



ANALYSIS OF ECONOMIC DEVELOPMENTS IN 1999 AND PROSPECTS FOR 2000

(1999 AUTUMN REPORT)

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FOREWORD

The Autumn Report provides an estimate of economic developments and factors of growth in 1999 and examines the prospects for 2000. For several years, the Report has been prepared by the Institute of Macroeconomic Analysis and Development (IMAD) in the Slovenian and English languages. The Government of the Republic of Slovenia uses it as one of its sources in preparing economic policy measures and drafting the state budget.

The Report has been prepared on the basis of data provided by information services, mainly the Statistical Office of the Republic of Slovenia (SORS), the Bank of Slovenia (BS), and the Agency for Payments (AP), as well as expert assessments of domestic and foreign institutes. Based on these figures, new estimates of national accounts for 1999 and 2000 were prepared in October. The quality of databases is unfortunately becoming poorer. It is critical for monitoring economic developments that information provided by the AP continues to be available after the reform of the payment transactions system. This year, economic trends are less straightforward than in previous years. The impact of the introduction of value-added tax caused economic factors to adapt in various ways, which disturbed long-term macroeconomic trends. As the period following the implementation of VAT is relatively short, with impacts of adaptations before the introduction gradually disappearing and those following the introduction not being quite clear, forecasts of key macroeconomic aggregates for this and next year are less confident.

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**The 1999 Autumn Report is based on data
available up to 30 October 1999.**

1 INTRODUCTION

The main macroeconomic indicators showing the extent to which **economic policy goals have been attained** paint a **slightly more favourable** picture of the year compared to that forecast in spring. Economic growth will be about one quarter of a percentage point above the anticipated 3.5%. Despite the introduction of value-added tax, the average inflation rate will be about half of a percentage point lower than the projected 6.8%. After decreasing and stagnating for several years, employment will increase by about 0.5% this year (as shown by the national accounts statistics).

We considered the spring economic growth forecast as optimistic and clearly set out the conditions required to attain it. The pick-up of economic activity in the international environment assumed in spring is taking place in EU member states, but to a lesser degree in Croatia. Assumptions of favourable trends in the domestic money market have turned out to be partially correct despite the fact that real interest rates are slightly above the spring levels, particularly after increases in monthly inflation rates after the introduction of value-added tax. It does seem that spring's halt in the rise of savings was only temporary. Even though modest real appreciation of the effective exchange rate of the tolar was expected in spring, slight real depreciation will have been recorded at the annual level. Assumptions of a relatively weak negative impact of the introduction of value-added tax on real economic activity, which could result from uncertainties and transition costs, appear to have been correct. The inflationary impacts of value-added tax have almost been exhausted over the three months after the introduction.

Even though the assumptions underlying the spring forecasts have proved correct, and the main indicators have turned out to be more favourable than anticipated, the assessment of this year's economic results should not neglect the fact that these results were achieved at the expense of the **macroeconomic balance**, which has been **undermined**. External economic relations as a whole have deteriorated compared to last year. The trade deficit will be wider than forecast in spring despite the gradual upturn in economic activity in the most important trading partners of Slovenia. The surplus in invisible trade will drop significantly compared to last year. Exports of services will even be lower in real terms; not only because of lower tourism receipts, which can to some extent be justified by the uncertain political situation in the neighbouring area. In consequence, the current account of the balance of payments, which has been in equilibrium over the last years, will show a deficit amounting to more than

1% of gross domestic product.

Severe conditions in international trade have caused a rise in commercial crediting of foreign companies shown as pre-payments for imports and export financing. Despite the relaxation of restrictions on foreign portfolio investment and the introduction of new foreign exchange legislation, foreign capital inflows into the securities market have not yet strengthened. Furthermore, the fact that **foreign direct investment inflows** will be at a **record low level** this year raises concern. The main reasons are an ambivalent attitude towards foreign investors, which is why efforts to attract foreign investment remain modest and lack credibility, and the rigidity of the institutional environment, which discourages entrepreneurship in general. The importance of an efficient public administration and reconsidering the role of the state, whereby its task would be to provide conditions for independent development of a competitive private economy, are clearly pointed out in international analyses, including the Report on Progress towards Accession to the EU. Owing to its macroeconomic stability, when compared to other countries in transition, Slovenia is given relatively favourable credit and country risk rating; it is ranked relatively high in terms of the general social development; and the process of bringing its legislation in line with the *acquis* has been stepped up over the last year. On the background of these achievements, the implementation of regulations, the understanding of the role of the state, and the quality and efficiency of public administration are now moving into the centre of attention, making these areas the key issues in structural and institutional reforms.

With the external balance being deteriorated, the **general government deficit** is forecast to remain at about 1% of gross domestic product this and next year despite the estimated one-percentage point rise in general government revenue relative to gross domestic product in 1999. The comparison of the budget for 1998 and the draft budget for 2000 reveals that the highest increase in the share relative to gross domestic product will be seen in investment outlays and lowest in expenditure on goods and services in public institutions and public services. The budget memorandum for 2000 has expressly identified development priorities: technological development, active employment policy, agriculture, regional development, and strengthening of defence capacity, which is particularly evident in the allocation of funds for the part of the budget dedicated to programmes. In the forthcoming period, the completion of the indirect tax reform, a new pension law, and more direct connections between

budgetary policy and development programmes and development planning as laid down in the new Public Finance Act, should have a positive impact on the general government balance.

Maintaining the general government deficit, a slightly smaller share of national savings and a larger share of gross capital formation in gross domestic product resulted in an **investment-savings gap, amounting to 1.3% of gross domestic product** this year. The favourable economic growth was based on domestic demand mainly driven by exaggerated expectations of the inflationary impact of value-added tax. To some extent, the same is true of investment outlays whose quick growth is otherwise stimulating to development. Nevertheless, long-run economic growth cannot be driven by domestic demand substituting foreign demand. The current account deficit raises concern because it was not financed by inflows from abroad, which would have had a positive impact on development (foreign direct investment in particular), but mainly by increased borrowing from abroad and consequently lower foreign exchange reserves.

Slightly stronger real economic growth, a further rise in employment and lower end-year inflation are expected **next year**. Private and final domestic consumption will rise more moderately and they will be substituted by rising export demand. Domestic savings and investment shares in gross domestic product are expected to increase proportionally, by about one percentage point, so that the investment-savings gap will remain at roughly the same level. In addition to providing a stable macroeconomic environment and continuing with structural reforms, economic policy will have to focus more on measures aimed at increasing export competitiveness and raising development-boosting foreign capital inflows. Only modest real appreciation of the tolar is expected next year. Incomes policy, devised in agreement with the social partners, will continue to contain the increase in labour costs within productivity growth. Active participation in international integrations, particularly in the Stability Pact for South-Eastern Europe, should play an important role in export promotion. Greater emphasis will have to be placed on increasing productivity and the competitiveness of the economy by accelerating technological development. Owing to the positive role of foreign direct investment in introducing modern technology, organisational and management skills, and in facilitating entry to demanding foreign markets, an increase in the volume of foreign direct investment must become one of the main operative economic policy goals. In doing this, the government's firm and clear commitment to create an institutional and administrative environment that offers support to foreign direct investment and domestic investment should play a key role.

2 SUMMARY

2.1 Assessment of economic developments in 1999

In the first half of 1999, particularly in the second quarter, **economic developments were decisively affected by preparations for and expectations of the introduction of value-added tax.** 'Preparations' by companies and the population strongly affected domestic consumption (resulting in above-average tax revenues), export-import flows and the balance of payments, and indirectly also developments in monetary aggregates and the exchange rate. Most of these developments gradually returned to usual after the value-added tax was introduced. The period up to the end of the year is expected to be characterised by a slowdown in private consumption and imports, and by a quicker rise in exports triggered by an upturn in economic activity in the most important trading partners.

The substantial increase in domestic demand resulted in a **high economic growth rate in the second quarter.** After rising modestly in the first quarter, when gross domestic product grew by 2.5% against the same period last year, it rose by 6.4% in the second quarter in annual terms. In the first half of the year, gross domestic product was thus 4.5% higher than in the same period of 1998. The most dynamic growth was observed in construction and trade. The relatively poor results of the manufacturing sector (production volume down by 1.3% in the first three quarters compared to the same period last year; value added only increased by 1.7% in the first half of the year) are strongly related to the slowing economic growth in the most important trading partners. In addition to a slower rise in goods exports to EU markets, Slovenia's export results were mainly affected by the recession in Croatia and the Russian crisis.¹

Given the first signs of an upturn in economic activity in the most important trading partners and relatively favourable export expectations in the next few months (Survey on business trends in manufacturing, SORS), a quicker rise in foreign demand (mainly goods exports) is expected to replace the slowing rise in domestic demand forecast for the second half of the year. In such an environment, the **3.5%-economic growth forecast in spring** will be achieved or even slightly exceeded: **according to estimates,** it

¹ In the first eight months, exports of goods to Croatia dropped by 12.3% in real terms against the same period last year, with exports to the former Soviet Union markets slumping by 45.5%.

could attain **about 3³/₄%**. The real rise in foreign demand is estimated to improve slightly before the end of the year and could come in at 3.6% this year. Despite the stronger foreign demand, domestic demand will be the most important growth factor this year (a real increase of 4.7%). Investment is estimated to be the most significant component of domestic demand (a rise of 14%) and government consumption is still at an above-average rate of increase (5.1%). The rise in private consumption, estimated at 3.7%, will be higher than in the previous three years.

Even though investment activity has recorded relatively high growth rates this year, the **exceptionally modest foreign direct investment inflows** cause concern, particularly in view of the international integration of Slovenia's economy. After a record inflow of USD 320 million in 1997, foreign direct investment inflows were reduced by almost one-half last year (USD 165 million), whereas this year inflows might not exceed USD 100 million. A breakdown of the substantial increase in foreign direct investment stock seen in Slovenia last year (from USD 2,180 billion to USD 2,746 billion) reveals that new investments were almost negligible last year and that current foreign investors strengthened their positions in the market. No improvement can be expected in this area without changing the attitude towards foreign direct investment and modifying investment promotion policy.

Domestic consumption slowed down in the summer months, as did the rise in imports of goods, whilst goods exports started to pick up gradually. The record monthly trade deficits seen in the second quarter turned into a surplus in July, with the August deficit recording the usual levels. This year's exports of goods are estimated to increase by 4.6% in real terms, with real imports rising by around 7.4%. The **trade deficit**, almost achieving last year's level in the first half of 1999 alone, is forecast to amount to **around USD 940 million**. The trend of a narrowing surplus in Slovenia's invisible trade recorded since 1997 is the result of developments on both import and export sides. The reduction of the surplus in services trade is likely to continue in the future. Evidence from developed countries shows that the need for imported services increases with the level of economic development (Stare, 1999). Inflows from shuttle tourism are likely to decrease as well. Exports of services are dominated by traditional services, whilst the share of services with a high level of value added is relatively low. The record **deficit in the current account of the balance of payments** seen in the first half of the year (USD 476 million) started to improve in the summer months. It is estimated to fall further by the end of the year and should amount to **around USD 265 million** (1.3% of gross domestic product).

The higher domestic consumption was largely financed by the taking out of loans. Claims of commercial banks on individuals increased by SIT 112 billion in the period up to end-July, compared to SIT 61.9 billion in the whole of 1998. Household savings rose only slightly in the first half of the year, and even fell in certain months, whereas in the summer months they started improving as a result of higher long-term deposit interest rates and a higher tolar revaluation clause (TOM).

The changeover to the value-added tax system brought changes as to how and when companies should pay tax: sales tax was paid on a cash basis (paid turnover), whereas value-added tax is charged on an accrued basis (invoiced turnover). The data available so far show that this has not led to any substantial increases in **liquidity problems of the Slovenian business sector**: the number of companies with frozen accounts increased slightly in September, whereas August and September mainly saw an increase in companies' short-term borrowings from banks. The commercial banks' average real and nominal interest rates on long-term and short-term corporate loans are higher than at the end of last year, but the gap between the average minimum and average maximum interest rates has widened substantially. Both nominal and real interest rates were still slightly below last year's average in September.

The situation in the foreign exchange market has been affected by the balance of payments' position. The first half of the year was characterised by a real depreciation of the tolar against the basket of currencies, which was the result of a stronger US dollar in international foreign exchange markets and excess demand for foreign currency in domestic foreign exchange markets, particularly strong in the second quarter. July's intervention halted depreciation of the tolar; it started to gain strength as monthly rates of price increases were higher after the introduction of value-added tax. This year's **price competitiveness** of Slovenian manufacturing will be **better than last year** as a result of favourable exchange rate movements. However, despite exchange rate movements, which are favourable for exporters, and a subdued rise in compensation per employee, the rise in labour productivity will be too modest to result in improved cost competitiveness.

Even though domestic demand increased before introduction of the value-added tax, the ongoing drop in inflation was not disturbed in the first half of the year: it fell from the annualised 6.5% at the end of last year to 4.3% in the period up to May and June. The introduction of value-added tax led to changes in relative prices and an aggregate increase in prices, nevertheless lower than had been expected for the summer months, all of which points to

the fact that competition is becoming increasingly more important in shaping prices. Higher prices of oil and petroleum products in world markets accelerated price rises in the summer months.² Even though the inflation rate climbed above 6% in annual terms in the summer months, the **average annual inflation rate** will be lower than that forecast this spring and last year (6.8%). It is estimated to come in at **around 6.2%**.

After a relatively long period of stagnation and decrease, despite the solid 4% average annual economic growth,³ employment recorded a positive trend this year. The rise in the number of persons in employment was not only the result of changes in registering the unemployed who participate in public works programmes, accounting for a solid one-quarter of the rise in persons in employment. The significant rise in employment seen in trade, hotels and restaurants, transport, and construction reflects dynamic activity of these sectors, and in part probably also a fall in the shadow economy and informal employment brought about by the Shadow Economy and Informal Employment Act. This year, the registered unemployed gaining employment through active employment policy programmes accounted for a larger share than last year. **Employment** (based on national accounts statistics) is estimated to **increase by around 0.5%** this year. The main reasons for a lower number of registered unemployed are the more active employment policy, larger deletions from unemployment registers and changes in registering persons who participate in public works programmes. The average annual registered unemployment rate is estimated to be almost one percentage point lower than last year (around 13.6%), with the internationally comparable unemployment rate coming in at about 7.4% (7.9% last year).

After the relatively rapid rise and high levels of wages recorded in the first half of the year, July's real fall and August's relatively modest rise (despite the base wage being adjusted by 85% of the rise in consumer prices in the first half of the year and an increase in minimum wages), may enable achievement of the **2% real rise in the average gross wage per employee forecast** in spring. At the aggregate level, real wage growth will be lower than labour productivity growth. After stagnating in real terms last year, real wage growth in the public sectors (by around 3%) will be higher than in the private sector, recording about a 1.5%-rise.

Public finance movements were shaped by the increased domestic

² In the first nine months, the rise in petroleum product prices added almost 1 percentage point to the 6.1% rise in consumer prices in Slovenia.

³ In 1998, the gross domestic product was almost 27% higher in real terms than in 1992.

consumption observed before introduction of the value-added tax and excise duties as well as by the introduction itself. The estimate of revenues from value-added tax is still rough. According to Ministry of Finance estimates made while preparing the draft budget for 2000, this year's general government revenue will be higher than expected in spring as a result of the exceptionally high revenues from sales taxes in the first half of the year (a real increase of 10% from the same period last year) and large revenues from outstanding sales taxes for previous periods. General government revenues are estimated to be 12.9% higher in nominal terms compared to last year, accounting for 44.1% of the estimated gross domestic product (43.1% in 1998). Owing to greater expenses for pension and disability insurance, municipal budgets and expenses for compulsory health insurance, total general government expenditure is estimated to be slightly higher than forecast, accounting for 45.3% of gross domestic product and rising by 13.8% in nominal terms over 1998. As in 1997, this year's general government deficit (based on the International Monetary Fund Government Finance Statistics) will exceed 1% of gross domestic product.

2.2 Forecasts and expectations for 2000

Spring forecasts of economic trends anticipated more favourable international economic developments in 2000. Indicators showing economic activity and the climate in EU member-states, which indicated an upturn in the middle of the year,⁴ support the optimism for next year. The International Monetary Fund expects stronger growth of the world economy, and forecasts 2.7%-economic growth in the EU next year after recording 2% this year. The available economic growth forecasts in Slovenia's most important trading partners for next year are 0.5 to 1 percentage point higher than this year. In an improved situation in the international environment, Slovenia is estimated to be able to achieve **around 4%-economic growth** next year.

After rising rapidly this year (by 3.7%), domestic private consumption is projected to increase more moderately next year (at about 2%). Despite the relatively dynamic investment activity, forecast to rise by around 9%, and the still rapid rise in government consumption (by 5.3%), domestic demand is expected

⁴ According to EUROSTAT data, the downward trend in industrial production in the EU halted in May, with business expectations and consumer confidence rising. The EU's gross domestic product increased by 1.5% in the first half of the year; the latest economic growth forecasts for 1999, taking into account a quicker upturn in the economy in the second half of the year, range between 1.8% and 2% (EIU, IMF), about 0.2 of a percentage point up on the forecasts given in late spring.

to rise at a rate lower than foreign demand, estimated to increase by 4.5%. The **accelerated rise in exports of goods expected** next year is **relatively modest** in view of the improvement in the international environment (a 4.6%-rise this year compared to 5.3% next year). The main reasons are the following: (i) forecasts of the pick-up of economic activity in markets of the former Yugoslavia and the rest of South-Eastern Europe, and Russia are tentative; (ii) technological development and Slovenia's integration into global trading flows are slow. The trade deficit is likely to increase next year (to about USD 1100 million) on account of deteriorated terms of trade and a faster rise in imports over exports of goods. This is the main reason why, for Slovenia, a relatively large **deficit in the current account of the balance of payments** is expected to persist (at around USD 350 million).

Despite the wider current account deficit, the tolar is not expected to depreciate against the basket of currencies next year in real terms (the annual average). Real appreciation of the effective exchange rate of the tolar, recording 1.4% measured by relative consumer prices, will mainly result from differences in monthly depreciation or appreciation rates of the tolar this and next year, and the weaker US dollar expected next year. With the expected lower price competitiveness, **cost competitiveness** is estimated to **remain roughly at this year's level** provided that labour productivity rises more quickly and compensation per employee grows moderately.

Above-average monthly price rises seen in the summer months, following the introduction of value-added tax, will affect the average inflation rate in 2000 despite the fact that price rises are expected to be subdued in the last quarter of this year and next year. Owing to this 'calculation effect', the average inflation rate is not likely to fall below this year's level even though **prices are estimated to rise below 4% in the December 2000-December 1999 period**. The sequencing of changes in administered prices and price disparity corrections this and next year is important from the point of view of the agreed incomes policy and the possibilities of reducing the average annual inflation rate below 6% next year.

Following the agreement of social partners, enforced by law in the middle of the year, January's base wages will be adjusted by 85% of the rise in consumer prices in the second half of 1999, whereby the impact of value-added tax on prices in the third quarter will not be taken into account. Inflationary movements experienced up until the end of the year will

therefore play an important role in defining wage levels and growth in 2000. Wage growth in the public sector will be affected by the signed amendments to branch collective agreements (education, culture, science) and a rise in base wages stipulated in the collective agreement for the non-business sector (by 1% in December 2000). The average gross wage per employee in the public sector is estimated to rise by around 4% in real terms. Wage growth in the private sector will mainly depend on business results; it is expected to rise by around 2% in real terms. The total **gross wages per employee** will thus be **around 2.5% higher in real terms next year** and will lag behind the rise in labour productivity.

Effective implementation of employment policy will provide conditions for **positive trends in the labour market to continue** next year. This will be achieved not only through traditional active employment policy programmes but through an employment policy that incorporates measures to promote the setting-up and development of small- and medium-sized companies, life-long learning, entrepreneurship and to improve qualification levels of the workforce. Total employment (full-time equivalent) is estimated to rise by 0.8%. Registered unemployment will continue to fall, albeit at a rate lower than this year.

According to the draft budget for 2000, state budget expenditure will increase by 9.9% in nominal terms compared to expenditure estimated in the 1999 budget. While preparing the budget, the government followed these priorities: promotion of technological development, active employment policy, promotion of regional development, agricultural policy reform, and strengthening of the state's defence capacity. A major part of the increase in expenditure will go to priority programmes. Developments in the forthcoming years will show how (in)efficiently these funds have been spent and what their impact on economic growth, employment and inflation has been. Like expenditure of the state budget, total general government expenditure will rise more slowly in real terms than the forecast real gross domestic product growth. An important contribution in attaining this goal will be made by the implementation of a new Pension and Disability Insurance Act. The Ministry of Finance estimates that the rise in total general government expenditure will lag behind the rise in general government revenue. General government expenditure and revenue are expected to account for smaller shares in gross domestic product next year than in 1999 (as shown by the International Monetary Fund Government Finance Statistics). The general government deficit is forecast to represent around 1% of gross domestic product.

Table 1: Selected macroeconomic indicators in 1995-2000

	1995	1996	1997	1998	1999 estimate	2000 estimate
GROSS DOMESTIC PRODUCT - real growth in %	4.1	3.5	4.6	3.9	3 ^{3/4}	4.0
Trade balance in USD million	-954.3	-881.7	-771.6	-774.9	-940.0	-1,110.0
As % of GDP	-5.1	-4.7	-4.2	-4.0	-4.7	-5.1
Current account balance in USD million	-22.8	39.0	36.6	-3.8	-265.0	-350.0
As % of GDP	-0.1	0.2	0.2	0.0	-1.3	-1.6
Employment based on national accounts method (growth in %)	0.8	-0.9	-0.5	0.0	0.5	0.8
Unemployment rate by ILO in %	7.4	7.3	7.4	7.9	7.4	7.5
Gross wage per employee (growth in %)	5.1	5.1	2.4	1.6	2.0	2.5
Increase in consumer prices (annual average) ¹	13.5	9.9	8.4	7.9	6.2	6.2
Increase in retail prices (annual average) ¹	12.6	9.7	9.1	8.6		
Effective exchange rate of the tolar - real terms ²	10.3	-2.8	0.7	3.9	-0.4	1.4
CONSOLIDATED GENERAL GOVERNMENT REVENUE AND EXPENDITURE BY GFS - IMF METHOD³						
General government revenue as % of GDP	43.1	42.7	42.0	43.1	44.1	43.8
General government expenditure as % of GDP	43.1	42.4	43.2	43.9	45.3	44.8
Surplus/deficit as % of GDP	0.0	0.3	-1.2	-0.8	-1.2	-1.0

Source of data: SORS, Bank of Slovenia, Ministry of Finance, estimates by IMAD. **Notes:** ¹retail prices as a measure of inflation until 1998, after 1998 consumer price index. ²a rise in value means appreciation of the tolar and vice versa measured by relative consumer prices. ³data and estimates by MF, calculations by IMAD.

3 INTERNATIONAL ECONOMIC ENVIRONMENT - 1999 turned out slightly better than projected in spring, expectations for 2000 are optimistic

After a slowdown in economic growth in 1998 caused by turbulence in global financial markets, the world economic situation in 1999 is stabilising faster than predicted by international institutions at the beginning of the year. The spring forecast of the International Monetary Fund on world economic growth in 1999 has been corrected upwards by 0.7 of a percentage point in autumn, and that for the year 2000 by 0.1 of a percentage point (IMF, 1999). In addition to regained confidence in financial markets, which were most shaken by the Asian, Russian and Brazilian financial crises, other impulses stimulating faster economic growth this year have been the ongoing rapid growth of the US economy and higher world oil prices. The latter has accelerated economic growth or buffered its decline in oil-exporting countries. The recession in Japan is expected to come to an end this year; the International Monetary Fund forecasts 1%-economic growth. Other Asian economies that were most hard hit by the financial crisis in 1998, except Indonesia, are also experiencing an economic upturn. Economic growth in EU and CEFTA countries will gain momentum in 2000, with Japan also expecting faster growth than this year (1.5%). The International Monetary Fund projects a pick-up in the Brazilian, Russian and Indonesian economies next year, whilst economic growth in the USA will begin to slow down. Higher growth rates expected in the global economy in 2000 will boost world trade, which is projected to rise more rapidly than this year.

Table 2: Selected global economy indicators in 1997 and 1998; forecasts for 1999 and 2000

	1997	1998	1999	2000
World output	4.2	2.5	3.0	3.5
World trade	9.9	3.6	3.7	6.2
World oil price	-5.4	-32.1	27.7	7.8
World commodity prices*	-3.3	-14.8	-7.2	3.4

Source: IMF 1999. Note: *average, based on world commodity export weights.

Favourable economic developments continued at an undiminished pace in **the United States** this year. Last year's economic growth was 3.9%; the latest figures show that this year it may achieve 3.7% (IMF, 1999) or 3.9% (EIU, 1999a). Domestic investment and private demand, the main levers

of economic growth in the first half of the year, grew faster than expected, which is why spring forecasts for 1999 have been corrected upwards by about half of a percentage point in autumn. The central bank raised interest rates in the summer months as a result of signs of the economy overheating, which was evident in ballooned securities prices and the growing deficit in the current account of the balance of payments; the deficit in 1999 is estimated at 3.5% of gross domestic product. The measure was aimed at reducing the looming inflationary pressures due to a rapid rise in consumption and increasing oil prices. According to estimates of the International Monetary Fund, growth of the US economy in 2000 will be lower than this year, coming in at 2.6%, or 2.5% as projected by a joint assessment of six German DWF institutes. The autumn forecast nevertheless remains 0.4 of a percentage point higher than the spring one.

