**1,256,668**	**1,423,494**	**1,613,314**	**1,781,444**	**2,030,977**	**2,253,620**	**2,439,878**	**2,616,737**
	CURRENT EXPENDITURE	**169,751**	**192,816**	**223,184**	**262,658**	**298,448**	**342,767**	**406,696**	**447,141**	**479,807**	**507,076**
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	116,560	131,911	155,275	174,839	192,406	204,581
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	149,900	178,612	189,410	199,718	216,446
	INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	60,956	72,809	82,892	87,683	86,049
	CURRENT TRANSFERS	**694,218**	**783,390**	**914,039**	**1,031,185**	**1,147,096**	**1,267,732**	**1,425,336**	**1,589,549**	**1,711,585**	**1,845,027**
	SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951	63,161	67,516	76,535	82,159
	CURRENT TRANSFERS TO INDIVIDUALS & HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077	821,358	910,652	979,166	1,052,777
	Current transfers to public institutions & public utilities	251,597	294,132	341,157	379,320	398,925	441,645	508,292	571,005	610,253	651,237
	OTHER CURRENT DOMESTIC TRANSFERS	10,315	12,311	13,813	28,806	37,012	36,059	32,525	40,376	45,631	58,854
	INVESTICIJSKI ODHODKI - SKUPAJ	93,304	107,379	121,181	140,364	167,770	170,945	198,945	216,930	248,486	264,634
	CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	111,003	127,996	141,003	163,691	173,550
	CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942	70,949	75,927	84,795	91,084
III.	**SURPLUS / DEFICIT (I. - II.)**	**913**	**8,230**	**-34,081**	**-25,591**	**-23,297**	**-54,720**	**-63,191**	**-151,723**	**-65,045**	**-54,992**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	58,751	66,199	80,435	91,116	99,445	105,722

Countinued on next page.

Table 12: Consolidated general government expenditures; GFS - IMF Methodology

- Per cent share relative to GDP

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Estimate	Forecast	
		ACTUAL									
II.	**TOTAL EXPENDITURE**	**43.1**	**42.4**	**43.2**	**43.8**	**44.2**	**44.1**	**44.5**	**44.5**	**44.0**	**43.4**
	CURRENT EXPENDITURE	**7.6**	**7.5**	**7.7**	**8.1**	**8.2**	**8.5**	**8.9**	**8.8**	**8.7**	**8.4**
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	3.0	3.2	3.3	3.2	3.2	3.3	3.4	3.4	3.5	3.4
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.4	3.0	3.1	3.3	3.6	3.7	3.9	3.7	3.6	3.6
	INTEREST PAYMENTS	1.2	1.2	1.2	1.3	1.4	1.5	1.6	1.6	1.6	1.4
	CURRENT TRANSFERS	**31.3**	**30.7**	**31.4**	**31.7**	**31.4**	**31.4**	**31.2**	**31.4**	**30.9**	**30.6**
	SUBSIDIES	1.9	1.4	1.4	1.5	1.7	1.5	1.4	1.3	1.4	1.4
	CURRENT TRANSFERS TO INDIVIDUALS & HOUSEHOLDS	17.6	17.4	17.9	17.6	17.8	18.1	18.0	18.0	17.7	17.4
	Current transfers to public institutions & public utilities	11.4	11.5	11.8	11.7	10.9	10.9	11.1	11.3	11.0	10.8
	OTHER CURRENT DOMESTIC TRANSFERS	0.1	0.1	0.1	0.9	1.0	0.9	0.7	0.8	0.8	1.0
	INVESTICIJSKI ODHODKI - SKUPAJ	4.2	4.2	4.2	4.3	5.1	5.1	5.1	4.3	4.5	4.4
	CAPITAL EXPENDITURE	2.6	2.5	2.3	2.5	2.5	2.5	2.5	2.8	3.0	2.9
	CAPITAL TRANSFERS	1.6	1.7	1.8	1.8	2.5	2.5	2.5	1.5	1.5	1.5
III.	**SURPLUS / DEFICIT (I. - II.)**	**0.0**	**0.3**	**-1.2**	**-0.8**	**-0.6**	**-1.4**	**-1.4**	**-3.0**	**-1.2**	**-0.9**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6	1.6	1.8	1.8	1.8	1.8

Source of data: Ministry of finance; the revised budget for 2002, proposed budget revisions for 2003. Proposed budget for 2004. Shares relative to the forecast GDP calculated by the IMAD.