The slowdown in economic growth seen in **the European Union** in the second half of 1998 and the first half of 1999 was followed by signs of a revival of economic activity and weakening of recession tendencies in the summer months. The Eurostat figures show that the downward trend in industrial production experienced from November last year halted in May. Furthermore, business expectations and consumer confidence are improving, the latter as a result of further reduction in unemployment. Depreciation of the euro against the US dollar observed in the first half of the year did not have a major impact on inflation. It was kept within the projected limits (1.2% in August at the annual level) and will record 1.2% this year and 1.1% in EURO-11, as forecast by the six German institutes.

Table 3: Economic growth, inflation and growth in imports of goods and services in Slovenia's most important trading partners (1999-2000)

in %

	Real gross domestic product growth		Inflation (average)		Real growth in imports of goods and services	
	1999	2000	1999	2000	1999	2000
EU	2.0	2.7	1.2	1.7	4.0	5.3
Germany	1.4	2.7	0.7	1.3	2.2	3.8
Italy	1.2	2.4	1.6	2.0	1.7	4.8
Croatia	-1.5	0.0	4.0	6.0	-1.5	3.0
Austria	2.2	2 ³ / ₄	0.6	1.2	4.2	5.5
France	2.5	3.0	0.6	1.1	4.7	5.0
Bosnia	7.0	8.0	-	-	-	-
USA	3.7	2.6	2.2	2.5	7.6	4.3

Sources: IMF, 1999 (GDP growth in the EU, Italy, and France, GDP growth and inflation in the USA), OECD (real growth in imports of goods and services for all countries except Croatia), WIIW, 1999 (Croatia), EIU (Bosnia: real growth in imports of goods and services in Croatia), WIFO, 1999 (Austria), DWF, 1999 - joint estimates of six German institutes (Germany; inflation in EU member states).

Gross domestic product of the EU-15 grew by 1.6% in the first half of the year. Taking into account expectations of a faster economic upturn in the second half of the year, autumn economic growth forecasts for 1999 range between 1.8% and 2% (EIU 1999a; OECD 1999; IMF 1999; DWF 1999), about 0.2 of a percentage point up on spring forecasts of these institutions. Major contributions will be those of the French and UK economies, whilst German and Italian economic growth rates have been slightly corrected downwards from spring forecasts. Economic activity is expected to strengthen in 2000, with estimates ranging between 2.3% and 2.9% (EIU 1999a; OECD 1999; IMF 1999; DWF 1999).

Compared to spring estimates, autumn forecasts of **Germany's** economic growth for 1999 have been revised downwards by around 0.2 of a percentage point, now ranging between 1.4% (IMF 1999; DWF 1999) and 1.5% (IFO 1999). The 0.8%-gross domestic product growth seen in the first half of the year was mainly driven by strong investment demand (4%) and domestic private consumption (1.8%), whilst exports rose modestly (1%). In the first half of the year, imports rose (4.5%) more quickly than exports, with imports from non-EU countries increasing the most in relative terms. Gross domestic product growth is estimated to accelerate in the second half of the year, also suggested by autumn surveys on the economic climate. Estimates of economic growth in 2000, mainly based on an accelerated rise in exports, range between 2.3% and 2.7% (IMF 1999; OECD 1999; IFO 1999; DWF 1999), and predict that the favourable trends of the second half of the year will continue.

The latest estimates show that **Italy's** economic growth will be around 1.2% this year (IMF 1999; DWF 1999). The forecast of the International Monetary Fund has been revised downwards by 0.3 of a percentage point, mainly due to the slowing domestic demand and a slump in exports to Asia (mainly textiles and leather products) in the first half of the year. Modest domestic consumption, low investment activity in particular, is forecast to regain strength by the end of the year, whilst exports will be boosted by the pick-up in the Asian economies. Italy's economic growth in 2000 should be stronger, and is estimated to range between 2.2% and 2.5% (OECD 1999; IMF 1999; DWF 1999).

Estimates show that the **Austrian economy** will grow at a rate between 2% and 2.2% in 1999 (IMF 1999; OECD 1999; WIFO 1999). That growth will be driven by an accelerated rise in exports in the second half of the year, domestic private consumption and a revival in investment activity.

All indicators showing the economic climate started to improve in the summer months as a result of larger export orders. The expected rise in Austria's export markets suggests that external demand will be the main driving force behind economic growth in 2000; the available forecasts show that it will grow between 2.5% and 2% (IMF 1999; OECD 1999; DWF 1999; WIFO 1999).

Autumn forecasts on economic growth in **France** in 1999 are slightly more optimistic than the spring ones, ranging between 2.3% and 2.5% (OECD 1999; DWF 1999; IMF 1999). The main lever of economic growth will be stronger domestic demand resulting from higher household income and rising employment (a 1.4% rise was seen last year, around 1.2% is expected this and next year). Domestic consumption will also be the main factor of economic growth in 2000, coupled by an expected rise in exports. Gross domestic product growth is estimated to accelerate further next year, recording rates between 2.6% (OECD 1999) and 3% (IMF 1999; DWF 1999).

Figures on economic activity in the first half of the year suggest that recession tendencies observed since the end of 1998 are gradually waning off in **Croatia**. In the first quarter, gross domestic product dropped by 1.5% year-on-year, whereas the second quarter saw a drop of 0.6%. The second-quarter expenditure structure of gross domestic product shows that private consumption continued to decrease rapidly, the fall in imports, exports and government consumption nevertheless slowed down. Investment consumption started to improve slowly in the second quarter. Despite the slight improvement in the second quarter, international institutions forecast a 1.5% to 2.4% real drop in Croatia's gross domestic product (EIU 1999a; IMF 1999; WIIW 1999b), largely contributed to by a slump in tourism receipts. Estimates for 2000 predict a sustaining of this year's level of economic activity (WIIW 1999b) or 1.5% (EIU 1999a) to 2.5% economic growth (IMF 1999). This should mainly be driven by an upturn in tourism and increased exports to the EU.

International institutions (WIIW 1999a, 1999b; IMF 1999) predict 1.4% to 1.7% average economic growth in **CEFTA countries (excluding Slovenia)** this year; next year, however, it is expected to accelerate to between 2.8% and 3.8%. The autumn forecast of the International Monetary Fund is on average 1.1 percentage point lower than the spring one, the main reason being external factors such as lower exports to the EU and Russia (Poland and Hungary), and the war in Kosovo (Bulgaria and Romania, to a lesser extent

in Hungary). In addition to external factors, lower estimates of this year's economic growth in the Czech Republic and Slovakia mainly stem from internal factors such as restrictive economic policy measures and slow structural reforms. Estimates for 2000 are more optimistic mainly as a result of the expected positive impacts of the economic upturn in the EU and possibly in Russia. Nevertheless, the International Monetary Fund has corrected its spring forecast for 2000 downward by 0.6%, now predicting 3.8% average economic growth in CEFTA countries. Next year, economic growth is forecast to accelerate in all CEFTA countries, except in Slovakia, where restrictive economic policy measures are likely to have a negative impact on domestic private and investment consumption; furthermore, liquidity of the Slovak business sector is deteriorating. The Vienna Institute for Comparative Economic Studies (WIIW 1999), predicting 1.4% average economic growth for CEFTA countries this year (WIIW 1999a; WIIW 1999b), stresses the fall in industrial production observed in the first months of the year in all CEFTA countries (except Hungary) and the growing unemployment, which is related to the winding up of companies due to solvency problems (mainly in the Czech Republic and Slovakia). The Institute estimates that this year Hungary and Poland will achieve the highest growth rates (3.7% and 3.5%, respectively), followed by Slovakia (2%). A real drop in gross domestic product is expected in the Czech Republic, Bulgaria and Romania. Similar to 1999, next year's economic growth should be strongest in Hungary and Poland.

Table 4: Economic and industrial production growth, inflation and current account balance in CEFTA countries

in %

	Real gross domestic product growth		Industrial production growth		Inflation (end-year)		Current acc. balance, as % of GDP	
	1999	2000	1999	2000	1999	2000	1999	2000
Bulgaria	-2.0	2.0	-6.0	3.0	2.0	3.0	-7.5	-6.3
Czech Rep.	-0.7	2.0	-4.3	3.0	2.4	4.0	-2.0	-3.3
Hungary	3.7	4.5	7.0	10.0	9.7	8.0	-5.5	-5.5
Poland	3.5	4.0	2.0	3.0	8.0	7.0	-5.1	-5.5
Romania	-5.0	0.0	-6.0	0.0	50.0	40.0	-7.8	-6.9
Slovakia	2.0	0.0	2.0	-1.0	10.0	10.0	-6.8	-4.8

Source: WIIW, September 1999, WIIW, June 1999 (Bulgaria and Romania)

Countries of South-Eastern Europe, that is two CEFTA countries (Romania and Bulgaria), Croatia, Bosnia-Herzegovina, Macedonia, Albania and Federal Republic of Yugoslavia (FRY), will gain importance in the regional orientation of Slovenia's exports with the implementation of the economic part of the Stability Pact for South-Eastern Europe. These markets

accounted for 15.2% of Slovenia's exports in the first seven months of the year. Furthermore, Slovenia has signed a free-trade agreement with most of these countries. Gross domestic product in South-Eastern Europe, excluding FRY, is estimated to fall by about 3% this year (EIU 1999b), 5.4 percentage points down on the forecast given before the war. Economic growth forecasts for 2000 are more optimistic, with an estimate ranging at around 1.1% on average. The estimate is based on the assumption that there will be an inflow of funding in the form of loans at concessional terms, donations, and direct investment that countries which have signed the pact will earmark for rebuilding and stabilising these economies in the forthcoming years.

After recording exceptionally high growth rates in the first years after the war (33% in 1995, 28% in 1996, 15% in 1997, and 20% in 1998), economic growth in **Bosnia-Herzegovina** has begun to slow down this year. The main reasons are a slump in exports to FRY due to the war in Kosovo and lower exports to Croatia, both of which resulted in a slowing rise in industrial production. However, another reason for the subdued industrial production growth (24% last year and 6% this year, according to EIU estimates) is a slow restructuring process. This year's gross domestic product is forecast to grow between 7% and 8% (IMF 1999; EIU 1999b), with estimates for 2000 ranging between 8% (EIU 1999b) and 14% (IMF 1999). Next year, the volume of economic activity will largely depend on inflows of funding from abroad, coming in the shape of donations, loans and, to a smaller extent, foreign direct investment.

Of all countries neighbouring onto FRY, the one hit hardest by the negative impacts of the war in Kosovo was **Macedonia** because its economy depends highly on trade with Serbia. The breaking of these traditional trade links resulted in a drop in industrial production and the bankruptcy of a number of companies; the unemployment rate is estimated to exceed 35% this year; the Macedonian economy is additionally burdened by around a quarter of a million of refugees. Experts of the International Monetary Fund have corrected downwards their spring forecast of economic growth (5%) by 9 percentage points, and EIU experts by as many as 18 percentage points, forecasting a 15% fall in Macedonia's gross domestic product. The Vienna Institute for Comparative Economic Studies, on the contrary, estimates that this year Macedonia will be able to maintain its gross domestic product growth at last year's level despite lower industrial production. This should mainly be driven by the expected favourable developments in agriculture and services. Economic growth in 2000 will

largely depend on the funds Macedonia will receive in the shape of financial aid and loans at concessional terms under the Stability Pact. This year, the country has received USD 300 million aid for refugees, loans and debt write-offs. Forecasts of economic growth for 2000 range between 0% (WIIW 1999b) and 3% (IMF 1999).

Slovenia's exports of goods to **Russia** have fallen by more than one-half in the first eight months of the year compared to same period last year as a result of the Russian economic crisis. Russia has fallen from 6th to 15th place in the ranking of Slovenia's export markets. Expectations of a revival of the Russian economy are uncertain. In their autumn report, experts of the International Monetary Fund nevertheless corrected economic growth forecasts for 1999 from a 7% fall to stagnation and even predicted 2% economic growth next year. In addition to rising oil prices, which is Russia's main export product, the favourable estimate is based on a consistent implementation of the stabilisation programme and economic reforms. Experts in other institutions are not as optimistic about the situation in Russia, forecasting that its recession will not end this year (-1%, OECD 1999). Forecasts of 2% growth next year (WIIW 1999a; OECD 1999) were accompanied by warnings that the situation is still precarious and is conditioned by a number of external and internal factors: the war in the Caucasus, disbursement of a loan from the International Monetary Fund, and parliamentary and presidential elections.

4 GROSS DOMESTIC PRODUCT - Given high domestic demand this year, the slowdown in economic growth will be weaker than estimated in spring

4.1. PRODUCTION STRUCTURE OF GROSS DOMESTIC PRODUCT - Growth in value added slower than gross domestic product growth

According to the estimates of SORS, gross domestic product **in the first half of this year** increased by 4.5% in real terms compared to the same period in 1998. Dynamic growth was particularly evident the second quarter (6.4% year-on-year; in the first quarter it was 2.5%) and was mostly due to higher consumption before the introduction of value-added tax. The effect of expectations surrounding the introduction of value-added tax, which resulted in substantial growth of value added in the second quarter, is also reflected in the value-added growth structure. Compared to the second quarter of 1998, the highest real growth in value added in the second quarter of this year was recorded in construction (22.6%) as well as in wholesale and retail trade and repair (16%), whereas in manufacturing it increased by only 0.8% in real terms. In the first half of 1999, growth in value added was 0.7% below the gross domestic product growth in real terms. The difference between real growth rates of value added and gross domestic product is a consequence of the substantial growth of net taxes on production and imports in the second quarter of this year (14.7% year-on-year) due to increased domestic consumption and imports before introduction of the value-added tax.

In the second half of the year, more moderate gross domestic product growth is expected, mainly due to lower consumption than in the first half of the year when it increased as a result of expectations before introduction of the value-added tax. Economic activity in the second half of the year will be favourably influenced by higher economic growth in the European Union; gross domestic product is expected to grow by 3.5-4% **in 1999**, and 4%-economic growth is expected **in 2000**. The higher growth in 2000 may be attributed to the faster growth of services and, particularly, to a revitalisation in manufacturing, which is in line with the forecast improvement in the economic situation of the most important trading partners (for details see Chapter 3).

According to estimates, real growth in value added will be recorded in all sectors

GROSS DOMESTIC PRODUCT

Table 5: Value added by sectors and gross domestic product

	Structure in %, current prices				Real growth rates in %, 1995 constant prices		
	1997	1998	1999 estimate	2000 estimate	1998	1999 estimate	2000 estimate
A Agriculture, forestry, hunting	3.7	3.4	3.4	3.3	2.2	2.0	2.0
B Fishing	0.0	0.0	0.0	0.0	-2.3	0.0	0.0
C Mining and quarrying	1.2	1.1	1.0	0.9	1.4	-5.0	-5.0
D Manufacturing	24.3	24.0	23.6	23.6	5.1	2.7	3.8
E Electricity, gas and water supply	2.5	3.0	2.7	2.6	2.6	-5.0	0.0
F Construction	4.9	5.0	5.3	5.4	3.9	10.0	7.0
G Wholesale and retail trade, repair	10.1	10.0	10.0	10.1	4.1	5.0	5.0
H Hotels and restaurants	2.7	2.6	2.5	2.5	2.5	2.5	4.0
I Transport, storage and communications	7.0	7.2	7.1	7.1	5.4	3.5	4.0
J Financial intermediation	3.7	3.7	3.7	3.7	2.7	4.0	5.5
K Real estate, renting and business activities	10.0	10.1	10.0	10.0	2.8	3.0	4.3
L Public administration, defence and social security	5.1	5.1	5.0	5.0	2.1	2.5	4.2
M Education	5.0	4.9	4.8	4.8	2.8	2.7	4.3
N Health and social work	4.6	4.6	4.5	4.5	3.8	3.0	3.2
O Other community, social and personal activities	3.0	3.1	3.1	3.1	4.2	4.0	4.0
FISIM	-2.0	-2.0	-2.0	-1.9	0.8	2.0	1.5
1. VALUE ADDED (A ... O + FISIM) in basic prices	86.1	85.7	84.8	84.9	3.9	3.2	4.1
2. Net corrections (taxes on products and services - subsidies)	13.9	14.3	15.2	15.1	4.0	6.8	3.3
3. GROSS DOMESTIC PRODUCT (3 = 1+2)	100.0	100.0	100.0	100.0	3.9	3³/₄	4.0

Source: SORS; estimate: IMAD.

except mining and quarrying and in electricity, gas and water supply. After a two-year break, the value added of services is expected to grow faster again than the value added of industry and construction. This year, services are also recording favourable trends in the field of employment. The number of people employed increased in the first seven months in all services (in total by 4.3%), mostly in health and social work (by 9%), financial intermediation (by 8.8%), other public community and personal services (by 7.3%), hotels and restaurants (by 5.6%), and real estate, renting and business activities (by 5.5%).

In the first half of the year, value added in **agriculture, forestry and hunting** was 2.2% higher than in the same period last year. The data, mostly estimates, on crop yield in 1999 show that the crop yield was lower but of higher quality than last year. Slightly better results in terms of quantity were also obtained by stockbreeders in the first eight months of 1999 compared to last year.

This year's yield of early cereals is lower (wheat down by 30%), mostly because the ground was too wet during the autumn sowing time. Less corn (down by 6% in grain and by 11% in silage) and hops (down by 20%) is also expected. The potato yield will remain at last year's level, whereas a more abundant yield of sugar beet, which generates high income, is expected (up by 25%). After last year's minimal crop, the harvest of early fruit sorts in 1999 was plentiful. There was an abundant harvest of berry fruit, which were planted on an area larger by two thirds. The late fruit and grape crop is expected to be average but of a very good quality, which is good for both fruit growers – they will sell fruit at higher prices – and for wine growers, who still have problems with unsold wine from last year's big harvest.

The purchase of milk continues to rise; in the first eight months it was 6% higher than in the same period last year and caused problems to dairies as regards the purchase from and payment to milk producers. The number of pigs in August was 5.6% higher than in August 1998; it increased more on family farms than in agricultural enterprises. The slaughterhouses report a higher number of animals killed (cattle up by 3%, pigs up by 20%), except for poultry (down by 5%). On the basis of current trends, it is estimated that **value-added growth** in the sector of agriculture, forestry and hunting in 1999 and 2000 **will be approximately 2%**.

In autumn EU inspectors found irregularities in certain slaughterhouses and requested immediate action. Until such irregularities are eliminated, the Veterinary Administration of the Republic of Slovenia forbade eight slaughterhouses to export certain sorts of meat and meat products. It is hard to foresee the consequences of such a measure; the worst case scenario would result from a negative influence on public opinion that would also be felt by national breeders. A fall in demand on the domestic market would lead to excess supply, also due to the mandatory import quotas for meat and live animals in accordance with existing trade agreements.

The main activity in **mining** concerns fuels, i.e. lignite and brown coal, accounting

for approximately 85% of value added in this industry. The energy balance in 1999 forecasts a drop in lignite and brown coal extraction of 5% in comparison with 1998. Although SORS data on fuels in the first eight months of the year point to an 18.8%-fall compared to the same period last year, this is mostly due to different monthly extractions in the years under consideration and it is estimated that the production drop in the mining industry will be consistent with the above balance frameworks at the end of the year. On the contrary, the output of non-fuels in mining in the first eight months of this year is almost 25% above that recorded in the same period last year. Based on these trends, it is estimated that **this year's value added in mining will drop by approximately 5% in real terms**. In 2000, this trend will probably continue and an **approximately 5%-drop in value added in real terms** is expected. The draft law on the gradual closing of the Trbovlje-Hrastnik mine, the ecological improvement of the Trbovlje II thermal power plant and the promotion of developmental restructuring of the Zasavje region foresee the closing of the mine in the period between 2000 and 2019, but the wording of the proposed law does not define the planned trend of annual extraction quantities in the same period, therefore its influence on value-added growth in 2000 still cannot be estimated.

The production volume in **manufacturing** in the first nine months of the year went down 1.1% over the same period last year. However, the production of food, beverages and tobacco as well as of transport equipment rose in the first nine months (2.7% and 5.3%, respectively, over the same period last year). The production of leather and leather products was 20.7% lower than last year (the biggest drop in manufacturing). With regard to the end-use product groups, an increase in the nine-month period was recorded in the production of capital goods (up by 2.7 percent). The other two groups of producers continued to produce less than in the same period last year (consumer goods went down by 3.1% and intermediate goods by 2.1%). The subsectors which are mostly export oriented⁵ produced less than in the same period last year (-1.9%), whereas others increased the production volume by 0.7%. The volume of product stocks in the first nine months was 3.1% higher than in the same period last year, but stocks recorded a declining trend. The stock of capital goods and consumer goods shrank particularly before introduction of the value-added tax. The number of employees in manufacturing in the first nine months of the year fell by 3.4% over the same period last year, which contributed to 2.4%-growth in labour productivity.

⁵ More than 50 percent of operating income is generated on foreign markets (according to statistical data from the balance sheet and profit and loss statement for 1998).

The composite indicator of confidence started to rise in the summer months mostly because of the favourable production expectations for the following three to four months. In the same period, the total volumes of orders increased (following their worsening at the beginning of the year), whereas final-product stocks fell which also contributed to the favourable result. Following a slight worsening in September, the October survey on business trends in manufacturing indicated an improvement in the confidence indicator. The improvement was due to higher orders, but the production expectations for the next three to four months dampened the rise in the confidence indicator (production expectations in October improved only in small companies). Worse production expectations in this period of the year are typical since managers in their estimates take into account the slowdown of production activity towards the end of the year; this was also the case in the past four years.

According to preliminary data, exports of manufactured goods (regardless of the basic activity of importer or exporter) in the first eight months of the year increased by 4% in real terms compared to the same period last year, while imports increased by 8.7%. In the first six months, compared to the same period last year the value added in manufacturing increased by 1.7% in real terms (2.7% in the first quarter, 0.8% in the second, year-on-year). Given the improving economic situation in Western Europe in the summer months, which can also be observed in the growth of industrial production of EU Member States, and the favourable expectations in these economies in the second half of the year, estimates indicate that growth will continue until the end of the year. It is estimated that in 1999 **value added** will improve by some **2.7%**. In 2000, the anticipated growth in value added is **about 3.8%**.

The slow technological development of the Slovenian economy, particularly in manufacturing which is one of the causes of falling international competitiveness, could represent, according to a recent study of the European Commission (see the National Assembly's *Poročevalac*, 1999), one of the main obstacles in the process of accession to the EU. This led to a draft law on support for companies in the development of new technologies and the setting up and functioning of their research and development units in the period 2000-2003. Its purpose is to modernise the Slovenian economy and adapt it to the *acquis*, permitting the granting of state aids to the economy to promote technological development. The proposed law foresees a substantial increase of investments in innovatory activities and modern technology at three levels: incentives to individual companies (the setting up and functioning of their research and development units), incentives to regions and economic sectors (the setting up of joint

development units - technology centres and parks), and co-ordination of incentives and existing mechanisms of individual funds and consulting networks.

Implementation of the law could improve Slovenia's position in the **national competitiveness rating** prepared by the International Institute for Management and Development from Geneva (IMD). This year, Slovenia was assessed for the first time and ranked 40th amongst 47 countries; in the category Science and Technology, strongly influencing the final ranking of global competitiveness, it ranked 36th. Despite a relatively better ranking in the said category with regard to global competitiveness, Slovenia's position in the three subcategories of Science and Technology is critical: Scientific Environment (44th), Technology Management (43rd) and Research and Development Personnel (38th). Given the strong correlation between the three subcategories and global competitiveness, such a position is alarming. Particularly in the subcategory Technology Management Slovenia is almost the last in three out of five indicators (company-university co-operation – 46th, support of development and application of technology from the legal environment – 46th, relocation of R&D facilities outside the country as an obstacle and threat to the economy – 42nd). In order to see how an improvement to indicators in the category Science and Technology could improve the final ranking of Slovenia's national competitiveness, a few more years will have to pass; the elimination of bad marks (particularly in industry) is however absolutely necessary and the abovementioned proposed law could well be the first step towards it.

The biggest share of value added (approximately 80%) in the **electricity, gas and water supply** sector is generated by electricity production. The energy balance in 1999 forecasts a 5%-fall in total electricity production (measured in produced MWh). According to data from ELES, in the first nine months compared to the same period last year, total electricity production dropped by 4.8%, whereby in conventional thermal power plants and in the nuclear plant it went down by 15.5% and 8.8%, respectively, whereas in the hydroelectric power plants it was one-sixth higher. The energy balance forecasts that gas supply will go down by 4% and the production and distribution of thermal energy in 1999 will rise by 2.5%. On the basis of available data on electricity production and forecasts of the energy balance, it is estimated that **electricity, gas and water supply will see a 5% real decrease in value added this year**. No major change in value added in real terms is anticipated in 2000, also subject to the possible agreement with Croatia on the renewed supply of electricity from the nuclear plant in Krško and on the possible influence of the reconstruction

of TET II on the total production. The recently adopted **Energy Act** will not have a direct influence on electricity production in 2000. Foreign suppliers of electric energy will be able to compete with Slovenian suppliers from 1 January 2003, whereas the electric energy market for domestic suppliers will open 18 months after the enforcement of the act (a year and a half before the arrival of foreign suppliers). Apart from a relatively long period before the arrival of foreign competition, the act affords protection to domestic producers in the form of the right to assistance in solving the problem of stranded investments (which in a market economy are not profitable). Consumers (with a maximum demand of 41kW per consumer) and distributors will be able to freely choose their supplier of electric energy, and the organiser of the market will be entitled to give precedence in the balancing of offers to qualified producers (co-generation of electric and thermal energy, production of electricity from recycled sources...) and producers who use domestic fuels (in the volume of up to 15% of primary energy, necessary for electricity production in Slovenia). Given these limitations, it is difficult to estimate how the free market will actually function.

The number of employees in **construction** increased from January until July by 2.1% compared to the same period last year, while total number of individual private entrepreneurs and persons employed by them increased by 4.8%. From January until July, construction companies completed construction works of a total value of SIT 141 million, which is a 37%-increase in real terms compared to the same period last year. According to seasonally adjusted data, the value of completed construction works in the first quarter of the year increased by 6.7%, and in the second by 42.2% compared to the previous quarter. Substantial growth in the second quarter was mostly due to the expectations surrounding the introduction of value-added tax at the beginning of July (construction activities began to increase in March, reached the top in June and calmed down again in July). Data on completed construction works abroad are only available for the first trimester when the value of construction works was SIT 1.9 million or 10% of the total value last year. Compared to the total value of agreements abroad (SIT 38.4 million), in the first quarter of the year only 5% of the contractual obligations were met. Value added in construction increased by 14.7% in real terms in the first six months of the year. On the basis of current trends and employment increases in construction (in the first seven months it was up by 1.3% at the annual level), it is estimated that favourable trends in construction will continue. In 1999 value added in construction is expected to increase by 10% in real terms, and in 2000 by a further 7%.

GROSS DOMESTIC PRODUCT

Following unfavourable trends at the beginning of the year when total turnover in **retail trade** and motor vehicle sales was below last year's results, from March to June the situation improved and, in July as expected, total turnover fell (compared to July 1998, total turnover increased in real terms only in the sales of automotive fuels as a consequence of the introduction of excise duty for mineral oils and gas which is now included in turnover). According to preliminary data, in the first seven months of the year turnover was 3.8% higher in real terms than in the same period last year, whereas in July it went down by 7.7% compared to July 1998. This year's turnover growth is mostly due to higher motor vehicle sales where in the first six months of the year turnover increased by 62.2% in real terms year-on-year (in June by 144.4%, compared to June 1998). The number of new passenger cars registered in this period increased by 43%, with the number of motorcycles rising by 37.3%. The reason for this lies in expectations of higher prices after the introduction of value-added tax, which was also reflected in the rise of bank loans usually taken out to finance major purchases. Real turnover growth in the first six months was also recorded by sales of textiles and leather products (13.9%), sales of furniture, household equipment and construction material (15.6%) and other specialised non-food stores (4.8%), whereas the sales of automotive fuels in the same period continued to fall (21.5% less turnover in real terms). In the first half of the year, the turnover structure continued to change in favour of large companies. Consequently, the turnover of large companies relative to total turnover increased from 67.4% in January to 71.3% in July.

In the first half of the year value added in trade increased by 9.7% in real terms compared to the same period last year, mostly due to substantial value-added growth in the second quarter (up by 16% compared to the second quarter of 1998). In the second half of the year, particularly in the third quarter, trends in trade are expected to calm down. Results of the September survey on business expectations of companies or their managers indicate an improvement in business expectations for 2000, based on expectations of greater export and domestic sales (50% of all persons responding to the survey). On the basis of the available data, it is estimated that the sector of trade, repair of motor vehicles and consumer goods **in 1999 and in 2000 will achieve about 5% real growth in value added.**

According to preliminary data for the first nine months of the year, the number of tourists and overnight stays was 4.6% and 5.2% lower respectively than in the same period last year. This was caused by a decline in the number of

foreign tourists by 12.4% and in their overnight stays by 13.3%, which could not be compensated for by the higher number of domestic tourists and overnight stays (up by 4.8% and 2.4%). In this period, the number of overnight stays of Germans, the most numerous of Slovenia's foreign tourists, went down by 20.8%, while those of Austrians fell by 6.7% and of Italians by 14.5% compared to the same period of 1998. Overnight stays of foreign tourists represent 44.7% of total overnight stays (48.9% last year), whereas in the total number of tourists foreigners accounted for more than one half (50.3%; 54.7% in the same period last year). The expectations of people working in tourism, hoping for a higher number of foreign tourists in August, did not come true; in the same month the number of tourists in transit through Slovenia heading for Croatia rose, which indicates that the proximity of the war in the Balkans and the accident in the Tauerntunnel are not the only reasons for this year's low number of tourists. Other reasons for fewer foreign tourists are probably the scarcely recognised identity of Slovenia in the international tourist market (indicated by the analysis of the International Institute for Tourism concerning the behaviour of tourists in EU countries), products being undeveloped in marketing terms, reconstruction of accommodation capacities and infrastructure during the main season and the relatively high hotel rates with regard to the quality of their services.

In the first eight months of the year, foreign exchange receipts from tourism in the amount of USD 673 million were 10% lower in real terms than in the same period last year. An increase was only recorded in remittances to tourist companies (up by 17.3% in real terms), which is at the same time the only item within tourism receipts that is directly included in the sector of hotels and restaurants (payments to hotels and other accommodation capacities, excluding tourist agencies).

In the first half of the year, value added in the **sector of hotels and restaurants** went up 3.1% in real terms over the same period last year. Given the current trends and real growth of remittances to tourist companies, more persons employed (up by 5.6% in the first seven months) and higher salaries (up by 2.7% in real terms in the first seven months), it is estimated that **value-added growth in real terms** in the sector of hotels and restaurants will be at **about 2.5% in 1999**, while in **2000** it is forecast to be at **about 4%**. On 1 July 1999, the Slovenian Government established the Foundation for the Promotion of Tourism, which will finance the construction of tourist infrastructure and the restoration of cultural heritage. Because of disagreements about the allocation of funds, the Foundation does not function yet and the possible positive

effects on value-added growth in the sector of hotels and restaurants in 2000 are still uncertain.

In the sector of **transport, storage and communications**, according to SORS data in the first eight months (compared to the same period last year) the volume of operations increased in airport passenger transport (by 12.4%) and air passenger transport (by 12.2%), as well as in sea freight transport (by 8.8%) and harbour freight transport (by 6.0%). In land, freight and passenger transport the volume of operations (compared to the same period last year) decreased, mostly in road freight transport (by 7.1%) and road passenger transport (by 6.4%), in railway passenger transport (by 5.9%) and urban passenger transport (by 3%) and in railway freight transport (by 2.6%). The volume of postal services increased by 17.9%. Subscriber's numbers on the fixed network are increasing. According to SORS data, at the end of 1998 the figure was 771,320 which means 39 subscribers per 100 inhabitants, while by the end of 2000 the Ministry of Transport and Communications expects the figure to rise to 44 subscribers per 100 inhabitants. The number of mobile phone holders is growing even faster. At the end of 1998, the number was 195,360 or 10 per 100 inhabitants, and at the beginning of October 1999 it was almost 500,000 or more than 25 subscribers per 100 inhabitants. In the first nine months the number of mobile phone holders grew by 2.5 times. Telecommunications are estimated to exceed 10%-growth in value added. On the basis of the aforementioned trends and the weight of land freight and passenger transport in the calculation of value-added growth, it is estimated that transport, storage and communications in **1999** will see **about 3.5% real growth in value added** (one percentage point less than forecast in spring). If the trends improve, similar or higher growth can be expected **in 2000 (of about 4%)**.

4.2. THE EXPENDITURE STRUCTURE OF GROSS DOMESTIC PRODUCT - Domestic demand is the main growth factor in 1999, domestic and foreign demand will be more balanced in 2000

Current economic developments indicate that trends in 1999 were more favourable than expected and forecast in spring. Domestic consumption increased considerably; the expected effects of the introduction of value-added tax led to greater purchases of durable consumer goods (particularly cars, white goods

and furniture). Real impetus was seen in construction investment as well as in investment in equipment. A great part of the effects of higher domestic demand in the first half of the year was transferred abroad and generated increased imports. The latest estimates indicate that in 1999 the real growth in imports of goods and services (7.2%) will considerably exceed the spring estimates (4.7%). Part of the acceleration or multiplication effects of higher domestic demand was reflected in increased domestic economic activity (see Chapter 4.1.).

Higher domestic demand at the beginning of the year will apparently be substituted by the end of the year with an improvement in export demand. The SORS September survey on business trends in manufacturing indicates that the managers who responded to the survey expect domestic demand to slow down and export demand to increase in the coming months. According to Eurostat data, in May 1999 the period of falling industrial production in the EU on average, which had started in November 1998, was over. Autumn forecasts of economic growth in the EU in 1999 are more optimistic than the spring ones and range between 1.8% and 2.1% (for details see Chapter 3). Taking into account the current economic developments in the international and domestic environments and the foreign forecasts of faster growth of gross domestic product and imports in Slovenia's most important trading partners, the autumn estimates of the national accounts indicate that Slovenia **could achieve 3.5- to 4-percent economic growth in 1999, and 4 percent in 2000.**

Table 6: Growth in aggregate demand components

	Real growth rates in percent				
	1996	1997	1998	1999	2000
Total aggregate demand	3.6	6.2	5.1	4.5	4.4
of which:					
Foreign demand (exports)	3.3	11.3	7.0	3.6	4.5
Domestic demand	3.7	5.0	4.6	4.7	4.3
- intermediate consumption	3.4	4.6	3.9	3.1	4.1
- private final consumption expenditure	2.4	3.3	2.3	3.7	2.0
- government final consumption expenditure	3.6	4.3	5.6	5.1	5.3
- gross fixed capital formation	9.2	11.3	12.9	14.0	9.0

Source: SORS, National Accounts estimates: IMAD.

It is estimated that the rise in this year's total **domestic demand** (up 4.7%) will be slightly higher than last year (4.6%). In 2000, growth in domestic demand is expected to be more correlated with growth in gross domestic

GROSS DOMESTIC PRODUCT

product, and will rise by 4.3%. Among main domestic demand aggregates, highest growth has been recorded in investment demand; it is expected that gross fixed capital formation will achieve 14%-real growth this year, which considerably exceeds the growth of final consumption expenditure (4.1%). Given the length of the production cycle in construction⁶, investment growth should continue into 2000, although at a more moderate pace. Gross fixed capital formation is estimated to rise by 9% in real terms in 2000. In 1999, growth in private final consumption expenditure (3.7%) will be higher than in the previous three years. Given the strict legal framework of the incomes policy in 2000 and the high comparative basis due to this year's substantial purchases of durable goods, a moderate rise in residential household expenditure is expected in 2000 (2% in real terms). Government final consumption expenditure this year increased more slowly than last year (5.1% and 5.6%, respectively). Taking into account the proposed state budget for 2000, the rise in government final consumption next year will be 5.3%. Following the introduction of value-added tax, it is expected that taxpayers will try to reduce liquid assets bound by deductible tax by continuing to rationalise stocks in the second half of the year (a decrease of stocks or increase in the turnover of stocks is expected).

Table 7: Gross domestic product by expenditure

	Structure in %, current prices				
	1996	1997	1998	1999 estimate	2000 estimate
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
External balance of goods and services (exports-imports)	-1.0	-1.2	-1.4	-2.7	-3.2
Domestic final consumption and gross capital formation	101.0	101.2	101.4	102.7	103.2
- Private final consumption	57.3	56.5	55.6	55.8	54.7
- Government final consumption	20.2	20.5	20.6	20.8	21.1
- Gross fixed capital formation	22.6	23.5	24.2	25.8	27.1
- Changes in inventories	0.9	0.7	1.0	0.3	0.3

Source: SORS; estimate: IMAD.

In the expenditure structure of gross domestic product, the share of final consumption is gradually decreasing, whereas the share of gross fixed

⁶ The construction cycle is usually longer and its multiplication effect (direct and indirect) on production is one of the strongest in the economy. Last year, the total production multiplier in construction (indicating the volume of production in all sectors of the national economy, directly and indirectly required to satisfy demand of construction services) was 2.18.

capital formation is increasing. The share of final consumption fell from 1995 to 1999 by 1.8 percentage points (to 76.5 percent of gross domestic product in 1999), whereas the share of gross fixed capital formation increased by 2.8 percentage points (to 25.8 percent of gross domestic product in 1999). The decreased share of final consumption in the period concerned goes exclusively on the account of the lower share of household expenditure in gross domestic product (from 57 percent in 1995 to 54.7 percent in 1999). Government final consumption in real terms has been increasing more rapidly than private final consumption in the last four years, and the share of government final consumption in gross domestic product has risen from 20.2 percent in 1995 to 20.8 percent in 1999, and will reach 21.1 percent of gross domestic product in 2000.

The rise of **foreign demand**, following substantial growth in 1997 (11.3 percent), slowed down considerably in 1998 (7 percent). Because of the lower industrial production in Slovenia's most important trading partners in the first half of the year, it is estimated that this year's growth in export demand will continue to slow down despite the increase of export orders in the second half of the year (growth will fall from 7% in 1998 to 3.6% in 1999). Despite the recovering of economic growth in major trading partners, no significant improvement in export trends is expected next year, as terms of trade are expected to be worse by 0.5 of a percentage point. In 2000 exports are estimated to increase by 4.5% in real terms.

Compared to 1998, this year the share of exports of goods and services in gross domestic product will fall by 1 percentage point; the share of imports of goods and services will rise by 0.3 of a percentage point. Given the expected export-import trends, the deficit in goods and services trade will reach 2.7% of gross domestic product in 1999 (in 1998 it was 1.4% of gross domestic product), and 3.2% of gross domestic product in 2000.

Owing to positive factor income and current transfer balance, the **gross national disposable income** in 1998 was higher than gross domestic product (by 1.3 percentage points). A positive income and current transfer balance (amounting to 1.3% of gross domestic product) is also expected in 1999. Due to higher consumption before the introduction of value-added tax, savings in 1999 decreased. After covering national final consumption, gross savings in 1998 accounted for 25.1% of gross domestic product, and in 1999 they fell to 24.8%. The level of savings will not be sufficient to cover domestic investment, which will be financed by net borrowings (negative current transfer balance on foreign accounts in the amount of 1.3% of gross domestic product). Economic growth in 1999,

GROSS DOMESTIC PRODUCT

which will be achieved by increased net inflow of foreign savings, cannot be estimated as extremely favourable if we take into account that economic growth in the previous five years (excluding 1996) was faster and current transfers were nearly balanced. Next year, economic policy is expected to be more successful in providing national savings. The share of this key macroeconomic category in gross domestic product, which influences future economic development, is likely to grow again in 2000 (to 25.8% of gross domestic product). Such level of savings would finance fixed capital formation, which in 2000 is expected to increase by 9% in real terms, accompanied by a modest level of borrowing (1.6% of gross domestic product, or USD 350 million).

Table 8: Supply and use of resources

	Structure in percent, current prices				
	1996	1997	1998	1999 estimate	2000 estimate
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
Net primary income with the rest of the world	0.8	0.7	0.7	0.6	0.8
GROSS NATIONAL INCOME	100.8	100.7	100.7	100.6	100.8
Net current transfers with the rest of the world	0.3	0.6	0.6	0.8	0.8
GROSS NATIONAL DISPOSABLE INCOME	101.2	101.3	101.3	101.3	101.6
Final domestic consumption expenditure	77.5	76.9	76.3	76.5	75.8
GROSS SAVINGS	23.7	24.3	25.1	24.8	25.8
Current account balance	0.2	0.1	-0.1	-1.3	-1.6
GROSS CAPITAL FORMATION	23.5	24.2	25.2	26.2	27.4
of which: gross fixed capital formation	22.6	23.5	24.2	25.8	27.1
NET CAPITAL FORMATION	5.4	6.2	7.0	8.0	9.2

Source: SORS; estimate: IMAD.

4.3. COST STRUCTURE OF GROSS DOMESTIC PRODUCT - Further reduction of the share of total labour costs in gross domestic product

The positive developments recorded in the cost structure of gross domestic product in the last three years **continue in 1999**. Because of the lagging of the nominal growth in total wages and other labour costs behind nominal growth in gross domestic product, it is expected that the share of total labour costs (compensation of employees) in gross domestic product will be further reduced (from 52.3% in 1998 to 51.7% in 1999 and 51.2% in 2000). On 1 July 1999, the Slovenian tax system was fundamentally changed through the introduction of value-added tax. This year's estimated percentage of taxes on products and services is 5.9% (about SIT 30.7

billion) higher than the one forecast in spring. The increased taxes on products and services with regard to the spring forecasts are partly due to domestic consumption which was higher than expected. Value-added tax with the system of double-checking allows a more efficient collection of taxes than under the former sales tax system. Upon the introduction of value-added tax, the share of taxes on products and services in gross domestic product is expected to increase (from 14.3% in 1998 to 15.5% in 1999), which is connected with the impact of value-added tax on the reduction of tax evasion. Given the expected increase of excise duties in 2000, it is estimated that the share of taxes on products and services will rise further to 15.6% of gross domestic product. As customs tariffs and import duties have been reduced, their shares in gross domestic product have fallen from 3.5% in 1995 to 1.2% in 1999. Cutbacks in customs tariffs and import duties are also forecast for next year, as a result of implementing the Europe agreement between Slovenia and the EU, as well as some other free-trade agreements.

Table 9: Cost structure of gross domestic product

	Structure in percent, current prices					
	1995	1996	1997	1998	1999 estimate	2000 estimate
1. COMPENSATION OF EMPLOYEES	57.2	54.8	53.6	52.3	51.7	51.2
2. TAXES ON PRODUCTION AND IMPORTS	17.0	17.4	17.0	17.6	18.7	18.5
2a. taxes on products and services	13.1	13.4	13.3	14.3	15.5	15.6
2b. import duties	3.5	3.0	2.0	1.5	1.2	1.0
2c. other taxes on production	0.4	1.0	1.7	1.9	1.9	1.9
3. SUBSIDIES	2.2	2.1	2.1	2.2	2.2	2.1
4. GROSS OPERATING SURPLUS	17.1	19.1	21.1	22.0	22.0	22.2
5. GROSS MIXED INCOME	10.8	10.8	10.3	10.3	9.9	10.1
6. GROSS DOMESTIC PRODUCT (6=1+2-3+4+5)	100.0	100.0	100.0	100.0	100.0	100.0

Source: SORS; estimate: IMAD.

5 INTERNATIONAL TRADE AND COMPETITIVENESS

5.1 INTERNATIONAL COMPETITIVENESS - The levels achieved so far will be maintained in 1999 and 2000

In 1999, the **improvement in price competitiveness** of Slovenian manufacturing will be achieved through strong depreciation of the tolar in the first half of the year, **cost competitiveness**, on the other hand, will be maintained at the 1998 level on the assumption that unit labour costs will increase in the important trading partners.

Excess demand for foreign currency in the exchange market for enterprises, resulting from the growing current account deficit and a stronger US dollar in international foreign exchange markets, caused the tolar to fall by 3.5% in real terms against the basket of currencies of the seven most important OECD trading partners⁷ in the first half of the year when measured by relative consumer prices, or 5.8% on the basis of relative industrial producer prices. An intervention by the Bank of Slovenia in July stopped the nominal fall of the tolar against the euro, whilst the real effective exchange rate rapidly appreciated up to October as a result of a quick increase in relative consumer prices (higher monthly price increases after the introduction of value-added tax). September's effective exchange rate of the tolar was only 0.7% lower than in December in real terms, but 5.8% lower if measured by industrial producer prices, which did not rise significantly after the introduction of value-added tax. Over the first nine months of the year, the real value of the tolar fell by 0.5% (CPI) and 2.3% (PPI) against the same period last year.

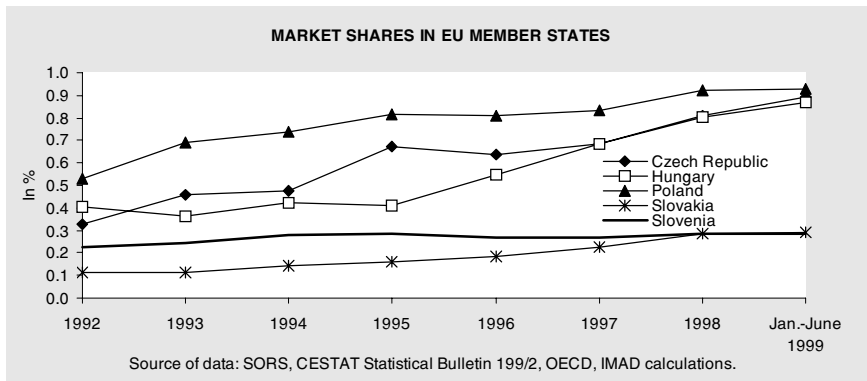
This year, price competitiveness of Slovenian goods in the US dollar areas was significantly better than last year. Over the first seven months, the tolar depreciated by 1% in real terms against EU currencies; the average seven-month price competitiveness of Slovenian goods in EU markets was similar to last year's, even on the basis of relative consumer prices. At the same time, prices of Slovenian goods were less competitive compared to Croatian ones as a result of rapid real appreciation of the tolar against the Croatian kuna in the first quarter of 1999; price competitiveness was down 1.7% compared to December 1998 and 4.4% against the seven-month average. Despite the strong depreciation of the tolar against CEFTA-4 currencies this year (the

⁷ Against the German mark, Austrian schilling, Italian lira, French franc, US dollar, pound sterling, and Swiss franc.

Czech koruna, the Hungarian forint, the Polish zloty, and Slovak koruna; 4.5% in July over December 1998), the seven-month average reveals that price competitiveness of Slovenian goods worsened compared to the same period last year (by 2%).

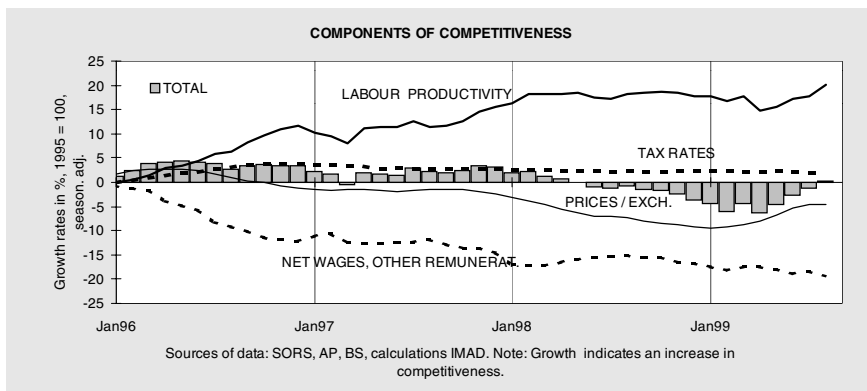
Favourable exchange rate movements, coupled with May's rise in production and the related productivity of Slovenian manufacturing, caused a halt in the trend of deteriorating cost competitiveness, observed for more than one year. Owing to an accelerated four-month fall observed in the middle of the year, unit labour costs against the basket of currencies were 3.8% lower in August over December, but were still 2.3% higher in the first eight months of 1999 compared to the same period of 1998. Labour productivity only improved by 0.6%, which was due to the fall in production at the end of last year and the beginning of this year and the compensation per employee rising by 2.5% in real terms at the same time. The available data for the first half of 1999 show that labour productivity stagnated in the manufacturing sectors of Hungary, the Czech Republic and Poland (CEFTA-3) compared to the same period last year (similarly in Slovenia), the real rise in wages was around 2 percentage points higher than in Slovenia, all of which resulted in a slight improvement in the cost competitiveness of Slovenian manufacturing in relation to the CEFTA-3 average. Nevertheless, particularly Czech and Hungarian export performance in EU markets was significantly better than Slovenia's this year. In the first half of the year, the Czech Republic increased its market share in EU member-states by 10.1% compared to the average of 1998, Hungary by 7.9%, Slovakia by 1.8%, Poland by 0.7%, and Slovenia by only 0.4%.

Following the Bank of Slovenia's intervention, the tolar again started to



depreciate against the euro at the end of September. Even though the tolar is very likely to appreciate in real terms against the basket of currencies before the end of the year, the tolar is estimated to depreciate in real terms on average in 1999; around 0.5% on the basis of relative consumer prices and 2 percentage points more on the basis of relative producer prices. If labour productivity in manufacturing rises gradually before the end of the year and records about 2%, which is also the rate at which real compensation per employee is forecast to increase, unit labour costs against the basket of currencies will rise at about 0.6% this year. The available data show that unit labour costs in important trading partners will increase at about the same rate (0.8%), which suggests that cost competitiveness of Slovenia manufacturing will remain at last year's level.

Price competitiveness of Slovenian manufacturing is likely to **fall again in 2000**. The estimated 1.4% appreciation of the tolar measured by relative consumer prices will be brought about by the forecast weakening of the US dollar next year (1.76 DEM against 1 USD compared to 1.82 DEM against 1 USD in 1999) and this year's movements in the exchange rate of the tolar (depreciation in the first and appreciation in the second half of the year). As this year's trends in production by the manufacturing sector are likely to have the opposite effect (a 3% rise), the rise in labour productivity will be stronger in 2000 than this year (around 4.7%). With an estimated 2.6% real rise in compensation per employee, unit labour costs against the basket of currencies will increase by around 0.6%. The trend of maintaining cost competitiveness of Slovenian manufacturing at the same level will continue in 2000 provided that forecasts of a subdued rise in unit labour costs in important trading partners (by around 0.4%) prove correct.