Table 13: Population and labour force

- in thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
POPULATION	**1987.5**	**1991.2**	**1986.8**	**1982.6**	**1985.6**	**1990.3**	**1992.0**	**1994.2**	**1994.6**	**1994.9**
Working age populat. (15-64 y. old)	1377.2	1383.9	1385.3	1384.0	1388.1	1395.1	1397.0	1400.1	1402.8	1404.1
SURVEY LAB. FORCE (by LFS)	**952**	**946**	**978**	**978**	**959**	**968**	**979**	**987**	**993**	**1000**
Persons in employment (by LFS)	882	878	906	901	886	901	916	923	931	941
Survey unempl. (by ILO standards)	70	69	72	77	73	68	63	64	61	59
FORMAL LABOUR FORCE	**873.0**	**864.1**	**868.6**	**871.2**	**877.4**	**874.8**	**880.9**	**887.7**	**891.2**	**896.5**
Persons in formal employm. (by monthly employers surveys,)	**751.5**	**744.3**	**743.4**	**745.2**	**758.5**	**768.2**	**779.0**	**783.8**	**791.9**	**801.6**
Persons in paid employment *	642.0	634.7	651.2	652.5	671.0	683.0	694.8	697.7	704.0	711.9
Self-employed persons (the main source of income)	109.6	109.6	92.2	92.7	87.5	85.1	84.2	86.1	87.8	89.7
Register. unemploy. persons **	**121.5**	**119.8**	**125.2**	**126.1**	**119.0**	**106.6**	**101.9**	**103.9**	**99.3**	**94.9**
PERSONS IN INFORMAL EMPLOYMENT (estimate)	**130.5**	**133.7**	**162.6**	**155.8**	**127.5**	**132.8**	**137.0**	**139.3**	**139.5**	**139.9**
PERS. IN INFORMAL EMPLOY. in the full-time equivalent	**824.7**	**816.7**	**812.5**	**812.6**	**822.6**	**831.8**	**836.8**	**838.5**	**844.3**	**851.9**
LABOUR MARKET INDICATORS (%)										
Survey particip. rate (15-64 y.old)	**68.0**	**66.7**	**68.7**	**68.8**	**67.7**	**67.8**	**68.3**	**68.8**	**69.1**	**69.5**
men	73.5	71.5	73.2	73.3	72.3	72.2	73.1	73.3	73.4	73.8
women	62.4	62.0	64.0	64.1	63.0	63.2	63.5	64.2	64.6	65.1
Survey particip. rate (over 65 y.of age)	7.0	6.6	8.3	9.4	8.1	8.3	8.2	8.1	8.0	7.9
Survey employ. rate (15-64 y.old)	**62.9**	**61.9**	**63.5**	**63.3**	**62.5**	**62.9**	**63.9**	**64.2**	**64.7**	**65.3**
men	67.7	66.2	68.0	67.6	66.9	67.2	68.7	68.7	69.0	69.5
women	58.0	57.7	59.0	58.9	57.8	58.5	58.9	59.6	60.2	61.0
Survey unemployment rate	**7.4**	**7.3**	**7.4**	**7.9**	**7.6**	**7.0**	**6.4**	**6.5**	**6.2**	**5.9**
men	7.7	7.5	7.1	7.7	7.3	6.8	5.9	6.0	5.8	5.6
women	7.0	7.0	7.6	8.1	7.9	7.3	7.0	7.0	6.6	6.2
Registered unemployment rate	**13.9**	**13.9**	**14.4**	**14.5**	**13.6**	**12.2**	**11.6**	**11.7**	**11.0**	**10.5**
men	14.2	13.8	13.6	13.4	12.4	11.1	10.4	10.5	10.3	9.9
women	13.6	14.0	15.3	15.7	15.0	13.5	12.9	13.1	12.2	11.4
Structure of persons in employment according to survey										
in agriculture	10.4	10.1	12.7	11.4	10.2	9.9	10.3	9.4	9.2	8.9
in industry and construction	43.2	42.0	40.1	39.2	38.1	37.7	38.2	38.9	38.0	37.1
in services	46.3	47.3	46.8	48.8	51.2	51.4	50.7	51.7	52.8	54.0
ANNUAL GROWTH RATES (%)										
Employ. in full-time equivalent	**1.0**	**-1.0**	**-0.5**	**0.0**	**1.2**	**1.1**	**0.6**	**0.2**	**0.7**	**0.9**
Labour productivity	**2.5**	**4.4**	**5.2**	**3.6**	**3.3**	**4.0**	**2.5**	**3.2**	**3.2**	**3.4**
Persons in employment by survey	3.6	-0.5	3.2	-0.6	-1.7	1.7	1.7	0.8	0.9	1.1
Persons in formal employment	-0.1	-1.0	-0.1	0.2	1.8	1.3	1.4	0.6	1.0	1.2
Persons in paid employment *	-0.8	-1.1	2.6	0.2	2.8	1.8	1.7	0.4	0.9	1.1
Registered unemployed persons	-4.4	-1.4	4.5	0.7	-5.7	-10.4	-4.5	2.0	-4.4	-4.5
Survey labour force	1.7	-0.6	3.4	0.0	-1.9	0.9	1.1	0.8	0.6	0.8
Working age population	-0.1	0.5	0.1	-0.1	0.3	0.5	0.1	0.2	0.2	0.1
Population	-0.1	0.2	-0.2	-0.2	0.1	0.2	0.1	0.1	0.0	0.0
Population over 65 years of age	3.4	3.2	2.4	2.6	2.5	2.2	2.4	2.2	1.8	1.9