5.2 EXPORT-IMPORT FLOWS AND THE BALANCE OF PAYMENTS - A roughly balanced current account moves into deficit

Even though real import trade flows were expected to increase more quickly than export flows, the gap between increases in exports and imports of goods, coupled with the additional impact of value-added tax, will affect international trade more than expected in spring. The rise in imports of goods greatly exceeded expectations, particularly in the second quarter. The foreign trade deficit almost rose to last year's level in the first half of the year alone, and will be larger than forecast in spring. Even though the deficit in the current account of the balance of payments started falling after the introduction of value-added tax, it will not come close to the equilibrium seen in the 1995-1998 period.

In the first eight months of this year, exports and imports of goods rose by 4% and 8.1%, respectively, in real terms compared to the same period last year. The significant real rise in imports was mainly due to increased domestic demand and purchases before the introduction of value-added tax. June's imports of goods reached a record high level, real exports of goods, on the other hand, stagnated, which resulted in the largest monthly trade deficit since 1992 (USD 265.3 million). The end-use structure of goods traded reveals that imports of investment goods increased the most in the first eight months of this year against the same period last year (21.8%). This was largely the result of imports of machinery and equipment, electrical machinery and appliances, and other investment goods, which suggests that domestic investment activity is on the increase. This will contribute positively to economic development. Imports of intermediate goods only rose by 2% in real terms as a result of decreasing industrial production. Imports of consumer goods recorded an 11.1% real rise, mainly driven by imports of other consumer goods, medical and pharmaceutical products.

The political and economic situation in the most important trading partners, such as the war in Kosovo, economic recession in Croatia and the Russian crisis, caused a **stronger geographical orientation of Slovenia's trade towards EU member-states**. In the first eight months, real exports and imports of goods to and from EU countries rose by 7.5% and 8.6%, respectively, compared to the same period last year. With approximately the same fall in both export and import prices, the trade deficit with EU

countries rose by USD 45.6 million, totalling USD 766.9 million. The share of goods exports to EU markets increased by 2.4 percentage points, representing 66.9% in the first eight months, while the share of goods imports from the EU rose by 0.4 of a structural point, representing 69.1% in the same period. Slovenia's trade is mainly concentrated on five EU member-states: Germany, Austria, Italy, France, and the United Kingdom. In the first eight months, these countries accounted for 88% of total Slovenia's trade with the EU. The highest increase in exports, 13.8% in real terms, was recorded with Germany, which is Slovenia's most important trading partner. A surplus in trade with Germany has been observed since 1992. In the first eight months, it rose by USD 92.5 million compared to the same period of 1998, totalling USD 399.4 million. Exports to the German market represented 31.5% of total exports, 3 structural points more than in the same period last year, while the import share remained at last year's level, accounting for 20.8% of Slovenia's total imports of goods. As Germany's goods imports from non-EU countries increased this year, the elasticity of Slovenia's exports also improved. Products displaying a comparative advantage of Slovenia represented about 55% of exports to Germany. They were mainly products such as non-ferrous metals and other manufactures classified by material, chemical, and various final products (clothing, furniture, and footwear). Products not having a comparative advantage were machinery and transport equipment, which represented 41.1% of goods exports to Germany. Other exports were primary products, whose share was negligible. Of the EU-5 countries, goods exports to France recorded the largest fall in the first eight months of this year, declining by up to 29.1% in real terms, while imports stagnated at the same time. The structural share of those exports fell by 2.6 percentage points to 5.7% in comparison to the same period last year. The fall was mainly the result of a 20% drop in car sales to the French market.

The eight-month exports of goods to countries of the former Yugoslavia fell by 2.3% in real terms against the same period last year, while real imports of goods rose by 2%. Even though Croatia, Slovenia's third most important trading partner having an 8% export share, is gradually coming out of the recession, real exports to Croatia slumped 12.3% in the first eight months compared to the same period last year. In the same period, foreign trade surplus with Croatia narrowed by USD 100 million and totalled USD 161 million. Of all countries receiving the Stability Pact aid, Slovenia most increased its trade with Bosnia and Herzegovina (34% in real terms), whilst trade with other countries of South-eastern Europe is still weak (Yugoslavia, Albania, Bulgaria, Macedonia, and Romania).

According to the balance of payments statistics, the abovementioned foreign trade developments resulted in a nominal increase of USD 228 million in the total trade deficit, expressed in current US dollars, compared to the same period last year, with the total trade deficit now coming in at USD 761.8 million.

Despite the fact that the war in the Balkans has ended, real exports of services dropped by 3.5% in the first eight months against the same period last year. The drop was mainly due to about 10% real fall in tourism receipts, resulting from a slack tourist season. The number of foreign tourists and their overnight stays declined, furthermore, lower cross-border petrol price differences reduced the shuttle trade with neighbouring countries. Exports of transport and construction services also decreased, while positive trends were seen only in exports of other business services. Other services accounted for 22.6% of total invisible exports, a rise of 4 structural points, which is a positive shift in the services export structure because this type of services requires a higher input of know-how and qualified workforce. However, Slovenia's share is still significantly lower compared to developed economies, on average recording about 40% share of such services in the structure of services exports. The lower surplus in services trade was also the result of a 6.8% jump in imports of services in real terms in the first eight months compared to the same period last year. The rise was mainly due to higher expenditure on travel (by 7%), and increased imports of other services (by 17.6%). July's outflows from travel exceeded tourism and travel receipts by USD 15.6 million. The surplus in services trade fell by USD 117.5 million compared to the first eight months of 1998 and totalled USD 231 million. The deficit in the current account of the balance of payments widened by USD 376.2 million compared to the same period last year and amounted to USD 397.5 million, which was mainly the result of the larger trade deficit and lower surplus in services trade.

Net assets on the capital and financial account of the balance of payments slumped in the first eight months of this year as a result of a USD 380.5 million increase in external liabilities. Last year, on the contrary, an increase of USD 53.3 million in external assets was recorded in the same period. Foreign direct investment inflows were 60% lower this year, totalling USD 58.7 million. Portfolio investment outflows amounted to USD 15.3 million, while foreign investment in domestic securities increased owing to Eurobonds issued by the state to repay the external debt. As the domestic financial market has not yet consolidated, foreign enterprises only bought privatisation (ownership) securities in the amount of USD 1.3 million in the first eight

months of the year. As regards other types of investment, net external crediting surged as a result of a USD 368.4 million increase in short-term commercial credits extended to foreign companies (a rise of USD 232.2 million was seen in the same period last year). The increase resulted from larger pre-payments for imports of goods and export crediting, all of which is a reflection of restricted conditions of international trading. Net financial inflows from abroad were not high enough to cover the deficit in the current account of the balance of payments, which led to a fall in total foreign exchange reserves by USD 102 million. At the end of August, total foreign exchange reserves, those of the Bank of Slovenia and commercial banks, totalled USD 4267 million, enough to cover 78.3% of total external debt.

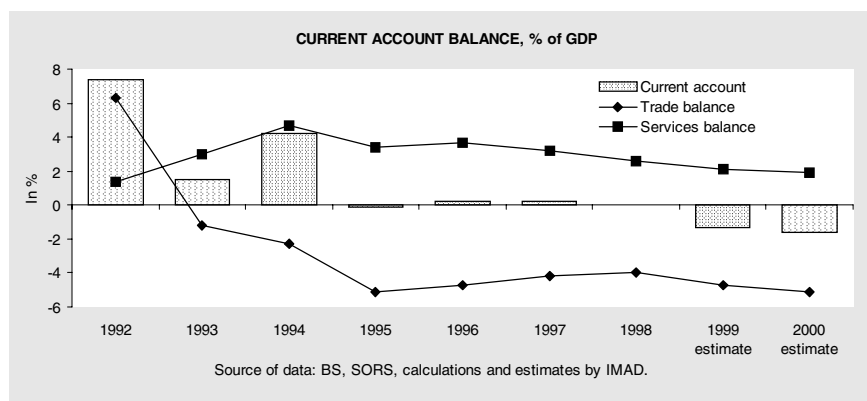
The **foreign exchange reserves to external debt ratio dropped** substantially this year (in December, it was still as high as 96.4%). In the first eight months, external debt rose by USD 490 million resulting from March's Eurobond issue of USD 318 million and increased borrowing of banks and enterprises abroad. Foreign exchange reserves dropped by USD 514.4 million in the same period, partly due to a wider deficit in the current account of the balance of payments, but mainly due to exchange rate differentials arising from a stronger dollar in international foreign exchange markets. This year's debt service, i.e. the repayment of principal and interest, is relatively low compared to 1998, when it amounted to USD 1,542 million or 13.2% of revenue from exports of goods and services. This year's obligations arising from long-term debt totalled USD 391 million, with the total debt service amounting to USD 542 million in the eight-month period. The amount of long-term debt falling due will again increase in the year 2000, with debt service arising from this debt totalling USD 965 million according to the repayment plan.

Based on current trends and an assessment of the situation in both Slovenia (GDP growth, industrial activity, exchange rate, wages) and abroad (growth in Slovenia's export markets, inter-currency ratios, oil and commodity prices), we estimate that **exports of goods will rise by 4.6% and imports by 7.4% in real terms in 1999**. The fact that export prices will fall less than import prices will lead to a slight improvement in terms of trade for the Slovenian corporate sector (index 100.4). **Trade deficit** expressed in current US dollars is estimated to come to **USD 940 million**, USD 165 more than a year ago. Given a 0.8% real fall in exports of services and a 5.7% real rise in imports of services, surplus in invisible trade is forecast to fall by USD 103 million compared with 1998 to USD 410 million. Domestic savings will

not suffice to finance investment because of increasing domestic investment activity and consumption. The investment-savings gap (**current account balance**) will be around **USD 265 million** in 1999, 1.3% of GDP.

Global economic growth, as well as that in the EU, will gain momentum in **2000** (for details see Chapter 3). Slovenia's visible and invisible trade will benefit from favourable economic trends in the world and the EU. Real exports of goods will improve slightly; growth rate is estimated to record 5.3%. Imports are forecast to rise at a lower rate than this year and will record 5.6% growth. The accelerated rise in imports caused by expectations of value-added tax introduction was an irregular occurrence. Nevertheless, the projected real appreciation of the exchange rate and the expected increase in industrial production will lead to a quicker rise in imports than exports of goods. The expected increase in economic activity will require greater imports of capital goods, i.e. intermediate and investment goods, which will represent around three-quarters of total imports next year. Owing to expected higher oil and commodity prices in world markets and weaker US dollar, as forecast by foreign analysts, terms of trade are estimated to worsen slightly in 2000 (index 99.5). **The trade deficit** is forecast to amount to USD 1,110 million, up by a further USD 170 million compared to 1999.

Exports of services are estimated to rise slightly, at a rate of 0.6%, with tourism receipts stagnating and exports of transport and other services related to goods trade increasing in real terms. Imports of services will rise by 2% in real terms. The surplus in invisible trade is forecast to total USD 415 million, enough to cover 37.4% of trade deficit. Given such developments, the **deficit in the current account of the balance of payments** will be **USD 350 million**, or 1.6% of GDP.



5.3 FOREIGN DIRECT INVESTMENT - Unfavourable trends in foreign direct investment in Slovenia continue

Despite the global trend of slower economic growth and the fact that the global economy was influenced by a number of factors discouraging investment, foreign direct investment (FDI) flows hit an all-time high last year for the fifth consecutive year. After rising by 29.4% (inflows) or 25.1% (outflows) in 1997, global FDI inflows and outflows increased by 38.7% and 36.6%, respectively, reaching a record level of USD 644 billion (inflows) or USD 649 billion (outflows) in 1998. In the same year, sales of foreign subsidiaries were USD 11,427 billion, whilst total world exports of goods and non-factor services were only USD 6,576 billion. A major part of the rise in FDI flows is accounted for by the increasingly intensive processes of company mergers and acquisitions (around 80% of total FDI flows). The value of announced cross-border mergers and acquisitions in the first half of the year points to further substantial growth in FDI flows in 1999. A large part of these mergers and acquisitions did not involve any new financial investment but only an exchange of shares, which statistically inflates the flow value. However, if we consider FDI as a measure of integration and internationalisation (globalisation) of the world economy, it is immaterial whether these processes are taking place through new financial investment or exchange of shares.

FDI inflows in Central and Eastern European countries (including those emerging from former Yugoslavia) decreased from USD 19.4 billion in 1997 to 18.7 billion in 1998, but mainly because of the considerably lower FDI inflow to Russia.⁸ Other Central and Eastern European countries experienced a significant increase in FDI inflows, from USD 13.1 billion in 1997 to USD 16.5 billion in 1998 (UNCTAD 1999). Countries in transition

Table 10: FDI in countries from the first round of EU enlargement (excluding Cyprus)

	Inflows in 1997 (USD million)	Inflows in 1998 (USD million)	Stock in 1998 (USD million)	FDI stock (1998) compared to GDP (%)	FDI inflows in 1998 per capita in USD
Czech Rep.	1,301	2,540	13,457	23.9	247
Estonia	267	581	1,822	35.0	401
Hungary	2,085	1,935	18,225	38.5	192
Poland	4,908	5,129	24,780	15.7	181
Slovenia	321	165	2,863	14.7	83

Source: WIW-WIFO database.

⁸ FDI inflows dropped from US\$ 6.2 billion in 1997 to US\$ 2.2 billion in 1998.

as a whole are therefore increasingly more successful in taking part in international FDI movements. This is particularly the case for countries in the first round of EU enlargement, among which Slovenia records the poorest results. FDI inflows to the Czech Republic and Estonia increased significantly in 1998, while inflows to Poland and Hungary stayed at the already achieved high level. On the other hand, the already modest inflows in Slovenia were half of what they were the year before. Slovenia ranks the last in terms of the ratio of FDI stock to GDP as well as inflows per capita.

According to data from the Bank of Slovenia, FDI stock in Slovenia totalled USD 2,746 million at the end of 1998: USD 2,016 million of equity and reinvested profits and USD 730.1 million of net liabilities to foreign parent companies. In 1998, the stock increased by USD 566.1 million, or 26.0%. Taking into account the USD 160.5 million of foreign investment in companies indirectly owned by foreign investors and USD 58.7 million of FDI inflow to the country from January to August, we estimate that the current FDI stock in Slovenia currently amounts to around USD 3 billion.

After a record inflow of USD 320.8 million in 1997, inflows almost halved in 1998, coming in at USD 165.0 million. From January to August this year, they totalled USD 58.7 million, a substantial fall from USD 142.7 million seen in the same period last year or USD 229.2 million recorded in the same period of 1997. If no large projects are realised by the end of the year, this year's FDI inflow will be below USD 100 million. At the moment, no such project is in sight, furthermore, there is not enough time left until the end of the year for any large FDI project to be realised.

In 1998, there were **large discrepancies between flows and changes in stock**: a record increase was seen in FDI stock (by USD 566 million) with FDI in the balance-of-payments statistics recording very modest inflows (USD 165.1 million). The increase in stock was in fact even larger as the Krško nuclear power plant was taken out of the records on FDI stock for 1998. Despite the record increase in FDI stock in Slovenia in 1998, the actual investment was only slightly above USD 200 million. One part of the stock increase came from a rise in net liabilities of foreign investment enterprises to their parent companies abroad, amounting to USD 100.5 million. This part is shown in the balance of payments as changes in other investment (loans, credits) and not as FDI inflows. The increase in net liabilities was not due to increased liabilities but due to decreased claims of Slovenian foreign investment enterprises on their foreign parent

companies. In sum, increased net liabilities in 1998 reflected the repayment of debts of foreign parent companies to their enterprises in Slovenia and not an inflow of foreign loans. The other part of the stock increase has a purely accounting character without any actual financial flows taking place. Enterprises revalued their equity expressed in tolar by 7.5%, and the US dollar depreciated by 4.7% against the tolar in the period between 31 December 1997 and 31 December 1998, which resulted in an artificial increase in foreign equity of almost USD 200 million in 1998. The third part of the stock increase, totalling around USD 230 million, is (i) new entries in the FDI record; (ii) some of enterprises previously registered as indirectly owned by foreign investors were transferred to the category of FDI enterprises because an individual investor's equity share increased to over 10%, while (iii) new FDI projects represented a minor share (about USD 30 million) in this group. The fourth part, around USD 170 million, came from an increase in foreign equity in the existing foreign direct investments in Slovenia.

A breakdown of the changes in FDI stock reveals that the **stock increase stemmed from the strengthening of the position of foreign investors already present in Slovenia rather than the entry of new ones**. This leads to the conclusion that the existing foreign investors in Slovenia are relatively satisfied and that prospective foreign investors seeking new locations avoid Slovenia. Putting aside the small size of Slovenia's market, which will always be an important obstacle to greenfield FDI – although less pronounced with full membership in the EU – and the fact that the privatisation concept adopted by Slovenia excluded foreign investors in the first phase of privatisation, the reasons for the relatively modest FDI in Slovenia are the following: (i) incomplete transition in terms of an incomplete legal framework regulating economic activities and discrimination that favours certain categories of companies, which increases the costs of establishing and operating a company in the broadest sense; (ii) problems in providing business premises for conducting business activities, especially production; (iii) privatised companies have still not started to comprehensively restructure their business, which would encourage them to search for strategic partners abroad (this is true especially of industries characterised by increasing returns to scale, i.e. economies of scale); (iv) certain measures of Slovenian authorities, the government and the Bank of Slovenia, which could be interpreted as a hindrance to FDI, and the ambiguous attitude of the Slovenian government towards FDI since in individual cases a negative attitude often prevails over declarations of support for FDI; and (v) the policy of promoting FDI is passive (funds and staff are insufficient for any

serious work in this field), and institutionally inadequately organised (an undefined and minor role of the Trade and Investment Promotion Office), while the existing system of incentives practically leaves foreign investors out or is unsuitable for boosting FDI.

A significant increase in FDI in Slovenia in the following few years will only take place if (i) the process of privatising state property is opened widely to foreign investors and the process itself accelerated; (ii) a more active policy in promoting new FDI is introduced and further strengthened; and (iii) the government and administration show a general and credible commitment to boosting FDI and entrepreneurship in general. The government's draft programme for the promotion of FDI in 2000 is a first but insufficient step in this direction.

6 INVESTMENT - Dynamic investment activity

Over recent years, investment activity has been a **significant factor of economic growth**. In 1998, gross fixed capital formation in real terms increased by 12.9%, whilst its share in gross domestic product climbed from 23.5% in 1997 to 24.2% in 1998. The average annual growth in gross fixed capital formation in the 1995-1998 period exceeded 11%.

In the EU and OECD Member States investment in 1998 increased on average by 3.2% in real terms, while the share of investment in gross domestic product ranged between 13.7% (Sweden) and 25.1% (Portugal). High levels of investment activity is characteristic of developing countries such as Korea 35%, the Czech Republic 30.7% and Portugal 25.1%, as well as of some technologically developed countries such as Japan 28.3% Norway 23% and Austria 23.7% (source: OECD, 1999b). Amongst developed countries the fastest increase investment over the last three years (1996-1998) was seen in the USA (8.3%) and in Ireland (12.2%). Two transition economies registered above average investment activity last year: Hungary with 9.1% and Poland with 19.1%. On the other hand the level of investment activity is decreasing in the Czech Republic owing to recession.

Despite high share of investment in gross domestic product, the **investment efficiency** in Slovenia is **relatively low**. The reasons for this lie in the fact that a considerable proportion of investment has been on the construction of basic infrastructure. This directly influences economic growth in the short run whereas in the long run it improves the quality of business environment and thus indirectly significantly influences economic growth.

According to data from the Agency for Payments investment outlays in Slovenia in 1998 amounted to SIT 350 billion, which is 14% in nominal terms or 7.5% in real terms more than in 1997 (deflated by producer price index). Investment in infrastructure (SIT 148 billion) rose by 6.5% in real terms last year and represented as much as 53.2% total investment outlays. Two thirds of this investment (around SIT 100 billion) went on improving economic infrastructure, and one third on public and non-market-services. In terms of economic infrastructure the most extensive investment was recorded in transport infrastructure, with a 3.4% real growth amounting to SIT 85 billion, (i.e. the construction of roads and highways, telecommunications, postal services, railways and air transport). One third of all investment outlays in the infrastructure went for construction of roads and highways. The second most significant investment in terms of economic infrastructure was in the energy sector (SIT 18 billion or in real terms 16%

less than in 1997). Investment outlays in the public administration and non-market-services were SIT 82 billion, representing a real increase of 19.2%. In this framework, investment by the public administration and defence sector, which grew by 24.2% in real terms and last year totalled SIT 71 billion, is particularly important. Investment outlays in education (SIT 2 billion) and health (SIT 7 billion) dropped in real terms.

After several years of deterioration, housing construction recorded high real growth last year. Companies built 1,162 dwellings compared to 595 in 1997), with an average floor space of 63.8 m². Most of the housing construction was carried out by individual investors, who built as many as 5,328 dwellings in 1997 with the average floor space of 111 m². In the first half of 1999, companies built only 192 dwellings, whilst an additional 1,230 are being built at present. In Slovenia three dwellings are built annually per thousand inhabitants, whereas in the EU the respective figure is five.

Last year, domestic construction sector and production of investment goods recorded a 11.3%, and the imports of equipment rose by as much as 22%, both in real terms. Since the second half of 1998, investment has been continuing with even greater momentum this year. Strong investment activity in economy

Table 11: Expenditure on investment

	Investment outlays 1998 (in millions of SIT)	Share in total (%)	Investment outlays Jan. - Sept. 1999 (in millions of SIT)	Share in total (%)	Nominal growth rates in % (Jan. - Sept. 99/ Jan. - Sept. 98)
A Agriculture	2,969	0.8	2,450	0.8	11.5
C Mining	3,277	0.9	2,198	0.7	-8.4
D Manufacturing	49,542	14.1	37,248	12.5	16.6
E Electricity supply	17,870	5.1	17,364	5.7	59.0
F Construction	7,591	2.2	8,471	2.8	71.3
G Trade	38,429	11.0	34,768	11.4	24.4
H Hotels and restaurants	5,360	1.5	5,398	1.8	37.7
I Transport, warehousing and communications	46,101	13.2	38,023	12.4	15.3
J Financial intermediation	19,866	5.7	20,303	6.6	82.2
K Business services	69,935	20.0	76,992	25.2	52.3
L Public service	73,535	21.0	42,447	13.9	-2.6
M Education	3,078	0.9	2,239	0.7	18.1
N Health	5,535	1.6	7,891	2.6	94.1
O Other I services	7,128	2.0	9,034	2.9	97.8
TOTAL	350,215	100.0	305,826	100.0	30.8

Source: APT - Agency of the RS for Payments

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in the first half of 1999 was partially triggered by the expectations regarding the implementation of VAT.

The above investment activity indicators, taking into account planned infrastructural and government investment, point to a relatively dynamic investment scenario for the future. As regards the volume and pace of the necessary economic infrastructure construction, investment efficiency at the national is considerably lower in comparison to developed countries. It is estimated that this year's **real growth rate** of investment will be **approximately 14% and next year about 9%**.

7 EMPLOYMENT AND UNEMPLOYMENT - Positive trends on the labour market do not only result from changed registering of persons involved in various programmes

The downward trend in employment, which started as early as in 1988, was followed by levelling off in 1997 and 1998, **whilst this year**, employment, unexpectedly, **started to grow**. The increase in 1999 cannot entirely be attributed to administrative changes made in the scooping of employment⁹. In August 1999, the number of persons in employment increased by 21,000 over December last year. In the first eighth months of this year it rose by on average 1.1% over the same period in 1998. Changed methodology of registering persons participating in public works (previously classified as unemployed, now considered employed) prevented the number of unemployed persons from growing by more than 6,000. This year's increase in the number of the employed, according to official statistical sources, may partly be explained by the official regulation of employment of those employed informally, as stipulated by the Shadow Economy and Informal Employment Act. This could explain substantial increase in employment in trade, hotels and restaurants, transport and construction, where along with the agricultural sector, various forms of informal employment are most common. In 1999, growth in employment has at the same time been influenced by stronger domestic demand and an upsurge in certain industries (above all in trade and construction). On the other hand, growth in labour productivity has slowed down, as in the past six years this growth was largely facilitated by the redundancies or discontinuation of unprofitable lines.

In 1999, it is particularly the number of those employed by companies and organisations that has taken off, which was previously in decline. In the first eighth months of 1999, this number was on average higher by as much as 2.3% over the same period last year. For already two years, the number of private entrepreneurs and own-account persons has been falling slowly, but constantly - in the first eight months it fell by 1.9% compared to 1998. In 1999, the number of people employed in these two categories has grown slightly faster than in 1998, but still at a slower rate than in the previous years.