Source of data: SORS, IPDIS, IMAD's forecasts.
Notes: * up to and including 1996, excluding companies with 1-2 employees; since 1999: including unemployed working in public works. ** Figures do not observe the reclassification of people registered at Employment Service Offices under a special record due to their exercising of rights provided by laws other than the Employment and Insurance against Unemployment Act. This reclassification is prescribed by Article 9 of the Act Amending the Employment and Insurance against Unemployment Act (Ur. l. RS 67/2002). No figures that would take into account this reclassification are as yet available for 2002.

Table 14: Labour force flows during the year

- in thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
Inflows into formal labour force (net)	**1.7**	**-6.2**	**4.1**	**-2.8**	**12.2**	**-7.5**	**13.3**	**1.9**	**4.1**	**6.2**
New first-time job seekers	25.7	25.6	25.4	25.1	22.7	26.5	25.8	27.3	26.3	26.5
of whom became unemployed	22.1	21.1	17.9	18.6	19.6	20.5	21.9	21.2	18.7	17.3
Additional number of work permits for foreigners	2.6	0.2	-2.9	-0.5	2.6	2.9	-8.8	0.7	0.1	1.2
Employed having lost their jobs	57.5	65.4	60.6	58.4	61.1	61.8	65.8	64.2	62.8	61.6
Registered unemployed having found a job	60.0	54.6	56.1	55.4	62.4	60.2	52.7	50.5	52.5	54.6
Retirements (-)	11.5	14.8	15.1	14.8	15.1	14.8	14.6	14.8	15.1	15.4
of whom unemployed	3.8	4.9	5.0	4.9	4.9	7.0	7.6	6.7	6.3	6.7
Deaths (-)	2.8	2.7	2.7	2.7	2.7	2.5	2.5	2.5	2.4	2.4
Other deleted from unemployment registers (-)	12.2	28.9	12.9	18.2	25.4	24.6	27.4	25.8	29.4	21.8
Other inflows into formal labour force (net)	0.0	14.3	12.3	8.4	30.1	5.0	40.8	17.1	24.6	18.1
Education structure of school-leavers (estimated, %)										
- low or no education	*36.7*	*31.3*	*38.0*	*34.3*	*16.5*	*23.3*	*23.5*	*23.7*	*22.5*	*20.8*
- vocational education	*23.4*	*24.2*	*21.8*	*19.5*	*19.9*	*23.3*	*22.2*	*19.6*	*19.1*	*17.3*
- finished secondary school	*20.2*	*21.8*	*17.1*	*23.3*	*34.5*	*28.5*	*24.9*	*29.5*	*25.5*	*28.0*
- graduates	*19.7*	*22.6*	*23.0*	*23.0*	*29.1*	*24.9*	*29.5*	*27.2*	*32.8*	*34.0*
FORMAL LABOUR FORCE, year-end	**873.1**	**867.0**	**871.1**	**868.3**	**880.5**	**873.1**	**886.4**	**888.3**	**892.4**	**898.6**
Formal employment	746.4	742.5	742.5	741.7	766.2	768.5	782.1	782.0	793.0	803.7
Registered unemployment	126.8	124.5	128.6	126.6	114.3	104.6	104.3	106.3	99.4	94.9
Registered unemployment rate, end of year (%)	*14.5*	*14.4*	*14.8*	*14.6*	*13.0*	*12.0*	*11.8*	*12.0*	*11.1*	*10.6*

Source of data: SORS, IPDIS, ESS, IMAD's forecast.