With regard to individual industries, the **highest growth in employment, in absolute terms**, was recorded in **health and social security**, primarily

⁹ Since January 1999, persons participating in public works are also regarded as being employed, whilst before they were statistically classified as unemployed.

owing to public works in the latter. The number of employees in the public administration is again on the increase, and from January to June 1999, it increased by more than it had declined in the previous year. Nevertheless, this year, the number of those employed has been increasing in the entire service sector, trade, as well as in hotels and restaurants, where a downward trend was recorded last year. The number of employees in almost all categories of manufacturing is falling again, except in the production of wood and wood products as well as the production of basic metals and metal products. The strongest downward trend has been observed in the production of leather and leather products and in the production of transport equipment. A fall has also been recorded in agriculture, mining and quarrying, whilst employment in construction, electricity, gas and water supply has been on the increase.

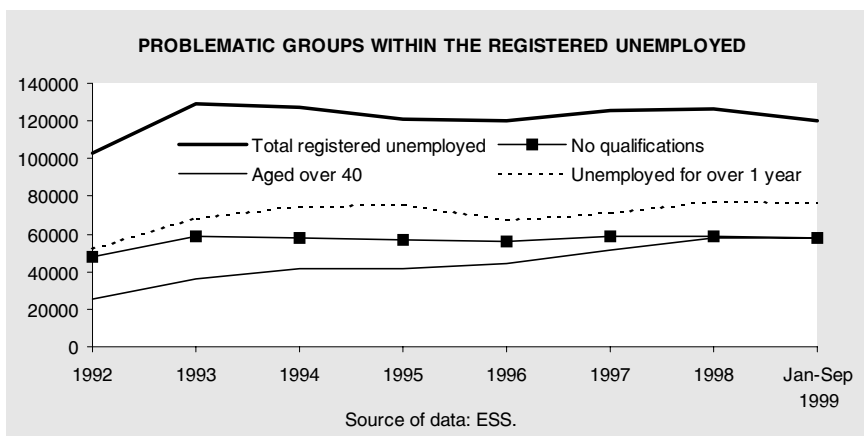
If such trends continue during next months, in 1999 the average number of persons employment will increase by around 1.5% compared to 1998. Nevertheless, it is estimated that the growth in employment measured in terms of full-time equivalent (national accounts statistics methodology) will be substantially lower, as it is not influenced by formal status changes. Therefore, our **estimate of employment growth** remains at **around 0.5%**, despite the favourable trends. A continuation of these present trends in employment and productivity could bring about a rise in **employment of about 0.8% in 2000** in terms of full-time equivalent, and an increase of about 1% in persons in employment shown in monthly statistics.

In 1999, the average number of registered unemployed will decline by approximately 5% when compared to 1998, the main reason being the abovementioned different treatment of persons participating in public works, i.e. they are now registered as employed, not of unemployed. In 1999, employing of the unemployed and unemployment caused by lay-offs have slightly increased compared to 1998, deletion of the unemployed from the unemployment register also rose over the last year (by 10%), whilst the influx of first-time jobseekers to unemployment was weaker (by 7%). Of the people who found work this year 40% were given various subsidised jobs in the framework of active employment policy programmes (in addition to participating in public works, the most frequent types of employment involved on-the-job training programmes, programmes with refunding of contributions to employers and various programmes aimed at promoting self-employment). In 1998, the share of the subsidised employment of the unemployed who found jobs was 16.5%, but if participation in public works in 1998 had also been treated as employment, the actual share would have been 30%.

By taking into account the usual seasonal movements and the planned active employment policy measures, at the end of the year there would be 114,500 registered unemployed or 13.1% of the labour force, whilst the average annualised figure would be 118,900 or 13.6% of the labour force. With the planned further growth in employment and active employment policy, in the year 2000 the number of those registered as unemployed will continue to drop (to 108,800 or 12.5% of the labour force), which would cause a slight decrease in participation rates. Deleting those unemployed persons who do not meet the legal criteria for holding the status of unemployed from the unemployment register would also substantially contribute to a reduction in the number of the registered unemployed.

Although the number of unemployed persons is declining and despite the fact that active employment policy measures are target oriented, the structural problem of employment is increasing. The percentage of the population above 40 is approaching 50% (the percentage of those above 50 is nearly 25%) and the percentage of long-term unemployed exceeds 65%. The percentage of unemployed without qualification remains at the level of about 47%, with 72% of them being unemployed for more than one year. More than 50% of the unemployed are women. Among the unemployed aged between 27 and 39 the percentage of women is particularly high (exceeding 55% for more than a year). The percentage of women among first-time jobseekers and the young unemployed exceeds 50% (in the first nine months of 1999 on average 53% and 52% respectively). Women make up a significant portion of all categories of unemployed persons: those without qualification, those with secondary or vocational education and long-term unemployed (50.5%). Less than 50% of those unemployed with college or university education (49.7%) and those above 40 years of age (46.9% and growing) are women, whilst the share of women is the lowest amongst long-term unemployed with college or university education (44% and falling). It is obvious that the employment of young women with a low level education represents an ever greater problem, which is reflected in increasing difference between unemployment rates by gender. The unemployment rate among men (11.9% in September 1999) is declining faster than amongst women (14.9%). The survey-estimated unemployment rate of women also remains above that estimated for men. It should be noted again that fixed-term employment continues to be the prevailing form of new employment.

In 1999, a slightly higher number of job vacancies relative to the number of unemployed persons has been recorded compared to 1998. As regards



the level of education, comparisons also reveal a more favourable picture: there are on average around 2.5 (last year 3.1) registered unemployed persons with college or university education per one job vacancy requiring such education, 9 (last year 9.9) unemployed with vocational or secondary schooling per one respective job vacancy and 14.5 (last year 15.3) unemployed without education per one job vacancy where unskilled or semiskilled workforce is required.

This year, the unemployment rate established by the Labour Force Survey is slightly lower than in 1998, whilst there is still a substantial gap between registered and survey-estimated unemployment. There are still more than 60,000 of the registered unemployed who should not have been classified as unemployed according to the criteria applied in the survey. The data acquired by the survey show seasonal fluctuations in the number of persons in employment, particularly in the number of unpaid family members and occasionally employed persons, whose number is this year slightly lower than the year before. The unemployment of the young continues to be relatively high (around 18%).

High unemployment rates pose a **basic economic problem** in many **regions** as well. Over the past few years they have stagnated at a relatively high level. In 1999, no substantial changes have occurred in the distribution of unemployment by region. The first half of 1999 saw the highest unemployment rate in the region of Podravje (registered unemployment rate at 21.2%). Podravje is the residence of almost a quarter of all registered unemployed persons in Slovenia. An above-average level of unemployment is also evident in the regions of Pomurje, Savinjska, Zasavje and Posavje. The lowest rate of unemployment was recorded in the region of Goriška,

reaching slightly above 50% of the national average. A below-average levels of unemployment were posted by the regions of the Littoral, Karst, central Slovenia and Dolenjska, where after 1996 it declined most significantly.

Regional differences are reflected in the differing employment possibilities offered to the different categories of the unemployed, above all to women, young persons, those above 40 and the unemployed with low qualification. High unemployment in young population is often present in regions with high unemployment rate in general. After 1994, the percentage of young unemployed persons dropped in all of the regions. Nevertheless, as regards the problem of high youth unemployment, the region of Pomurje is still singled out with 17.6% unemployment rate for those aged between 15 and 24 (Slovenian average 10.8%) and above-average levels of youth unemployment are also present in the regions of Podravje, Zasavje, Savinjska and Posavje. In most cases the young unemployed are first-time jobseekers.

At the end of September, **social partners discussed the Long-term Labour Market Development Strategy up to 2006 and the National Employment Action Plan for 2000 and 2001**, which introduce a new integrated approach to solving unemployment along with the EU's employment policy guidelines. This approach considers the employment policy to be a web of measures intended to make business operations and employment more flexible, offers fiscal incentives, promotes entrepreneurial efforts, improves the qualification of the labour force along with better formal education and measures which make employment equally accessible to different social groups. With such an approach, the problem of unemployment and employment policy are no longer wholly within the domain of the Ministry of Labour, Family and Social Affairs. Meeting the objectives of the set policy in this area is based on the active and harmonised co-operation between the various ministries in charge of economic affairs, education and finance as well as the Ministry of Science and Technology. The strategy also envisages a multi-level active social partnership, which will be reflected in the planning, implementing and financing of an employment policy, based on four pillars (improving employability, developing entrepreneurship, strengthening equal opportunities policies for men and women, encouraging adaptability of businesses and their employees).

8 EARNINGS - In 2000 fast growth in earnings will again be recorded in the public sector

The new agreement on wages policy for the 1999-2001 period, which the social partners signed before the expiry of the Minimum Wage and Wage Adjustment Mechanism Act, which was in force from mid 1997 till the end of June 1999, ensures the further implementation of the incomes policy from previous years. The agreement on the wages policy for the 1999-2001 period was enacted by the Act on the Minimum Wage, Wage Adjustment Mechanism and Holiday Allowances for the 1999-2001 Period. The new Agreement **preserves the existing wage adjustment mechanism, whereby wages are adjusted by price growth rate once a year** (the stipulated adjustment being at a level of 85% of consumer price growth). Owing to the implementation of VAT, this year the wage adjustment mechanism is specific and it is a result of the agreement, which attempts to satisfy the social partners' demands and, at the same time, contain wage movements within an acceptable range in terms of macroeconomics and competitiveness. The adjustment in 1999 was (as an exception) already planned during the year, namely in August, with wages being indexed by 85% of the average inflation rate in the first half of the year. Moreover, a bonus was introduced on wages below the national average in order to soften the drop in purchasing power (social measure). This bonus was first paid in October. The next wage adjustment is planned for January 2000, when the base wage per employee should be raised by 85% of the average inflation rate recorded in the second half of 1999, excluding the rise in prices in the third quarter caused by the introduction of VAT. Social partners agreed that the price growth in the three months prior to the introduction of VAT would also be applied to the third quarter, thus preventing VAT triggered price growth from affecting the growth of wages, which could have a considerable negative effect on competitiveness and trigger a wage-price spiral.

In the first half of 1999, the growth in wages was somewhat above the planned 2% real growth in average gross wage per employee in 1999. It was not until the real drop in July and a relatively modest rise in August that the wage level came close to a pace which make possible the realisation of **the estimated 2% average real growth in the gross wage per employee**. In August, a more pronounced increase in wages was expected due to a 2.3% adjustment by the price growth seen in the first six months of the year. In the private sector the adjustment was less felt, owing to the seasonal factor and the fact that the actual base wage in some sectors exceeded those stipulated

by the Act, therefore adjustment in relation to the latter is not necessary. In the public sector, however, the adjustment is carried out in full, because wages are calculated on the basis of the base wage set by the collective agreement for the non-commercial sector. August saw an additional annual increase in minimum wage, which was adjusted by the real growth rate in gross domestic product over the past year (3.9%). Thus, taking into account the regular adjustment, the minimum wage grew by 6.3%, reaching SIT 72,521.

A rise in the minimum wage probably changed the structure of wage distribution resulting in lower wage dispersion. However, data on this cannot be obtained before September's wage distribution data become available.¹⁰ Data on wage distribution for March showed that wages are slightly more dispersed **compared to last year**. In September and March 1998, the average gross wage of those 10% of employees with top wages was 3.3 times higher than the average gross wage of those 10% with the lowest wage. In March 1999, the interdecile ratio stood at 3.4.

A bonus on wages below the average gross wage started being paid out in the last quarter of 1999 and will be paid out until a new Act on Personal Income Tax is passed. The actual bonus (amounting to SIT 435) did not reach the spring expectations, due to lower growth in prices caused by the introduction of VAT.

Based on projected movements, **the gross wage per employee in 1999 compared to last year will grow by approximately 2% in real terms**. In the last quarter the growth in wages is expected to accelerate (performance-related payments), causing real gross wage per employee in the private sector to rise by around 1.5% annually. On the other hand, the gross wage per employee in the **public sector** is expected to increase by **3% in real terms**. Faster wage growth in the public sector primarily results from the fact that in January wages were increased by price growth in 1998, the extraordinary adjustment in August and bonuses on wages paid in health care sector, which were agreed in collective agreements already in 1998. Wages are estimated to lag behind the growth in labour productivity for approximately one percentage point.

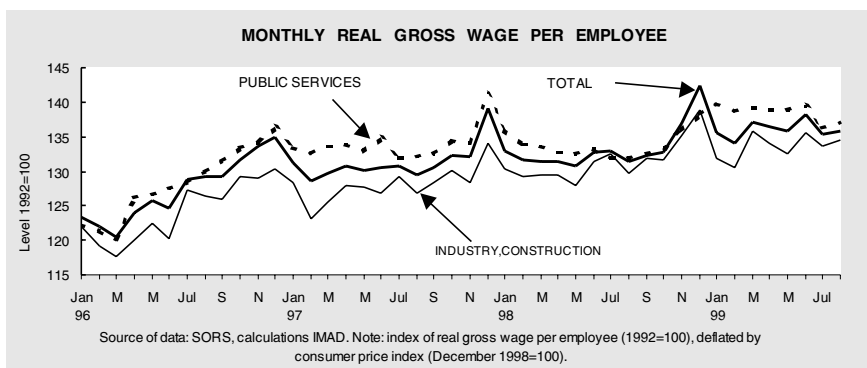
Price movements and prices policy in the last quarter of 1999 will be of great importance for wage movements in 2000, which suggest that the Government will have to be prudent in changing administered prices. According to the wage adjustment mechanism, an adjustment should be carried out in

¹⁰SORS publishes wage distribution by wage bracket for March and September.

EARNINGS

January 2000, due to the adjustment mechanism, and subsequently a substantial annual growth. Major increases of administered prices, which would bring about relatively high monthly price growth in the last quarter, would cause higher wage growth in January 2000 and subsequently a substantial annual growth. This is particularly significant because of the public sector wages, all of which are calculated on the basis of the base wage stipulated by the Collective Agreement and adjustments are carried out consistently and in full. The public sector wage bill represents about a third of total wage bill, therefore an increase in the gross wage per employee in the public sector considerably influences total wage growth.

In 1998 and 1999, annexes to branch collective agreements introduced bonus on wages in the health, education, culture and research sectors. The amendments adopted by these annexes will partly be realised this year and partly the next year. Introduction of bonuses was inevitable, because in 1998 the real gross wage per employee in the public sector stagnated. There is a danger similar increases will take place in other branches of the public sector, so as to maintain the same ratio between those wages. A 1% increase in the base wage for December 2000 was also adopted in the annex to the collective agreement governing the non-commercial sector. Taking into account the agreed wage rises in the public sector in 2000 and the projected price movements, the gross wage per employee in the public sector will rise by approximately 4% in real terms. In the private sector, however, the real gross wage is expected to grow by about 2%, thus **in 2000 the gross wage per employee in Slovenia will increase by approximately 2.5% in real terms.** Given such growth, the increase in the gross wage is expected to lag behind the projected 3.2% rise in labour productivity by somewhat less than one percentage point, which can be attributed mainly to a more rapid wage growth in the public sector.



This year the growth in work-related allowances, other remuneration, payments arising from employment contracts and author's fees has been higher than that in the wage bill. The share of the abovementioned income compared to wage bill fell from 44% in 1997 to 43% in 1998, whilst in 1999, an increase of 0.5 of a percentage point is expected.

9 PUBLIC FINANCE - 1999: the year of changes

In the field of public finance this is **the year of changes**: the preparation and introduction of many reforms is coming to an end and they are starting to take effect. As VAT entered into force, the second phase of the tax reform was completed, which made the Slovenian taxation system compatible with that applied in the EU. VAT will help to improve the competitiveness of the Slovenian economy on foreign markets. Furthermore, the pension and disability systems' reforms are in their final phase, which will, at least for a few years, lessen the pressure to increase budgetary expenditure.

This year, moreover, the system of public finance management was changed. The Accountancy Act, already passed in spring, applicable to legal entities under either public or private law, whose bookkeeping is not governed by the Companies Act, the Public Utilities Act and the Societies Act. In September, the Public Finance Act, which provides a legal and institutional framework for the public finance system, was passed. This regulates the composition, drafting and implementation of state and municipal budgets, the management of state and municipality assets as well as their borrowing, indemnities, debt management, accounting and budgetary control.

However, as yet the Public Funds Act and the new Public Procurement Act have not been passed. Due to changes in other fields (necessary modernisation) and the obligation, which was assumed by social partners, the Personal Income Tax Act will have to be amended (so as to disburden the class of population in lower income brackets). The adoption of this and other, previously passed acts, concludes the legislative part of the fiscal system reform.

Also in the following year, the **changes in state aids policy** should be reflected in public finance. Slovenia is obliged to assume the legal and economic regulation of state intervention in the corporate sector, which is in force in the EU. As a rule, the state grants state aids for precisely specified purposes. The instruments of aids can be very diverse, i.e. direct subsidies such as grants, tax allowances and reliefs, equity participation, including conversion of debt to equity, soft loans, tax deferral and exemption from social contribution payments, state guaranties and other. Slovenia will have to abolish, or considerably decrease, primarily export aids as well as aids for regular operation and restructuring. Since in Slovenia these aids are

numerous, their reduction and/or abolition will greatly decrease the volume of all state aids, especially those to manufacturers.

The European Commission, in charge of implementing the regulations on state aids, uses a precise system for monitoring the implementation of these regulations through the notification system (*ex ante*) and reporting system (*ex post*). Even before entering the EU, the European Commission requests each associated country to set up a transparent annual reporting system. Slovenia prepared its first annual survey of state aids in June this year. It indicates that in 1998 state aids accounted for 3.54% of gross domestic product or SIT 154,512 per employee and 7.63% of general government expenditure meaning that they were considerably higher than in the EU Member States in the 1995-1997 period. In Slovenia the share of state aids in gross domestic product amounted to slightly less than three times the amount in the EU (Slovenia 3.54%, EU 1.2%) and state aids per employee in Slovenia exceeded the respective figure in the EU by 51% (Slovenia EUR 829, EU EUR 549), whilst in Slovenia state aids represent over three times the volume of total state expenditure in the EU (Slovenia 7.63%, EU 2.36%). The allocation of state aids by sector shows that 17.25% of the total went to the transport sector (8.45% of value added in transport; most of that went on railways, where state aids represented as much as 94.17% of value added), agriculture and fisheries received 17% (15.65% of value added in agriculture and 29.24% of value added in fisheries), 2.93% was spent on mining (10.74% of value added in mining), whereas almost two thirds of total aids (62.58%) was allocated to manufacturing and other services (excluding agriculture, fisheries, transport and mining). State aids to manufacturing and other services represented 9.47% of value added or SIT 302,829 (EUR 1,626) per employee, which is substantially more than in the EU Member States, where such aids on average account for 2.8% of value added in manufacturing or EUR 1,261 per employee. The difference is considerable especially when shares in value added are compared, which points to the problem of low value added per employee in Slovenian manufacturing.

In 2000 (implementing regulations on state aids will enter into force on 1 January, 2000) Slovenia will have to allocate state aids pursuant to EU regulations, meaning that the current purpose of state aids will have to be substantially different. Firstly, all export aids will have to be abolished (with the exception of short-term insurance against commercial risks and export aids for the agricultural sector), those for regular operation and mostly rescue and restructuring aids in the manufacturing sector. There

will also be changes as regards other purposes of state aids. In the transition period, Slovenia can still obtain certain derogations through special guidance, which it has yet to prepare and discuss with the EU. A special committee, founded this year and named the Commission for State Aids Control which will perform *ex ante* and *ex post* control and supervise whether or not the EU regulations concerning state aids allocation are being adhered to.

9.1. GENERAL GOVERNMENT REVENUE - This year's real increase in general government revenue exceeds economic growth, whereas a lag is expected next year

In July a system of value added tax and excise duties was introduced. Also in July, acts were passed which regulate the amount and payment of taxes on real estate transactions, tax on insurance sales and gambling, which are not part of the VAT regime. As the act regulating tax on total assets of (savings) banks was amended, this tax rate was increased as well, from 2% in 1998 to 3% in 1999. However, after the constitutional review of this act in July, the Constitutional Court ruled that tax on total assets of banks and savings banks together with the corporate tax levied on them must not exceed 50% of profit before tax posted in their profit and loss accounts. The Motor Vehicle Taxes Act was also passed, taxing trade in new and used cars. Other obligatory tax liabilities in 1999 were calculated and paid pursuant to other tax instruments and tax legislation which remained unchanged.

Because sales tax was replaced by value added tax and excise duties in the middle of the year, total revenue movements in 1999, arising from both new and old taxes, are exceptional. Uncertainties and expectations in the months prior to the introduction of VAT significantly boosted domestic consumption, which contributed to the fact that the sales tax revenue in the first half of 1999 in real terms was 10% higher when compared to the respective period last year. After 1 July, 1999, when the previous sales tax system ceased to apply, some additional SIT 50 billion in sales tax arising from previous periods was paid by the end of September (mainly the final collection of tax on invoiced sales). These payments were higher than expected since the final due date for settling tax liabilities arising from previously invoiced claims was set no earlier than in the middle of 2000.

After the system of value added tax has been in force for three months it is estimated (the estimate is still slightly speculative) that in 1999 revenues from sales tax, value added tax and excise duties (together with the inflow in January, 2000, arising from December's 1999 payment of taxes) will account for approximately 15.8% of gross domestic product, which does not considerably exceed the figure expected during the preparations for implementing VAT. Revenues from excise duties and sales tax are somewhat higher, whereas those arising from VAT are a bit lower than it was expected before the implementation of VAT.

Due to the trade agreements Slovenia entered into, general government revenues arising from customs duties and other import taxes will continue to further decrease in 1999, i.e. by 7.5% in nominal terms. These represent 2.3% of total tax liabilities. Social security contributions, which account for 31.3% of total tax liabilities will increase by 9.4% in nominal terms, whilst revenues from personal income tax, which represent 15.2% of all tax liabilities, will nominally rise by 11.7% due to progressive taxation of wages and other income. Revenues from payroll tax, which account for 3.2% of total tax liabilities, will grow by 18.5% due to an increase in wages and progressive taxation scheme. This year, the relevant act, which would change the lower taxation threshold, was not amended.

After general government revenues were consolidated, in accordance with the methodology of the International Monetary Fund – Government Finance Statistics (employers' social security contributions paid by the state, municipalities, Pension and Disability Insurance Institute and Health Insurance Institute of Slovenia are excluded), it is estimated that in 1999 total general government revenues will improve by 12.9% in nominal terms, thus reaching **44.1% of gross domestic product**, which represents an increase of one percentage point when compared to 1998.

The year 2000 will see no major structural nor systemic changes in the field of general government revenue. Excise duties are expected to increase slightly. The implementation of the Administrative Fees Act will result in higher general government revenues from this source. The write-off of interest on outstanding social security contributions is expected to facilitate the collection of overdue liabilities from the past years. Current revenues (tax and non-tax) will grow by 2% in real terms, whilst the Ministry of Finance expects that revenues from foreign donations (especially pre-accession assistance by the EU) and capital revenues, which will be generated by selling state-owned fixed assets, will increase by 4.5-times compared to this year. **Total**

government general revenues will rise by 3.2% in real terms, accounting for **43.8% of gross domestic product in 2000** or 0.3 of a percentage point lower than in 1999.

9.2. GENERAL GOVERNMENT EXPENDITURE - Pension reform is essential for slowing down expenditure growth next year

State budget – Central government expenditure in 1999 will (as assessed by the Ministry of Finance) amount to about SIT 965 billion, i.e. nominally 13.6% more than last year. This year's expenditure will account for approximately 27% of the estimated gross domestic product. The most rapid growth is expected in domestic interest payments and those abroad (34.7% in nominal terms). Significant increases will also be recorded in state administration's purchases of goods and services (approximately 24.4% in nominal terms) as well as capital expenditure and capital transfers (25.4% and 28.5% in nominal terms respectively). Expenditure for subsidies will rise by almost 18.8%, whilst transfers to the Pension and Disability Insurance Institute are expected to grow by 12.1% (in nominal terms), thus representing 15.5% of central government expenditure. Social transfers expenditure is forecast to grow by 9% in nominal terms.

Table 12: Share of central government expenditure in gross domestic product in %

	1996	1997	1998	1999 estimate	2000 proposed
Total expenditure	23.3	25.4	26.2	27.0	26.9
Current expenditure	7.0	7.0	7.3	8.0	8.0
Of which:					
- Wages, contributions and other personnel allowances	3.4	3.4	3.2	3.4	3.3
- State administration purchases of goods and services	2.4	2.4	2.5	2.8	2.9
- Domestic interest payments and that paid abroad	1.2	1.1	1.3	1.5	1.6
Current transfers	13.6	15.9	16.1	15.8	15.7
Of which:					
- Subsidies	1.2	1.3	1.4	1.5	1.6
- Transfers to individuals and households	3.5	4.0	3.9	3.9	3.9
- Transfers to the Pension and Disability Insurance Institute	2.6	3.8	4.1	4.2	3.9
Capital expenditure and capital transfers	2.7	2.6	2.8	3.2	3.1

Source: Ministry of Finance, calculations by IMAD

In drafting the state budget for the year 2000, the following priorities were taken into account: the fostering of technological development, an active employment policy, agricultural reform, regional development and strengthening the country's defence capacity.

The state budget for 2000 as proposed by the government, anticipates central government expenditure of approximately SIT 1,060 billion, which is 3.5% more in real terms than in 1999 and accounts for 26.9% of gross domestic product. In 2000 as well, state administration purchases of goods and services are expected to increase more rapidly than other expenses, namely 8.4% in real terms, whilst subsidies and interest payments abroad will represent 11.7% and 8.7% in real terms respectively. According to the proposed state budget for 2000 wages and other personnel allowances are expected to rise by no more than a good percent in real terms and social transfers by 3.5% in real terms, whilst wages and the material expenses of public institutions and other public service contractors are forecast to increase by 3.4% in real terms.