Table 15: Pensioners

- in thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
TOTAL (II)	**460.3**	**463.3**	**468.2**	**472.4**	**476.4**	**482.2**	**492.5**	**509.1**	**517.1**	**525.0**
- old age pensions	259.3	262.1	266.9	271.5	276.3	282.0	287.9	295.0	302.0	308.9
- disability pensions	96.1	96.9	97.4	97.5	97.4	97.8	97.7	97.6	97.5	97.4
- survivors' pensions	81.7	83.1	84.5	85.6	86.6	87.6	88.9	91.0	92.9	94.7
- farmers' pensions	17.7	15.8	14.1	12.5	11.1	9.7	8.6	7.4	6.4	5.6
- army pensions	4.9	4.8	4.8	4.7	4.6	4.5	4.5	4.4	4.3	4.2
- state pensions and accounts	0.6	0.6	0.5	0.5	0.5	0.5	5.0	13.6	13.9	14.2
ANNUAL GROWTH RATES (%)										
Total (II)	0.5	0.7	1.1	0.9	0.9	1.2	2.1	3.4	1.6	1.5
- old age pensions	0.8	1.1	1.8	1.7	1.8	2.1	2.1	2.5	2.4	2.3
- disability pensions	1.3	0.8	0.5	0.1	-0.1	0.4	-0.1	-0.1	-0.1	-0.1
- survivors' pensions	1.2	1.7	1.7	1.3	1.2	1.1	1.4	2.3	2.1	2.0
- farmers' pensions	-9.5	-10.6	-10.5	-11.4	-11.8	-11.9	-12.2	-13.3	-13.4	-13.5
- army pensions	-1.1	-1.6	-1.1	-1.3	-1.9	-1.8	-2.0	-1.1	-2.0	-2.0
- state pensions and accounts	-8.9	-7.9	-6.3	-4.8	-6.6	4.6	891.8	174.2	2.1	2.0

Source of data: IPDIS; calculations and forecast by the IMAD.

Table 16: Indicators of international competitiveness

- annual growth in %

	1995	1996	1997	1998	1999	2000	2001	2002	2003
							Estimate	Forecast	
Effective exchange rate [1]									
Nominal	-0.5	-9.7	-5.4	-2.6	-5.5	-8.1	-5.8	-3.0	-1.5
Real [2]	10.3	-2.8	0.7	3.9	-0.7	-2.1	-0.3	2.7	2.3
Unit labour cost in total economy									
In SIT nominal	13.7	6.4	6.4	5.1	5.6	7.4	10.1	7.0	4.7
In the basket of currencies - relative [5]	11.1	-4.8	0.4	2.1	-1.1	-2.0	1.6	2.6	2.2
Unit labour cost in manufacturing [3]									
In SIT nominal	9.8	6.9	7.3	5.9	7.3	4.2	8.5	5.3	2.5
In the basket of currencies [4]	9.3	-3.5	1.5	3.1	1.4	-4.2	2.2	2.2	1.0
In the basket of currencies - relative [5]	9.7	-5.3	4.6	4.2	0.8	-2.3	0.5	0.8	0.4
Components [4]:									
Compensation of employees - real [6]	4.9	3.9	3.4	3.4	2.9	2.6	1.8	1.4	1.9
Net wages and other remunerations	6.8	7.7	4.3	3.1	2.5	1.9	0.8	0.9	1.7
Tax burden on wages [7]	-0.6	-2.6	-0.5	0.6	0.4	0.6	0.6	0.1	0.0
Labour productivity	8.4	6.7	4.5	5.4	1.8	7.2	1.7	3.6	4.9
Prices / effective exchange rate	12.9	-0.8	2.5	5.1	0.3	0.1	2.1	4.3	4.0

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.

Table 17a: Gross capital formation

- Current prices, 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 17a: 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 17b: Gross capital formation

- Constant 1995 prices, 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 17b: Gross capital formation

- Change in volume in % (constant prices 1995)

	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 *	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:* As contribution to real GDP growth (%)

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