Local government budgets - It is estimated that in 1999 local government expenditure will exceed last year's figure by approximately 16% in nominal terms. Local government expenditure will account for 5.3% of gross domestic product, representing 0.3 of a percentage point more than in 1998.

After experiencing a significant real increase this year, in 2000, growth in local government expenditure will slow down. The projected increase in real terms is 2.6%, which lags behind the rise in gross domestic product, meaning that in 2000 local government expenditure is expected to fall from 5.5% in 1999 to 5.2% of gross domestic product.

Pension and disability insurance - In order to enforce the Pension and Disability Insurance Act (excluding health insurance contributions for retired persons), 12.7% more funds will be required in 1999 than in 1998, i.e. 13.6% of gross domestic product, which represents an increase of 0.3 of a percentage point compared to last year. Pension expenses in 1999 are expected to rise more rapidly than the average wage, because the number of beneficiaries is estimated to grow by a good percent, pensions are adjusted with average wage movements in Slovenia, taking into account the legally determined threshold of wage rises, and pensions are adjusted in order to maintain the ratio between the average wage and average old-age pension (for the full pension contributions period), as prescribed by law. Recreation allowance for retirees in 1999 in nominal terms will exceed last year's figure by 17%.

The proposed state budget for 2000 has been drawn upon the assumption that the new Pension and Disability Insurance Act will be implemented next year, which would somewhat bridle old-age and disability pension insurance outlays. The number of beneficiaries is estimated to increase by approximately 1% next year. The reduction of expenditure for pension and disability insurance will be mainly influenced by the changed indexation of pensions and other cash benefits. Planned expenditure for pension and disability insurance in 2000 (excluding health insurance contributions for retired persons) will require 1.2% more funds in real terms or 13.2% of gross domestic product, which represents a decrease of 0.4 of a percentage point compared to the previous year.

Health insurance - In 1999 expenditure for compulsory health insurance will rise by 11.2% in nominal terms in comparison to last year, thus reaching about 6.7% of gross domestic product, which approximately corresponds to last year's level. The entitlements arising from compulsory health insurance were not changed in 1999. In 1998, numerous activities were already undertaken in order to bridle expenditure on medicinal products, limiting sick leave and streamlining the implementation of health programmes. Despite those measures, sickness benefits in 1999 are estimated to increase by 12.3%, whilst expenditure for medicinal products and medical programmes rose by 12%.

In 2000 activities for curbing public health-care expenses will continue. The projected increase in expenditure for the Health Insurance Institute of Slovenia will not exceed 1.9% in real terms. Within this framework, sickness benefits are expected to rise by 1% in real terms, whilst expenditure on medicinal products will even decrease in real terms by slightly less than 1%. Furthermore, measures were adopted to streamline medical programmes, the expenditure for which is estimated to grow by approximately 3% in real terms, i.e. less than they have this year. If the entitlements arising from compulsory health insurance remain unchanged, this would mean that more private funds would be dedicated to this purpose and/or further rationalisation of the health insurance system. In the year 2000, about 6.6% of gross domestic product will be spent on compulsory health insurance, i.e. 0.1 of a percentage point less than in 1999.

After general government expenditure has been consolidated in accordance with the methodology of the International Monetary Fund, total general government expenditure in 1999 is estimated to increase by

13.8%, accounting for 45.3% of gross domestic product, which is 1.4 of a percentage point more than in 1998. In 2000, however, the growth in total (consolidated) general government expenditure will experience a slight slowdown. An increase in general government expenditure is estimated to reach 2.9% in real terms, which is slower than the growth in general government revenues and gross domestic product. The share of general government expenditure is thus evaluated to account for 44.8% of gross domestic product, i.e. half a percentage point less than in 1999.

General government deficit - After general government revenues and expenditure were consolidated in accordance with the methodology of the International Monetary Fund, total general government finance in the period between 1994 and 1996 was in equilibrium. Balanced public finance played a positive role in the stabilisation of the economy, since state borrowing, which could put additional pressure on domestic interest rate or on the exchange rate movements of the tolar, was not required.

The equilibrium in public finances was disturbed in 1997, when, the consequences of lower social security contribution rates and a drop in customs revenues not compensated for by the new tax sources appeared on the revenues side. On the other hand, further pressure was put on general government expenditure, primarily by higher wages expenditure, which followed the growth in wages and employment in the public sector and higher social transfers resulting from the existing social security system.

Table 13: Consolidated general government revenue and expenditure according to the GFS-IMF methodology (as % of GDP)

	1995	1996	1997	1998	1999	2000
General government revenues	43.1	42.7	42.0	43.1	44.1	43.8
General government expenditure	43.1	42.4	43.2	43.9	45.3	44.8
Surplus/deficit	0.0	0.3	-1.2	-0.8	-1.2	-1.0

Source: Ministry of Finance, calculations by IMAD

In 1999, growth in general government expenditure surpassed growth in gross domestic product and general government revenues, therefore the general government account for 1999 shows a deficit, standing at 1.2% of gross domestic product, i.e. 0.4 of a percentage point more than in 1998.

In 2000 general government expenditure is expected to grow at a slower pace and the increase in general government revenues is estimated to be less pronounced. Compared to 1999, the shares of general government

revenues and budgetary expenditure in GDP will decrease next year, whilst general government deficit, as recorded by the consolidated general government account, is expected to represent approximately 1% of gross domestic product.

9.3. STATE DEBT - The central government debt at the end of 1998 accounted for 23.6% of gross domestic product

State debt i.e. central government debt, which includes loans and securities of the legislative, judiciary and executive authorities and organisations which were their part **at the end of 1998** amounted to SIT 771.3 billion or **23.6% of gross domestic product**. From 1993, when the Republic of Slovenia's state debt figures were made public for the first time, to 1998 the share of debt in gross domestic product rose by 2.5 percentage points. It increased in all subsequent years, except in 1994 (owing to relatively high growth rate of 5.3% in gross domestic product). The government borrowed because of the budgetary deficit, debt servicing and to finance other special purposes (primarily bank rehabilitation, purchasing Iraq's trade debt in 1995, and the issuing of new bonds in 1996 on the basis of the New Financial Agreement - NFA, whereby Slovenia took over 16.39% of the non-allocated debt of the former Yugoslavia). Since 1996, borrowing for special purposes has shown a downward trend. In 1996, and especially in 1997, the increase in the central government debt was also caused by exchange rate differentials, as the US Dollar nominally appreciated against the Tolar (the share of debt, denominated in USD represented 29.3% at the end of 1997)

The bulk of central government **debt** is represented by **internal debt**, i.e. borrowing on the domestic market (bonds of the Republic of Slovenia, borrowing from domestic banks). Since 1993, however, its share in the central government debt decreased in relative terms, since the share of external debt in central government debt in the stated period increased from 13% in 1993 to 38.3% in 1998. The state borrowed mainly abroad, primarily by issuing euro-bonds (USD 325 million in 1996, DEM 400 million in 1997 and ECU 500 million in 1998).

The Ministry of Finance estimates that this year the share of central government debt in gross domestic product will rise by 0.2 of a percentage point (primarily due to a higher budgetary deficit) and by approximately another 0.7 of a percentage point in 2000.

10 INFLATION - Average inflation rate this year below targeted

Similarly to other economic movements **inflationary trends were also significantly characterised by the introduction of value added tax**. In the first six months of 1999 (prior to the introduction of VAT) last year's favourable inflationary trends continued: the prices of consumer goods increased by 2.7% and at the annual level their growth gradually dropped from last December's 6.5% to 4.3% in May and June this year. In the first three months after the introduction of VAT consumer prices rose by 3.4%. After the implementation of VAT, annual inflation rate again increased above 6%. In the first three quarters of the year consumer prices were 6.1% higher than in December 1998 and in September they recorded a 7.5% year-on-year growth. Given favourable inflationary trends in the first half of the year, somewhat smaller increase in prices than expected in the first two months following the introduction of VAT and a relatively prudent policy of increasing administered prices, it seems that the **average annual inflation** will be

Table 14: Price growth in the period from 1995 to September 1999

Price growth in %	1995	1996	1997	1998	1999 Sept.
Consumer Price Index					
Annually ¹	9.0	9.0	8.8	6.5	7.5
Average ²	13.5	9.9	8.4	7.9	5.6
Goods					
Annually ¹	7.1	8.0	8.5	5.6	7.2
Average ²	12.3	8.4	7.8	6.7	4.9
Services					
Annually ¹	15.9	12.2	9.8	9.3	8.5
Average ²	18.4	15.2	10.2	10.2	7.7
Retail Price Index					
Annually ¹	8.6	8.8	9.4	7.5	8.0
Average ²	12.6	9.7	9.1	8.6	6.0
Industrial Producer Price Index					
Annually ¹	7.9	5.8	6.8	3.6	1.9
Average ²	12.8	6.8	6.1	6.0	1.7
Agricultural Products Index					
Annually ¹	7.8	12.2	5.5	-2.3	-2.0 ³
Average ²	13.3	10.8	6.7	4.0	-4.4 ³

Source: SORS. Notes: ¹end of the period compared to the end of the respective previous period ²average compared to the average of the previous year or period. ³July 1999.

below 6.8% which was projected already in spring 1998. It is estimated that **this year's** average inflation **will be about 6.2%**.

Average monthly inflation in the first six months of 1999 was 0.45%, which is less than in the respective period last year (0.54%). Unregulated prices were on average higher by 0.4% monthly (in the same period last year the respective increase was 0.6%). Concerns related to the effects of the introduction of VAT greatly stimulated household consumption, which was in most cases financed through borrowing i.e. raising of bank loans (for further details see Chapter 11). Despite strong domestic demand, inflation in the first half of the year showed a downward trend. Higher prices of energy products on the international markets, which started in spring, had no significant influence on domestic prices in the first six months of the year. With the restrictive policy of administered prices, intervention imports of fresh agricultural products in June and media campaigns the Government tried to reduce inflationary expectations prior to the introduction of VAT.

Value added tax and excise duties, which were implemented in July, caused a change in relative prices and an aggregate increase in prices. In July, consumer prices rose on average by 1.7%, which is less than it was expected. Introduction of VAT in the summer months had a more significant direct influence on retail and consumer prices (consumption) than on industrial producer prices. In July and August (cumulatively) consumer prices rose by 2.6%, retail prices by 2.8% and industrial producer prices by no more than 0.1%.

Although it was expected that the effects of VAT on prices would be limited to the period of two months following its introduction, they were also partly felt in September. This was primarily seen in higher prices of seasonal goods, which were taxed according to the new system. In September, inflation was 0.9%.

In the first nine months **administered prices** rose on average by 6.5% and contributed 0.92 of a percentage point to the 6.1% inflation. At the annual level they were higher by 8.5% in September, which means that their increase contributed 1.2 percentage point to the 7.5% inflation. In the first three quarters administered prices of petroleum products on average rose by 9.6% (higher by 9.3% on September 1998). Among products whose prices are administered, the highest increase (this September on last December) was seen in the price of liquid butane (up by 19.7%), followed by 95-octane petrol by 11.1% and 98-octane petrol by 7.2%. This year, the prices of utility services rose on average by 7.3%, the price of water supplied to households increased the most, namely 11.6%. The prices of transport and communication services grew by 6.6%

this year, which is the same as the prices of postal services and telecommunications. In 1999, the prices of basic foodstuffs went up on average by 7.1% or 7.9% year-on-year. Other administered prices, including those of national radio and television subscriptions and schoolbooks, grew by 6.5% since the beginning of the year or 8.6% annualised. In July, the Government liberalised the sugar prices so that among foodstuffs there are no more directly administered prices.

This year the Government continued liberalising directly administered prices. In April, it stopped controlling the prices of compulsory automobile insurance and those of sugar prices in July. Thus, in the group which is still under direct control of the Government, only around 14% of the products or services are left from those contained in the consumer price basket.

Also in the future the Government will continue to gradually liberalise administered prices in the areas where an adequate level of market competitiveness will be achieved and abolish the remaining price disparities (postal services and telecommunications). July 1999 saw the adoption of the Price Control Act, which regulates the intervention role of the State in protecting public interest as well as potential measures the Government may take regarding prices. In those areas where total liberalisation of prices will not be possible, due to the very nature of an industry (especially in the field of natural monopolies) a regulator will be established in the future to set out the pricing policy and systemic solutions for individual sectors, taking into account the economic dimensions of problems.

1999 witnessed a strong growth in the prices of crude oil and petroleum products in the global market as a result of OPEC's agreement.¹¹ These prices only started influencing the Slovenian inflation during the summer. As prices in the world oil market rapidly grew, the Government authorised a 3% rise in the retail price of 95-octane petrol at the end of May. With the increase in prices at the end of July (included in the August inflation) the administered prices of petroleum products rose on average by 3.9% (they contributed 0.2 of percentage point to the inflation). The price of light fuel oil, which since last December has no longer been controlled by the Government, went up by as much as 34.7% in the summer months (July and August), thus pushing the inflation rate up by almost half of a percentage point. In the first nine months the **growth in the prices of**

¹¹In the first eight months of 1999 the prices in the world oil markets were on average higher by more than 20%.

petroleum products directly contributed as much as 0.95 of a percentage point to the 6.1% inflation.

In Slovenia, the pre-tax prices of petroleum products followed the upward global trend in oil prices more slowly than in the EU Member States. Table 14 shows that in 1997 and 1998 the pre-tax price of unleaded 95-octane automotive petrol in Slovenia was approximately 6% below the EU average, whereas this year it has lagged behind it by more than 23%. The pre-tax prices of gas oil and light fuel oil were no longer under Government control. Nevertheless, oil companies (competition) could not substantially increase these prices. In 1997 and 1998 the pre-tax price of gas oil was around 12% below the EU average, whereas this year the respective percentage was a good 16% and as at 18 October (last available data) the gap was not smaller than the average in the past two years. When comparing the prices of light fuel oil it must be stated that the data for Slovenia and the EU are not entirely comparable. The data for the EU Member States take into account the price for the shipments between 2000 and 5000 kg, whilst the data for Slovenia include the highest prices without reductions for quantity discounts. The actual pre-tax price of light fuel oil in Slovenia is therefore probably somewhat below and not above the EU average, as shown in the table. Nevertheless, it can still be established that also the pre-tax price of light fuel oil in Slovenia dropped slightly in relative terms compared to the EU average.

This year, increase in price lag of Slovenian oil companies in comparison with the EU prices was significant regarding automotive petrols, where certain price adjustments will be necessary. Since excise duties are also expected to increase next year (especially on automotive petrols), it might happen that domestic retail prices of petrols will soon reach or exceed the lowest prices in the EU Member States (e.g. in Greece or Spain). Such changes would reduce the present structural incongruity caused by the excise duty on gas oil being higher than that on unleaded petrol, which makes the retail price of gas oil higher than that of unleaded petrol. In the EU average excise duty on unleaded petrol exceeds that on gas oil by almost 44%.

Producer **prices of agricultural products** in the first eight months of 1999 were on average 4.3% lower than in the respective period last year. Since last year producers' income position (i.e. costs increasing more than prices) significantly deteriorated, the Government has been trying to alleviate the situation by taking some measures. With market regulations for wheat and rye, direct payments per hectare of harvested area have already been introduced

Table 15: Comparison of pre-tax prices of certain petroleum products between Slovenia and the EU

average, in SIT/litre

Unleaded 95-octane automotive petrol	Average 1997	Average 1998	Average 1999	18 Oct. 1999
Slovenia	42.0	37.6	34.4	41.06
EU	44.8	39.9	44.8	54.39
SLO/EU, in %	-6.3	-5.7	-23.2	-24.5

Gas oil	Average 1997	Average 1998	Average 1999	18 Oct. 1999
Slovenia ¹	37.7	33	35.2	44.34
EU	42.8	37.5	42.1	50.46
SLO/EU, in %	-11.7	-12.1	-16.4	-12.1

Light fuel oil	Average 1997	Average 1998	Average 1999	18 Oct. 1999
Slovenia ^{1,2}	36.1	31.1	32.4	41.99
EU	35.1	29.3	32.8	40.35
SLO/EU, in %	2.9	5.9	-1.1	4.1

Sources: PETROL, Slovenska naftna druba, d.d., petrol.si/www.nsf; updated and calculated by IMAD. **Notes:** ¹Since the Government lifted its control (5 Oct., 1998) Petrol's price has been taken as the Slovenian price ²The Slovenian price compared in the table is the highest price; also for Slovenia it would be appropriate to use the discount price for shipments above 2000 kg, but there are no data for the entire time series; in individual periods discount price was lower by 5-10%.

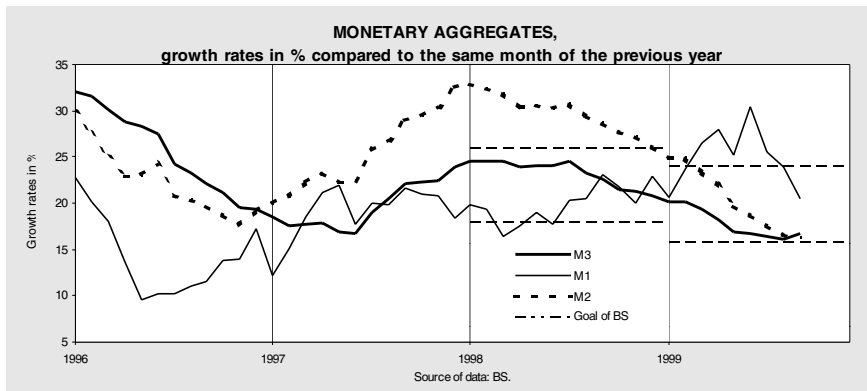
for this year's crops, and some other novelties will be implemented next year, such as longer period of intervention purchase and the possibility of hiring warehousing capacities. The minimum purchase price has been guaranteed for grain corn grown by domestic producers, since prices abroad are subsidised and therefore lower. In animal husbandry, especially pig farming, the situation became tenser, which is why the intervention purchase and increased compensations for exported goods were introduced. At the beginning of next year, the agricultural part of the agreement with the CEFTA countries will enter into force, bringing about substantially less protectionism. It is expected that the pressure on reducing the prices of agricultural products will build up further. The potential solution to the problem lies in consistent implementation of agricultural policy reform, adopted by the Government, which foresees the liberalisation of market and price protection together with the growing importance of structural and development policy.

Inflationary trends next year are expected to **slow down further**. Growth in the prices of energy products in the world markets stopped at the end of September and according to the available assessments next year prices in this area will move significantly slower than they have this

year. With wages increasing more slowly than productivity, a somewhat lower growth in the M3 monetary aggregate than this year, a real stagnation of the tolar exchange rate against the basket of currencies and a prudent policy of increasing administered prices, the annual price growth would again substantially decrease in the second half of 2000 **falling below 4% at the end of the year.** The increase in the aggregate price level caused by the introduction of VAT in the summer months will also have significant impact on the average annual inflation in 2000. Since VAT was implemented in the middle of the year, the average annual inflation rate will remain relatively high until the middle of next year. Therefore, despite that the anticipated price growth (December 2000/December 1999) will be almost 50% lower than this year's, the **average annual price growth** will not be considerably different from that seen in 1999. According to the estimates, the average annual inflation would reach **about 6%**, given the usual seasonal monthly pace.

11 MONETARY MOVEMENTS - Because of the expectations prior to the implementation of value added tax retail borrowing grew significantly

The intermediate monetary policy target of the Bank of Slovenia for 1999 is to keep the M3 monetary aggregate annual growth between 16% and 24%. From the third quarter of 1998 to the third quarter of 1999, M3 monetary aggregate increased by 16.4% and this September it was by 16.7% higher than in the same period last year, thus staying just above the lower edge of the monetary policy target range. From the last year's third quarter to the same quarter this year the M1 monetary aggregate rose by 23.2%, and from September 1998 until September 1999 by 20.4%. In the abovementioned periods the M2 grew by 16.8% and 16.2% respectively. Structural changes in the growth of monetary aggregates point to changed preferences of non-banking sector regarding bank savings (monitoring of currency and maturity structure) due to increased needs for more liquid sources and as a reaction to changes in interest on deposits. From last to this September, savings deposits and time deposits for up to 30 days grew by 34.5% and foreign exchange deposits by 18.4%.



After the implementation of value added tax monetary movements have been normalising. In the narrow monetary area it is especially encouraging that savings strengthened again, primarily time tolar deposits with above six months maturity, owing to the changes in interest policy (increase in interest payable on long-term deposits), growth in the **base interest rate** (tolar revaluation clause) and subdued consumption.

The average nominal **interest rate on the inter-bank market** in last

December was 5.6% or 0.4 of a percentage point lower than the **base interest rate**. This year on average it grew especially in April and May (7.9% and 8.1%), when the liquidity of banks deteriorated. In September the average nominal interest rate on the inter-bank market was 6.83% and the real interest rate reached the level of -0.67% (from March to August it was positive), which points to the improved liquidity. **The monthly base interest rate** in August rose to 0.5% due to higher inflation (before it was 0.4%) and in September to 0.6%. The annual base interest rate grew from 4.81% in July to 6.05% in August and to 7.55% in September (6.05% last December). In October, the monthly base interest rate remained at 0.6%, and the annual base interest rate dropped to 7.30%.

The last inter-bank agreement on the highest interest rate on deposits applied until the end of February 1999. Contrary to the expectations no competition regarding the level of interest rates occurred between banks, because the Bank Association of Slovenia issued a recommendation, in which it suggested to banks the highest interest rate on deposits. Banks accepted it, although the recommended interest rates were lower than those stipulated by the inter-bank agreement. In June and August, the Bank Association of Slovenia issued two amendments to these recommendations in order to increase interest rate on deposits (especially on long-term time deposits). As a consequence, deposit interest rates increased and savings also grew slightly and thus the objective behind higher interest rates was reached. **In the first half of the year the volume of retail savings** in banks **grew more slowly than** in the same period **last year** (at the end of June, the real growth over last December was 3.8%, whilst in the same period last year it was 8.6%), especially due to reduced savings in April and May (influence of lower interest rate on deposits and increased spending prior to the introduction of VAT). From June until September, the volume of savings rose by 1.0% in real terms (especially in August and September), while real growth from December to September was 4.8%.

Average real interest rate (i.e. the part on top of the indexation rate - TOM¹²) **on short- and long-term corporate loans rose this year**. In September the average real interest rate on short-term loans was 6.2% or 0.3 of a percentage point more than in December 1998 and on long-term loans 8.0% which is 0.8 of a percentage point above last December's. The average real interest rate on short-term consumer loans this September

¹² average consumer price index over the preceding 12-month period

was the same as in last December (4.1%), and on long-term retail housing loans it decreased from last December's 6.0% to this September's 5.7%.

Lending activity of banks was **strong** this year, especially due to increased raising of bank loans prior to the implementation of VAT. As at the end of June loans to the non-banking sector were in real terms 7.9% above the level posted last December and as at the end of September the respective figure was 9.9%. Lending in the first half of the year grew because of loans to retail and corporate clients, whereas in July it resulted from government borrowings. In August and September, the highest increase was recorded in corporate loans, especially short-term. The reason for this is probably found in VAT, which is payable on accrued revenue and so taxable persons must raise more funds to meet this obligation than they had to under the previous sales tax, which was charged on paid invoices. Following substantial growth in the second quarter of the year, retail borrowing subsided in August and September.

Table 16: Ratio between loans and registered monthly personal income in the 1995-1999 period

Period	Average retail loans by commercial banks (in billions of SIT)	Registered monthly personal income (in billions of SIT), average	Loans / income
1995	123.9	88.8	1.39
1996	192.8	106.4	1.81
1997	224.4	119.8	1.87
1998	272.6	131.8	2.07
1999 (Jan-Jul)	360.0	144.1	2.50

Source: Bulletin BS, IMAD calculations

Since 1995, retail loans by commercial banks have been increasing more rapidly than registered personal income (this includes net wages and salaries, other receipts from employment and transfer receipts). **Retail borrowing grew significantly** especially in the first seven months of **1999**, since in this period retail loans by commercial banks were on average two and a half times higher than the average registered monthly personal income, the reason being the increased household consumption prior to the implementation of VAT (record sales of vehicles), which was primarily financed by bank loans.

According to data on company transfer accounts on average frozen for over five consecutive days, **corporate liquidity** is still deteriorating. In September 9,529 legal entities had their company transfer accounts frozen,

which is 1.4% more than in August and 7.5% above December last year. In September, the average outstanding amount on frozen accounts was SIT 97,122 million, i.e. just slightly more than in August and by 3.4% higher than in December 1998. Following a downward trend of several months, the number of employees in companies with frozen company accounts rose again in September by as much as 15.2%, reaching 41,775. Nevertheless, it was still 15% below the level recorded last December.

As of 1 September 1999 the decision on the procedures for opening foreign-currency resident accounts with authorised banks (Foreign Exchange Act) entered into force, enabling also legal entities to keep foreign currency accounts. Slovenian residents may make contracts in foreign currencies only in cases that are explicitly allowed by law (primarily transactions with non-residents), whereas payments in foreign currencies among residents are prohibited. With the introduction of corporate foreign-currency accounts in September, the M1 monetary aggregate decreased (poorer demand for tolar) and the M3 monetary aggregate increased. Repatriation of foreign exchange the companies held abroad to their foreign-currency accounts in Slovenia amounting to DEM 140 million (14 billion tolar) in September raised the M3 monetary aggregate by 0.7 of a percentage point (1.9% growth). Introduction of corporate foreign-currency accounts also changed the structure of supply and demand on the foreign exchange market.

12 SECURITIES MARKET - Softer foreign portfolio investment regime has so far failed to bring visible results

Following the decrease in the SBI¹³ share index from February to June (1,699 points), the SBI recovered in July (up by 4.7%) and August (up by 8%), due to anticipated foreign purchases, after the foreign portfolio investment regime had been softened. In the first eight months of 1999, the total turnover on the Stock Exchange was SIT 148.7 billion or 73% more than in the respective period last year. Of total turnover at the Stock Exchange, 85% was generated by stock trading, 12% by bond operations and the trading in short-term securities represented 3%. In the same period the market capitalisation of all securities on the Stock Exchange (except shares of investment funds) increased by one quarter, having reached SIT 783.7 billion at the end of August, which is 24.2% of gross domestic product in 1998. **Market capitalisation of shares on the Stock Exchange rose by 17.2%** to SIT 566.36 billion in the first eight months of 1999. Also this year foreigners continue to hold around 9% of the total market capitalisation of shares. At the end of August, 220 securities were traded (180 issuers) on the market, of which 153 were shares (including 43 shares issued by authorised investment companies), 53 bonds and 14 short-term securities.

In the primary securities market, where the investors purchase newly issued securities directly from issuers, who in this way raise additional funds for their operations and investment, five securities were offered to the public in the first six months of 1999 (four bonds and one share) totalling SIT 4.4 billion. The primary securities market in Slovenia is underdeveloped and its role in the financing of non-financial companies is negligible, since they are primarily financed by the banking industry.

Developments in major foreign financial markets this year, which experienced no major financial crisis, had no significant influence on the domestic securities market which is quite closed compared to other markets. The reasons for the slight interest of foreigners in the Slovenian securities market, especially in comparison with other Central European countries, also lie in relatively unfavourable financial market criteria (poor stock market liquidity, controlled capital flows, insufficient protection of minor shareholders, worse position of foreign investors compared to that of domestic ones) and the absence of a clearly determined legal framework

¹³ Slovenian Stock Exchange Index

(Koeke, 1999).

The Bank of Slovenia has changed the regulations regarding custody accounts. The premium for the purchase of foreign exchange purchase right was reduced to 0.7% for the third and the fourth quarters and the four-year exemption from payment of premium costs of foreign portfolio investment was shortened to one year (applicable as of 1 September 1999). After the volume of foreign portfolio investment in Slovenian securities (stocks) had been on the decline for several months, the capital flow was again positive in June (DEM 12.7 million), July (DEM 2.6 million) and August (DEM 0.6 million). In September, net outflow of foreign portfolio investment was DEM 0.7 million, which is contrary to the expected return of foreign investors.

As of 1 September, 1999 the implementing regulations based on the Foreign Exchange Act entered into force, allowing Slovenian residents to trade in securities abroad, however only through authorised brokers.

In June 1999, the Act on First Pension Fund of the Republic of Slovenia and the Restructuring of Authorised Investment Companies was adopted, according to which the **shares of authorised investment companies** (to the amount of uninvested privatisation vouchers) **can be exchanged for pension coupons** (additional pension-savings scheme) or kept as shares (authorised investment companies will be given additional assets enabling to cover privatisation gap). After having been temporarily suspended, trading in authorised investment companies shares started again (it was stopped due to the share split process) and in August they became very attractive, which was reflected in their quickly growing prices and the volume of trading. Also in August, the authorised investment companies share index PIX increased by a good third and in September by another 7.9%.

This year the Dematerialised Securities Act was passed, regulating the method of issuing and transferring dematerialised securities, exchanging previously issued securities with those in dematerialised form, conditions and limitations of access to data on the holders of dematerialised securities and the rules on keeping the central register of such securities. Issuers who issued shares pursuant to the Law on the Transformation of Company Ownership and went public, must issue all shares in dematerialised form. This will provide for better transparency of stock trading (listing on the free or organised market) and increase the market capitalisation of securities quoted on the Stock Exchange.

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Table 1: Main macroeconomic indicators of Slovenia

	<i>real growth rates in %</i>					
	1995	1996	1997	1998	1999 estimate	2000 estimate
GROSS DOMESTIC PRODUCT	4.1	3.5	4.6	3.9	3.5 - 4.0 *	4.0
Structure in value added in % ¹						
Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.0	4.0	3.9
Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.6	38.5	38.4
- Industry (C+D+E)	33.4	32.8	32.5	32.8	32.3	31.9
- Construction (F)	5.1	5.7	5.7	5.8	6.2	6.4
Services (G...O)	59.2	59.5	59.8	59.7	59.9	60.0
FISIM	-2.3	-2.5	-2.3	-2.4	-2.3	-2.3
GDP in mil. SIT (current prices)						
	2,221,459	2,555,369	2,907,277	3,243,490	3,574,000	3,947,400
GDP in mil. US\$						
	18,744	18,878	18,206	19,523	19,801	21,689
GDP per capita in US\$						
	9,431	9,480	9,163	9,847	10,004	10,958
GDP per capita purchasing power in US\$						
	12,500	13,200	14,100	14,800		
GDP per capita (PPS)						
	11,300	12,200	13,000	13,800		
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS						
Exports of goods and services- real ²						
	6.9	3.5	10.0	6.8	3.6	4.5
- Exports of goods	8.1	3.3	11.4	8.4	4.6	5.3
- Exports of services	1.7	4.4	4.3	0.0	-0.8	0.6
Imports of goods and services- real ²						
	15.1	1.6	9.9	9.7	7.2	5.1
- Imports of goods	15.6	1.5	9.9	10.4	7.4	5.6
- Imports of services	11.6	2.5	10.0	5.1	5.7	2.0
Exports of goods and serv. in mil. US\$						
	10,373	10,497	10,450	11,142	11,025	11,925
As a % of GDP	55.3	55.6	57.4	57.1	55.7	55.0
Imports of goods and serv. in mil. US\$						
	10,696	10,675	10,632	11,404	11,555	12,620
As a % of GDP	57.1	56.5	58.4	58.4	58.4	58.2
Trade balance in mil. US\$ ²						
	-954.3	-881.7	-771.6	-774.9	-940.0	-1110.0
As a % of GDP	-5.1	-4.7	-4.2	-4.0	-4.7	-5.1
Current account balance in mil. US\$						
	-22.8	39.0	36.6	-3.8	-265.0	-350.0
As a % of GDP	-0.1	0.2	0.2	0.0	-1.3	-1.6
Foreign exchange reserves in mil. US\$						
	3,426	4,124	4,377	4,767		
As a % of GDP	18.3	21.8	24.0	24.4		
External debt in mil. US\$						
	2,970	4,010	4,176	4,959		
As a % of GDP	15.8	21.2	22.9	25.4		

(continue on next page)

Table 1: Main macroeconomic indicators of Slovenia - continue

	<i>real growth rates in %</i>					
	1995	1996	1997	1998	1999 estimate	2000 estimate
EMPLOYMENT, WAGES AND PRODUCTIVITY						
Employment (according to SNA)	0.8	-0.9	-0.5	0.0	0.5	0.8
Registered unemployed (annual average, in thousand)	121.5	119.8	125.2	126.1	118.9	108.8
Rate of registered unemployment in %	13.9	13.9	14.4	14.5	13.6	12.5
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9	7.4	7.5
Gross wage per employee	5.1	5.1	2.4	1.6	2.0	2.5
Labour productivity	3.3	4.4	5.1	3.9	3.3	3.2
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS						
Final consumption		2.7	3.6	3.2	4.1	2.9
As a % of GDP	78.3	77.5	76.9	76.3	76.5	75.8
in which:						
- Private consumption	58.1	57.3	56.5	55.7	55.7	54.7
- Government consumption	20.2	20.2	20.5	20.6	20.8	21.1
Gross fixed capital formation		9.2	11.3	12.9	14.0	9.0
As a % of GDP	21.4	22.6	23.5	24.2	25.8	27.1
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY						
General government revenue as a % of GDP	43.1	42.7	42.0	43.1	44.1	43.8
General government expenditure as a % of GDP	43.1	42.4	43.2	43.9	45.3	44.8
Surplus/deficit as a % of GDP	0.0	0.3	-1.2	-0.8	-1.2	-1.0
EXCHANGE RATE AND PRICES						
Average exchange rate SIT/US\$	118.5	135.4	159.7	166.1	180.5	182.0
Inflation (annual average) ³	12.6	9.7	9.1	7.9	6.2	6.2

¹Letters in brackets refer to NACE Rev. 1, Classification of Economic Activities

²Balance 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

³Retail prices as a measure of inflation until 1998, after 1998 consumer price index

*National accounts estimates are based on 3/34 real growth rate of GDP.

Source of data: SORS, BS, Ministry of Finance, IMAD estimates.

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Table 2a : Value added by activities at basic prices by NACE Rev.1 and gross domestic product

	<i>current prices, SIT million</i>					
	1995	1996	1997	1998	1999 estimate	2000 estimate
A Agriculture, hunting, forestry	87,072	98,260	107,700	111,353	119,892	129,902
B Fishing	386	439	484	519	548	582
C Mining and quarrying	26,006	30,683	33,908	36,016	36,115	36,446
D Manufacturing	545,730	616,410	706,266	778,730	844,206	930,818
E Electricity, gas and water supply	56,693	65,032	73,492	96,530	96,796	102,771
F Construction	96,588	123,827	143,158	162,567	188,769	214,549
G Wholesale and retail trade, certain repair	232,286	257,269	294,293	323,333	358,373	399,706
H Hotels and restaurants	57,164	68,467	77,314	84,126	91,022	100,553
I Transport, storage and communications	148,746	169,275	204,827	233,175	254,750	281,428
J Financial intermediation	77,067	93,185	108,916	120,099	131,846	147,752
K Real estate, renting and business A5activities	224,830	263,568	291,572	328,355	357,003	395,526
L Public administration and com. soc. sec.	102,937	121,447	149,612	164,223	177,684	196,584
M Education	108,002	123,881	146,689	157,736	171,107	189,488
N Health and social work	101,172	118,454	134,589	148,883	161,873	177,449
O Other community, social and personal activities	63,580	77,431	88,243	100,409	110,230	121,738
FISIM	-43,947	-55,127	-58,554	-65,417	-70,468	-75,902
1 TOTAL VALUE ADDED (basic prices)	1,884,312	2,172,501	2,502,509	2,780,637	3,029,745	3,349,392
2 CORRECTIONS	337,147	382,868	404,768	462,853	544,256	598,009
3 GROSS DOMESTIC PRODUCT (3=1+2)	2,221,459	2,555,369	2,907,277	3,243,490	3,574,000	3,947,400
TOTAL VALUE ADDED (basic prices)	1,884,312	2,172,501	2,502,509	2,780,637	3,029,745	3,349,392
in which:						
1 Agriculture, forestry, fishing (A+B)	87,458	98,699	108,184	111,872	120,440	130,484
2 Industry and construction (C+D+E+F)	725,017	835,952	956,824	1,073,843	1,165,886	1,284,585
Industry (C+D+E)	628,429	712,125	813,666	911,276	977,117	1,070,036
Construction (F)	96,588	123,827	143,158	162,567	188,769	214,549
3 Services (G...O)	1,115,784	1,292,977	1,496,055	1,660,339	1,813,887	2,010,226
4 FISIM	-43,947	-55,127	-58,554	-65,417	-70,468	-75,902

Source of data: SORS, IMAD's estimates.

Table 2b : Value added by activities at basic prices by NACE Rev.1 and gross domestic product

shares in GDP in %, current prices

	1995	1996	1997	1998	1999 estimate	2000 estimate
A Agriculture, hunting, forestry	3.9	3.8	3.7	3.4	3.4	3.3
B Fishing	0.0	0.0	0.0	0.0	0.0	0.0
C Mining and quarrying	1.2	1.2	1.2	1.1	1.0	0.9
D Manufacturing	24.6	24.1	24.3	24.0	23.6	23.6
E Electricity, gas and water supply	2.6	2.5	2.5	3.0	2.7	2.6
F Construction	4.3	4.8	4.9	5.0	5.3	5.4
G Wholesale and retail trade, certain repair	10.5	10.1	10.1	10.0	10.0	10.1
H Hotels and restaurants	2.6	2.7	2.7	2.6	2.5	2.5
I Transport, storage and communications	6.7	6.6	7.0	7.2	7.1	7.1
J Financial intermediation	3.5	3.6	3.7	3.7	3.7	3.7
K Real estate, renting and business activities	10.1	10.3	10.0	10.1	10.0	10.0
L Public administration and com. soc. sec.	4.6	4.8	5.1	5.1	5.0	5.0
M Education	4.9	4.8	5.0	4.9	4.8	4.8
N Health and social work	4.6	4.6	4.6	4.6	4.5	4.5
O Other community, social and personal activities	2.9	3.0	3.0	3.1	3.1	3.1
FISIM	-2.0	-2.2	-2.0	-2.0	-2.0	-1.9
<hr/>						
1 TOTAL VALUE ADDED (basic prices)	84.8	85.0	86.1	85.7	84.8	84.9
2 CORRECTIONS	15.2	15.0	13.9	14.3	15.2	15.1
3 GROSS DOMESTIC PRODUCT (3=1+2)	100.0	100.0	100.0	100.0	100.0	100.0

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Table 2b: Value added by activities at basic prices by NACE Rev.1 and gross domestic product - continue

shares in GDP in %, current prices

	1995	1996	1997	1998	1999 estimate	2000 estimate
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0
in which:						
1. Agriculture, forestry, fishing (A+B)	3.9	3.9	3.7	3.4	3.4	3.3
2. Industry and construction (C+D+E+F)	32.6	32.7	32.9	33.1	32.6	32.5
Industry (C+D+E)	28.3	27.9	28.0	28.1	27.3	27.1
Construction (F)	4.3	4.8	4.9	5.0	5.3	5.4
3. Services (G...O)	50.2	50.6	51.5	51.2	50.8	50.9
4. FISIM	-2.0	-2.2	-2.0	-2.0	-2.0	-1.9
5. CORRECTIONS	15.2	15.0	13.9	14.3	15.2	15.1
shares in value added %						
TOTAL VALUE ADDED (basic prices)	100.0	100.0	100.0	100.0	100.0	100.0
in which:						
1 Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.0	4.0	3.9
2 Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.6	38.5	38.4
Industry (C+D+E)	33.4	32.8	32.5	32.8	32.3	31.9
Construction (F)	5.1	5.7	5.7	5.8	6.2	6.4
3 Services (G...O)	59.2	59.5	59.8	59.7	59.9	60.0
4 FISIM	-2.3	-2.5	-2.3	-2.4	-2.3	-2.3

Source of data: SORS, IMAD's estimates.

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

prices 1995, SIT million

	1995	1996	1997	1998	1999 estimate	2000 estimate
A Agriculture, hunting, forestry	87,072	87,956	85,362	87,242	88,943	90,767
B Fishing	386	423	430	420	420	420
C Mining and quarrying	26,006	26,495	27,328	27,700	26,301	24,999
D Manufacturing	545,730	554,260	590,671	620,744	637,194	661,726
E Electricity, gas and water supply	56,693	57,365	59,750	61,300	58,204	58,204
F Construction	96,588	109,382	117,792	122,392	134,570	144,057
G Wholesale and retail trade, certain repair	232,286	239,175	245,870	255,983	268,654	282,221
H Hotels and restaurants	57,164	59,680	61,826	63,382	64,935	67,565
I Transport, storage and communications	148,746	152,612	159,052	167,657	173,441	180,466
J Financial intermediation	77,067	85,509	85,555	87,850	91,320	96,388
K Real estate, renting and business activities	224,830	234,121	240,033	246,752	254,093	265,151
L Public administration and com. soc. sec.	102,937	108,438	119,592	122,147	125,140	130,402
M Education	108,002	109,175	114,476	117,670	120,866	126,069
N Health and social work	101,172	107,685	111,035	115,277	118,678	122,535
O Other community, social and personal activities	63,580	66,671	69,373	72,297	75,153	78,174
FISIM	-43,947	-50,253	-48,924	-49,336	-50,323	-51,052
1. TOTAL VALUE ADDED, (basic prices)	1,884,312	1,948,694	2,039,221	2,119,477	2,187,589	2,278,091
2. CORRECTIONS	337,147	351,206	365,543	380,148	405,911	419,109
3. GROSS DOMESTIC PRODUCT (3=1+2)	2,221,459	2,299,900	2,404,764	2,499,625	2,593,500	2,697,200
TOTAL VALUE ADDED, basic prices)	1,884,312	1,948,694	2,039,221	2,119,477	2,187,589	2,278,091
in which:						
1. Agriculture, forestry, fishing (A+B)	87,458	88,379	85,792	87,662	89,363	91,187
2. Industry and construction (C+D+E+F)	725,017	747,502	795,541	832,136	856,269	888,986
Industry (C+D+E)	628,429	638,120	677,749	709,744	721,699	744,929
Construction (F)	96,588	109,382	117,792	122,392	134,570	144,057
3. Services (G...O)	1,115,784	1,163,066	1,206,812	1,249,015	1,292,279	1,348,970
4. FISIM	-43,947	-50,253	-48,924	-49,336	-50,323	-51,052

Sources of data: SORS, IMAD's estimates.

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

	<i>real growth rates in %</i>				
	1996	1997	1998	1999 estimate	2000 estimate
A Agriculture, hunting, forestry	1.0	-2.9	2.2	2.0	2.0
B Fishing	9.6	1.7	-2.3	0.0	0.0
C Mining and quarrying	1.9	3.1	1.4	-5.0	-5.0
D Manufacturing	1.6	6.6	5.1	2.7	3.8
E Electricity, gas and water supply	1.2	4.2	2.6	-5.0	0.0
F Construction	13.2	7.7	3.9	10.0	7.0
G Wholesale and retail trade, certain repair	3.0	2.8	4.1	5.0	5.0
H Hotels and restaurants	4.4	3.6	2.5	2.5	4.0
I Transport, storage and communications	2.6	4.2	5.4	3.5	4.0
J Financial intermediation	11.0	0.1	2.7	4.0	5.5
K Real estate, renting and business activities	4.1	2.5	2.8	3.0	4.3
L Public administration and com. soc. sec.	5.3	10.3	2.1	2.5	4.2
M Education	1.1	4.9	2.8	2.7	4.3
N Health and social work	6.4	3.1	3.8	3.0	3.2
O Other community, social and personal activities	4.9	4.1	4.2	4.0	4.0
FISIM	14.3	-2.6	0.8	2.0	1.5
1. TOTAL VALUE ADDED, (basic prices)	3.4	4.6	3.9	3.2	4.1
2. CORRECTIONS	4.2	4.1	4.0	6.8	3.3
3. GROSS DOMESTIC PRODUCT (3=1+2)	3.5	4.6	3.9	3³/₄	4.0
TOTAL VALUE ADDED, (basic prices)	3.4	4.6	3.9	3.2	4.1
in which:					
1. Agriculture, forestry, fishing (A+B)	1.1	-2.9	2.2	1.9	2.0
2. Industry and construction (C+D+E+F)	3.1	6.4	4.6	2.9	3.8
Industry (C+D+E)	1.5	6.2	4.7	1.7	3.2
Construction (F)	13.2	7.7	3.9	10.0	7.0
3. Services (G...O)	4.2	3.8	3.5	3.5	4.4
4. FISIM	14.3	-2.6	0.8	2.0	1.4

Sources of data: SORS, IMAD's estimates.

Table 4 : Cost structure of GDP

current prices, SIT million

	1995	1996	1997	1998	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT (1=2+3-4+5)	2,221,459	2,555,369	2,907,277	3,243,490	3,574,000	3,947,400
2 Compensation of employees	1,271,699	1,400,005	1,558,696	1,697,259	1,847,441	2,022,664
3 Taxes on production and imports	377,964	444,708	493,398	572,126	667,131	731,186
Taxes on products	290,463	341,798	385,850	464,371	553,849	614,189
Import duties	78,371	76,779	58,425	47,386	43,745	40,465
Other taxes on production	9,130	26,131	49,123	60,369	69,537	76,532
4 Subsidies	48,001	52,873	59,868	71,771	78,258	83,109
5 Gross operating surplus and gross mixed income (5=6+7)	619,797	763,529	915,051	1,045,876	1,137,686	1,276,659
in which:						
6 Gross operating surplus	380,932	488,300	614,485	712,382	784,973	877,408
Consumption of fixed capital	352,315	417,938	468,585	532,089	586,308	647,564
Net operating surplus	28,617	70,362	145,900	180,293	198,665	229,844
7 Gross mixed income	238,865	275,229	300,566	333,494	352,713	399,251
Consumption of fixed capital	38,576	45,528	54,360	59,059	65,077	71,876
Net mixed income	200,289	229,701	246,206	274,435	287,636	327,375

(continue on next page)

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Table 4 : Cost structure of GDP - continue

	<i>shares in GDP in %</i>					
	1995	1996	1997	1998	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT (1=2+3-4+5)	100.0	100.0	100.0	100.0	100.0	100.0
2 Compensation of employees	57.2	54.8	53.6	52.3	51.7	51.2
3 Taxes on production and imports	17.0	17.4	17.0	17.6	18.7	18.5
Taxes on products	13.1	13.4	13.3	14.3	15.5	15.6
Import duties	3.5	3.0	2.0	1.5	1.2	1.0
Other taxes on production	0.4	1.0	1.7	1.9	1.9	1.9
4 Subsidies	2.2	2.1	2.1	2.2	2.2	2.1
5 Gross operating surplus and gross mixed income (5=6+7)	27.9	29.9	31.5	32.2	31.8	32.3
in which:						
6 Gross operating surplus	17.1	19.1	21.1	22.0	22.0	22.2
Consumption of fixed capital	15.9	16.4	16.1	16.4	16.4	16.4
Net operating surplus	1.3	2.8	5.0	5.6	5.6	5.8
7 Gross mixed income	10.8	10.8	10.3	10.3	9.9	10.1
Consumption of fixed capital	1.7	1.8	1.9	1.8	1.8	1.8
Net mixed income	9.0	9.0	8.5	8.5	8.0	8.3

Sources of data: SORS, IMAD's estimates.

Table 5a : Expenditure on gross domestic product

	<i>current prices, SIT million</i>					
	1995	1996	1997	1998	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)	2,221,459	2,555,369	2,907,277	3,243,490	3,574,000	3,947,400
2 EXPORTS OF GOODS AND SERVICES	1,225,659	1,419,884	1,660,733	1,838,714	1,990,013	2,170,350
3 IMPORTS OF GOODS AND SERVICES	1,262,128	1,445,023	1,694,631	1,885,708	2,085,678	2,296,840
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2 - 3)	-36,469	-25,139	-33,898	-46,994	-95,665	-126,490
5 FINAL CONSUMPTION (5 = 6 + 7)	1,738,979	1,980,106	2,236,556	2,473,275	2,733,801	2,993,150
6 PRIVATE FINAL CONSUMPTION	1,290,411	1,463,249	1,641,449	1,806,552	1,989,480	2,160,758
- households	1,266,058	1,437,756	1,612,434	1,776,011	1,955,910	2,124,291
- non-profit institutions	24,353	25,493	29,015	30,541	33,570	36,467
7 GOVERNMENT CONSUMPTION (individual and collective)	448,568	516,857	595,107	666,723	744,321	832,392
8 GROSS CAPITAL FORMATION (8 = 9 + 10)	518,949	600,402	704,619	817,209	935,864	1,080,740
9 GROSS FIXED CAPITAL FORMATION	474,973	576,680	684,114	785,198	923,428	1,069,827
10 CHANGES IN INVENTORIES	43,976	23,722	20,505	32,011	12,436	10,913

(continue on next page)

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Table 5a : Expenditure on gross domestic product - continue

	shares in GDP in %					
	1995	1996	1997	1998	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)	100.0	100.0	100.0	100.0	100.0	100.0
2 EXPORTS OF GOODS AND SERVICES	55.2	55.6	57.1	56.7	55.7	55.0
3 IMPORTS OF GOODS AND SERVICES	56.8	56.5	58.3	58.1	58.4	58.2
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2 - 3)	-1.6	-1.0	-1.2	-1.4	-2.7	-3.2
5 FINAL CONSUMPTION (5 = 6 + 7)	78.3	77.5	76.9	76.3	76.5	75.8
6 PRIVATE FINAL CONSUMPTION	58.1	57.3	56.5	55.7	55.7	54.7
- households	57.0	56.3	55.5	54.8	54.7	53.8
- non-profit institutions	1.1	1.0	1.0	0.9	0.9	0.9
7 GOVERNMENT CONSUMPTION (individual and collective)	20.2	20.2	20.5	20.6	20.8	21.1
8 GROSS CAPITAL FORMATION (8 = 9 + 10)	23.4	23.5	24.2	25.2	26.2	27.4
9 GROSS FIXED CAPITAL FORMATION	21.4	22.6	23.5	24.2	25.8	27.1
10 CHANGES IN INVENTORIES	2.0	0.9	0.7	1.0	0.3	0.3

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

Table 5b : Expenditure on gross domestic product

prices 1995, SIT million

	1995	1996	1997	1998	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)	2,221,459	2,299,900	2,404,764	2,499,625	2,593,500	2,697,200
2 EXPORTS OF GOODS AND SERVICES	1,225,659	1,265,691	1,409,093	1,508,212	1,562,508	1,632,039
3 IMPORTS OF GOODS AND SERVICES	1,262,128	1,292,328	1,449,825	1,596,562	1,711,514	1,799,572
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2 - 3)	-36,469	-26,637	-40,732	-88,350	-149,006	-167,533
5 FINAL CONSUMPTION (5 = 6 + 7)	1,738,979	1,785,835	1,849,985	1,908,965	1,986,391	2,043,926
6 PRIVATE FINAL CONSUMPTION	1,290,411	1,321,186	1,365,134	1,396,936	1,448,249	1,477,262
- households	1,266,058	1,298,226	1,341,504	1,373,563	1,424,047	1,452,528
- non-profit institutions	24,353	22,960	23,630	23,373	24,202	24,734
7 GOVERNMENT CONSUMPTION (individual and collective)	448,568	464,649	484,851	512,029	538,142	566,664
8 GROSS CAPITAL FORMATION (8 = 9 + 10)	518,949	540,702	595,511	679,010	756,115	820,807
9 GROSS FIXED CAPITAL FORMATION	474,973	518,638	577,465	652,114	743,410	810,317
10 CHANGES IN INVENTORIES	43,976	22,064	18,046	26,896	12,705	10,490

(continue on next page)

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Table 5b : Expenditure on gross domestic product - continue

	<i>real growth rates in %</i>					
	1995	1996	1997	1998	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT (1 = 4 + 5 + 8)		3.5	4.6	3.9	3³/₄	4.0
2 EXPORTS OF GOODS AND SERVICES		3.3	11.3	7.0	3.6	4.5
3 IMPORTS OF GOODS AND SERVICES		2.4	12.2	10.1	7.2	5.1
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2 - 3)						
5 FINAL CONSUMPTION (5 = 6 + 7)		2.7	3.6	3.2	4.1	2.9
6 PRIVATE FINAL CONSUMPTION		2.4	3.3	2.3	3.7	2.0
- households		2.5	3.3	2.4	3.7	2.0
- non-profit institutions		-5.7	2.9	-1.1	3.5	2.2
7 GOVERNMENT CONSUMPTION (individual and collective)		3.6	4.3	5.6	5.1	5.3
8 GROSS CAPITAL FORMATION (8 = 9 + 10)		4.2	10.1	14.0	11.4	8.6
9 GROSS FIXED CAPITAL FORMATION		9.2	11.3	12.9	14.0	9.0
10 CHANGES IN INVENTORIES		-49.8	-18.2	49.0	-52.8	-17.4

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

Table 6 : Supply and use of resources

	current prices, S/T million					
	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT	2,221,459	2,555,369	2,907,277	3,243,490	3,574,000	3,947,400
2 Primary incomes with the ROW, net	24,698	20,716	20,766	24,173	19,855	30,030
3 GROSS NATIONAL INCOME (3 = 1 + 2)	2,246,157	2,576,085	2,928,043	3,267,663	3,593,855	3,977,430
4 Current transfers with the ROW, net	10,937	8,878	16,034	18,590	27,978	32,760
5 GROSS NATIONAL DISPOSABLE INCOME (5 = 3 + 4)	2,257,094	2,584,963	2,944,077	3,286,253	3,621,833	4,010,190
6 FINAL DOMESTIC CONSUMPTION	1,738,979	1,980,106	2,236,556	2,473,275	2,733,801	2,993,150
- private consumption	1,290,411	1,463,249	1,641,449	1,806,552	1,989,480	2,160,758
- government consumption	448,568	516,857	595,107	666,723	744,321	832,392
7 GROSS SAVING (7 = 5 - 6)	518,115	604,857	707,521	812,978	888,032	1,017,040
8 SURPLUS ON CURRENT TRANSACTIONS WITH ROW	-834	4,455	2,902	-4,231	-47,833	-63,700
9 GROSS CAPITAL FORMATION (9 = 7 - 8)	518,949	600,402	704,619	817,209	935,864	1,080,740
in which:						
- gross fixed capital formation	474,973	576,680	684,114	785,198	923,428	1,069,827
- changes in stocks	43,976	23,722	20,505	32,011	12,436	10,913
10 CONSUMPTION OF FIXED CAPITAL	390,891	463,466	522,945	591,148	651,386	719,440
11 NET CAPITAL FORMATION (11 = 9 - 10)	128,058	136,936	181,674	226,061	284,478	361,300

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Table 6 : Supply and use of resources - continue

	<i>shares in GDP in %</i>					
	1995	1996	1997	1998 estimate	1999 estimate	2000 estimate
1 GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0
2 Primary incomes with the ROW, net	1.1	0.8	0.7	0.7	0.6	0.8
3 GROSS NATIONAL INCOME (3 = 1 + 2)	101.1	100.8	100.7	100.7	100.6	100.8
4 Current transfers with the ROW, net	0.5	0.3	0.6	0.6	0.8	0.8
5 GROSS NATIONAL DISPOSABLE INCOME (5 = 3 + 4)	101.6	101.2	101.3	101.3	101.3	101.6
6 FINAL DOMESTIC CONSUMPTION	78.3	77.5	76.9	76.3	76.5	75.8
- private consumption	58.1	57.3	56.5	55.7	55.7	54.7
- government consumption	20.2	20.2	20.5	20.6	20.8	21.1
7 GROSS SAVING (7 = 5 - 6)	23.3	23.7	24.3	25.1	24.8	25.8
8 SURPLUS ON CURRENT TRANSACTIONS WITH ROW	0.0	0.2	0.1	-0.1	-1.3	-1.6
9 GROSS CAPITAL FORMATION (9 = 7 - 8)	23.4	23.5	24.2	25.2	26.2	27.4
in which:						
- gross fixed capital formation	21.4	22.6	23.5	24.2	25.8	27.1
- changes in stocks	2.0	0.9	0.7	1.0	0.3	0.3
10 CONSUMPTION OF FIXED CAPITAL	17.6	18.1	18.0	18.2	18.2	18.2
11 NET CAPITAL FORMATION (11 = 9 - 10)	5.8	5.4	6.2	7.0	8.0	9.2

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

Table 7: Balance of payments

	US\$ million				
	1996	1997	1998	1999 estimate	2000 estimate
I. CURRENT ACCOUNT	39	37	-4	-265	-350
1. TRADE BALANCE	-882	-772	-775	-940	-1,110
1.1. Exports FOB	8,370	8,407	9,095	9,020	9,840
1.2. Imports FOB	9,252	9,179	9,870	9,960	10,950
2. SERVICES	704	590	513	410	415
2.1. Receipts	2,127	2,043	2,047	2,005	2,085
Transport	480	465	537	540	565
Travel	1,230	1,188	1,117	1,030	1,070
Other	417	390	393	435	450
2.2. Expenditure	1,423	1,453	1,534	1,595	1,670
Transport	405	365	404	400	420
Travel	543	544	574	610	645
Other	475	544	556	585	605
1., 2. GOODS AND SERVICES	-178	-182	-262	-530	-695
Exports	10,497	10,450	11,142	11,025	11,925
Imports	10,675	10,632	11,404	11,555	12,620
3. FACTOR SERVICES	155	131	146	110	165
3.1. Receipts	420	417	460	455	495
Labour income	234	234	235	225	245
Investment income	186	183	225	230	250
3.2. Expenditure	265	286	314	345	330
Profits from direct investment	24	26	26	20	20
Interest	241	260	288	325	310
4. UNREQUITED TRANSFERS	62	88	112	155	180
4.1. Receipts	207	217	269	340	360
4.2. Expenditure	145	129	157	185	180

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Table 7 : Balance of payments

	US\$ million				
	1996	1997	1998	1999 estimate	2000 estimate
II. CAPITAL AND FINANCIAL ACCOUNT	-47	-103	-167		
A CAPITAL ACCOUNT	-5	-4	-4		
1. Capital transfers	-2	-3	-3		
2. Non-produced non-financial assets	-3	-1	-1		
B FINANCIAL ACCOUNT	-42	-99	-163		
1. Direct investment	178	295	154		
1.1. Foreign in Slovenia	186	321	165		
1.2. Domestic abroad	-8	-26	-11		
2. Portfolio investment	637	236	90		
3. Other long-term capital	-270	657	-249		
3.1. Assets	-426	288	-592		
3.2. Liabilities	156	369	342		
4. International reserves	-587	-1,287	-158		
III. STATISTICAL ERRORS	8	66	171		

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

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

	1995	1996	1997	1998	1999 estimate	2000 estimate
MILLION US \$; CURRENT EXCHANGE RATES						
1 Exports of goods	8,350	8,370	8,407	9,095	9,020	9,840
Investment goods	944	1,004	1,068	1,174	1,155	1,279
Intermediate goods	3,941	3,775	3,825	4,125	4,221	4,625
Consumer goods	3,465	3,591	3,514	3,796	3,644	3,936
2 Exports of services	2,023	2,127	2,043	2,047	2,005	2,085
3 EXPORTS TOTAL	10,373	10,497	10,450	11,142	11,025	11,925
4 Imports of goods	9,304	9,252	9,179	9,870	9,960	10,950
Investment goods	1,573	1,490	1,479	1,762	1,942	2,157
Intermediate goods	5,627	5,301	5,351	5,637	5,418	5,979
Consumer goods	2,104	2,461	2,349	2,471	2,600	2,814
5 Imports of services	1,392	1,423	1,453	1,534	1,595	1,670
6 IMPORTS TOTAL	10,696	10,675	10,632	11,404	11,555	12,620
7 BALANCE	-323	-178	-182	-262	-530	-695
Services	631	704	590	514	410	415
Goods	-954	-882	-772	-775	-940	-1,110
8 Exports to imports ratio (in %)	90	90	92	92	91	90
PERCENTAGE CHANGE AT ANNUAL RATE (IN %)						
1 Exports of goods	22.3	0.2	0.4	8.2	-0.8	9.1
Investment goods	23.2	6.4	6.4	9.9	-1.7	10.8
Intermediate goods	29.0	-4.2	1.3	7.8	2.3	9.6
Consumer goods	15.1	3.6	-2.1	8.0	-4.0	8.0
2 Exports of services	12.1	5.1	-3.9	0.2	-2.1	4.0
3 EXPORTS TOTAL	20.1	1.2	-0.4	6.6	-1.1	8.2
4 Imports of goods	29.8	-0.6	-0.8	7.5	0.9	9.9
Investment goods	37.5	-5.3	-0.7	19.1	10.2	11.1
Intermediate goods	27.7	-5.8	0.9	5.3	-3.9	10.3
Consumer goods	30.0	17.0	-4.6	5.2	5.3	8.3
5 Imports of services	23.4	2.2	2.1	5.6	4.0	4.7
6 IMPORTS TOTAL	28.9	-0.2	-0.4	7.3	1.3	9.2

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

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Table 9a: Foreign trade by geographical area

	EXPORTS (f.o.b.) in US\$ million					IMPORTS (c.i.f.) in US\$ million				
	1995	1996	1997	1998	1999 (jan-avg)	1995	1996	1997	1998	1999 (jan-avg)
TOTAL	8,316	8,310	8,369	9,051	5,504	9,492	9,421	9,366	10,111	6,438
DEVELOPED INDUSTRIAL COUNTRIES										
EUROPEAN UNION	5,575	5,367	5,320	5,928	3,683	6,532	6,360	6,312	7,017	4,450
Germany	2,508	2,545	2,460	2,572	1,731	2,206	2,044	1,936	2,089	1,332
Italy	1,212	1,103	1,248	1,255	749	1,611	1,593	1,558	1,697	1,080
France	682	598	463	748	312	798	925	980	1,258	714
United Kingdom	229	162	150	161	107	190	208	241	233	191
Netherlands	117	125	123	142	97	207	194	200	225	138
Belgium	71	76	85	158	94	144	145	149	155	98
Spain	42	44	53	69	48	225	170	199	233	148
Denmark	42	47	54	75	50	46	42	46	55	33
Greece	32	23	24	23	15	11	13	15	19	16
Ireland	17	4	5	5	4	20	29	26	35	25
Portugal	9	13	14	12	8	5	5	11	14	7
Luxembourg	2	2	1	3	7	10	8	10	17	12
Austria	535	551	565	621	410	919	835	789	802	523
Finland	18	20	18	19	11	39	39	41	43	30
Sweden	58	54	56	65	41	101	111	110	143	104
EFTA	87	83	87	98	66	237	249	194	208	138
Austria										
Swiss	71	68	70	78	52	199	178	162	172	127
Sweden										
Norway	12	12	14	16	10	34	68	30	36	10
Liechtenstein	3	3	2	3	2	4	2	1	1	1
Finland										
Island	0	0	0	1	1	0	1	1	0	0
OTHER OECD	361	340	340	382	254	549	585	546	737	494
of which:										
United States of America	261	245	243	252	173	291	325	287	296	204
Other countries	100	95	97	130	81	258	260	259	441	290
OTHER DEVELOPED COUNTRIES	64	53	50	45	30	105	132	153	135	88

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Table 9a: Foreign trade by geographical area - continue

	EXPORTS (f.o.b.) in US\$ million					IMPORTS (c.i.f.) in US\$ million				
	1995	1996	1997	1998	1999 (jan-avg)	1995	1996	1997	1998	1999 (jan-avg)
DEVELOPING COUNTRIES	2,230	2,462	2,568	2,592	1,468	2,069	2,095	2,160	2,148	1,267
COUNTRIES OF EX-YUGOSLAVIA	1,209	1,385	1,387	1,397	811	671	709	594	593	364
Croatia	891	855	837	815	443	576	590	466	432	282
Macedonia	189	170	149	161	101	86	72	56	47	23
Bosnia and Hercegovina	119	264	288	319	232	8	15	30	47	35
FR Yugoslavia	9	96	112	103	36	2	32	42	68	24
FORMER USSR COUNTRIES	375	390	432	330	134	275	236	284	216	121
of which: Russian Federation	305	298	326	235	81	241	209	250	178	98
OTHER EUROPE	445	495	525	614	386	707	664	723	781	525
of which:										
Czech Republic	132	147	147	150	96	247	237	234	264	185
Slovakia	52	57	56	73	39	82	92	103	90	57
Hungary	115	105	120	141	87	267	239	293	244	163
Poland	105	142	155	181	120	38	48	58	78	68
Other countries	42	44	45	69	44	73	48	35	105	52
OTHER COUNTRIES	201	193	225	251	138	416	485	559	423	258
Unclassified	0	6	4	6	2	0	1	1	0	1

Note: Exports by country of destination, imports by country of origin.

Source of data: SORS.

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Table 9b: Foreign trade by geographical area

	EXPORTS (f.o.b.) structure in %					IMPORTS (c.i.f.) structure in %				
	1995	1996	1997	1998	1999 (jan-avg)	1995	1996	1997	1998	1999 (jan-avg)
TOTAL	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	73.3	78.2	77.8	76.9	78.8	80.3
EUROPEAN UNION	67.0	64.6	63.6	65.5	66.9	68.8	67.5	67.4	69.4	69.1
Germany	30.2	30.6	29.4	28.4	31.4	23.2	21.7	20.7	20.7	20.7
Italy	14.6	13.3	14.9	13.9	13.6	17.0	16.9	16.6	16.8	16.8
France	8.2	7.2	5.5	8.3	5.7	8.4	9.8	10.5	12.4	11.1
United Kingdom	2.8	1.9	1.8	1.8	1.9	2.0	2.2	2.6	2.3	3.0
Netherlands	1.4	1.5	1.5	1.6	1.8	2.2	2.1	2.1	2.2	2.1
Belgium	0.9	0.9	1.0	1.7	1.7	1.5	1.5	1.6	1.5	1.5
Spain	0.5	0.5	0.6	0.8	0.9	2.4	1.8	2.1	2.3	2.3
Denmark	0.5	0.6	0.7	0.8	0.9	0.5	0.4	0.5	0.5	0.5
Greece	0.4	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.2
Ireland	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.4
Portugal	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Luxembourg	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2
Austria	6.4	6.6	6.8	6.9	7.4	9.7	8.9	8.4	7.9	8.1
Austria	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.5
Sweden	0.7	0.7	0.7	0.7	0.7	1.1	1.2	1.2	1.4	1.6
EFTA	1.0	1.0	1.0	1.1	1.2	2.5	2.6	2.1	2.1	2.1
Austria										
Swiss	0.9	0.8	0.8	0.9	0.9	2.1	1.9	1.7	1.7	2.0
Sweden										
Norway	0.1	0.1	0.2	0.2	0.2	0.4	0.7	0.3	0.4	0.2
Liechtenstein	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finland										
Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER OECD	4.3	4.1	4.1	4.2	4.6	5.8	6.2	5.8	7.3	7.7
of which:										
United States of America	3.1	3.0	2.9	2.8	3.1	3.1	3.4	3.0	2.9	3.2
Other countries	1.2	1.1	1.2	1.4	1.5	2.7	2.8	2.8	4.4	4.5
OTHER DEVELOPED COUNTRIES	0.8	0.6	0.6	0.5	0.5	1.1	1.4	1.6	1.3	1.4

(continue on next page)

Table 9b: Foreign trade by geographical area - continue

	EXPORTS (f.o.b.) structure in %					IMPORTS (c.i.f.) structure in %				
	1995	1996	1997	1998	1999 (jan-avg)	1995	1996	1997	1998	1999 (jan-avg)
DEVELOPING COUNTRIES	26.8	29.6	30.7	28.6	26.7	21.8	22.2	23.1	21.2	19.7
COUNTRIES OF EX-YUGOSLAVIA	14.5	16.7	16.6	15.4	14.7	7.1	7.5	6.3	5.9	5.7
Croatia	10.7	10.3	10.0	9.0	8.0	6.1	6.3	5.0	4.3	4.4
Macedonia	2.3	2.1	1.8	1.8	1.8	0.9	0.8	0.6	0.5	0.4
Bosnia and Hercegovina	1.4	3.2	3.4	3.5	4.2	0.1	0.2	0.3	0.5	0.5
FR Yugoslavia	0.1	1.2	1.3	1.1	0.7	0.0	0.3	0.4	0.7	0.4
FORMER USSR COUNTRIES	4.5	4.7	5.2	3.6	2.4	2.9	2.5	3.0	2.1	1.9
of which: Russian Federation	3.7	3.6	3.9	2.6	1.5	2.5	2.2	2.7	1.8	1.5
OTHER EUROPE	5.4	5.9	6.3	6.8	7.0	7.4	7.0	7.7	7.7	8.2
of which:										
Czech Republic	1.6	1.8	1.8	1.7	1.7	2.6	2.5	2.5	2.6	2.9
Slovakia	0.6	0.7	0.7	0.8	0.7	0.9	1.0	1.1	0.9	0.9
Hungary	1.4	1.3	1.4	1.6	1.6	2.8	2.5	3.1	2.4	2.5
Poland	1.3	1.7	1.9	2.0	2.2	0.4	0.5	0.6	0.8	1.1
Other countries	0.5	0.4	0.5	0.8	0.8	0.8	0.5	0.4	1.0	0.8
OTHER COUNTRIES	2.4	2.3	2.7	2.8	2.5	4.4	5.1	6.0	4.2	4.0
Unclassified	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Note: Exports by country of destination, imports by country of origin.

Source of data: SORS.

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

CONSOLIDATED GENERAL GOVERNMENT REVENUES		ACTUAL				1999	2000
		1995	1996	1997	1998	Estimate	Estimate.
CURRENT PRICES, SIT MILLION							
I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	958,186	1,091,815	1,222,587	1,397,903	1,577,769	1,728,948
	CURRENT REVENUES (70+71)	955,790	1,089,017	1,217,023	1,390,982	1,567,708	1,707,737
70	TAX REVENUES	916,328	1,032,285	1,156,099	1,302,752	1,486,875	1,625,068
	TAX REVENUES	160,370	196,930	227,624	252,936	280,172	307,636
	Personal income tax	147,429	174,639	194,062	213,342	238,256	261,436
	Corporate income tax	12,941	22,291	33,562	39,593	41,916	46,200
	SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	490,486	536,984
	Employees contributions	195,413	221,929	247,519	276,805	303,165	332,269
	Employer's contributions	151,504	134,112	127,472	142,649	154,887	169,443
	Self-employed contributions	13,096	17,167	20,657	25,492	29,506	32,284
	Other unallocable social security contributions	2,987	2,976	4,982	3,452	2,928	2,988
	TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	53,702	60,856
	Payroll tax	809	14,943	33,994	42,058	49,829	56,636
	Tax on contracting work	3,020	3,316	3,497	3,847	3,873	4,220
	TAXES ON PROPERTY	12,343	14,628	19,589	27,722	28,157	33,496
	DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	590,509	635,498
	TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	43,745	40,484
	OTHER TAXES	451	241	208	787	104	10,114
71	NON-TAX REVENUES	39,462	56,732	60,924	88,230	80,833	82,669
	ENTERPRENEURIAL AND PROPERTY INCOME	6,628	8,301	9,792	24,186	23,313	26,273
	FEES AND CHARGES	8,291	8,813	10,452	11,903	13,356	15,809
	FINES AND FORFEITS	2,784	3,690	3,921	5,576	6,612	7,129
	SALES OF GOODS AND SERVICES	5,166	4,996	6,800	8,608	6,829	7,337
	OTHER NON-TAX REVENUES	16,592	30,932	29,959	37,956	30,723	26,121
72	CAPITAL REVENUES	1,824	1,738	3,805	4,471	6,463	10,935
73	VOLUNTARY DONATIONS	470	940	1,760	2,449	3,598	10,276
74	GRANTS	102	119	0	0	0	0
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	59,212	69,232

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

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

CONSOLIDATED GENERAL GOVERNMENT REVENUES	ACTUAL				1999 Estimate	2000 Estimate.
	1995	1996	1997	1998		
CURRENT PRICES, SIT MILLION						
I- TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	43.1	42.7	42.0	43.1	44.1	43.8
CURRENT REVENUES (70+71)	43.0	42.6	41.9	42.9	43.9	43.3
70 TAX REVENUES	41.2	40.4	39.8	40.2	41.6	41.2
TAXES ON INCOME AND PROFIT	7.2	7.7	7.8	7.8	7.8	7.8
Personal income tax	6.6	6.8	6.7	6.6	6.7	6.6
Corporate income tax	0.6	0.9	1.2	1.2	1.2	1.2
SOCIAL SECURITY CONTRIBUTIONS	16.3	14.7	13.8	13.8	13.7	13.6
Employees contributions	8.8	8.7	8.5	8.5	8.5	8.4
Employer's contributions	6.8	5.2	4.4	4.4	4.3	4.3
Self-employed contributions	0.6	0.7	0.7	0.8	0.8	0.8
Other unallocabl social security contributions	0.1	0.1	0.2	0.1	0.1	0.1
TAXSES ON PAYROLL AND WORKFORCE	0.2	0.7	1.3	1.4	1.5	1.5
Payroll tax	0.0	0.6	1.2	1.3	1.4	1.4
Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1
TAXES ON PROPERTY	0.6	0.6	0.7	0.9	0.8	0.8
DOMESTIC TAXES ON GOODS AND SERVICES	13.4	13.7	14.2	14.8	16.5	16.1
TAXES ON INTERN. TRADE AND TRANSACTIONS	3.5	3.0	2.0	1.5	1.2	1.0
OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.3
71 NON-TAX REVENUES	1.8	2.2	2.1	2.7	2.3	2.1
ENTERPRENEURIAL AND PROPERTY INCOME	0.3	0.3	0.3	0.7	0.7	0.7
FEES AND CHARGES	0.4	0.3	0.4	0.4	0.4	0.4
FINES AND FORFEITS	0.1	0.1	0.1	0.2	0.2	0.2
SALES OF GOODS AND SERVICES	0.2	0.2	0.2	0.3	0.2	0.2
OTHER NON-TAX REVENUES	0.7	1.2	1.0	1.2	0.9	0.7
72 CAPITAL REVENUES	0.1	0.1	0.1	0.1	0.2	0.3
73 VOLUNTARY DONATIONS	0.0	0.0	0.1	0.1	0.1	0.3
74 GRANTS	0.0	0.0	0.0	0.0	0.0	0.0
EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.7	1.8

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

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

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE		ACTUAL				1999	2000
		1995	1996	1997	1998	Estimate	Estimate
CURRENT PRICES, SIT MILLION							
II.	TOTAL EXPENDITURE (40+41+42+43)	957,273	1,083,586	1,256,668	1,423,494	1,619,68-₃	1,769,19-₄
40	CURRENT EXPENDITURE	169,751	192,816	223,184	262,658	316,639	347,105
400	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	117,618	126,312
402	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	132,387	147,199
403	INTEREST PAYMENTS	25,598	31,121	34,686	41,721	56,118	61,680
409	RESERVES	1,225	1,783	1,736	10,713	10,516	11,914
41	CURRENT TRANSFERS	694,218	783,390	912,303	1,020,473	1,125,117	1,226,39-₃
410	SUBSIDIES	41,747	34,547	39,961	49,239	57,888	68,318
411	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	646,998	698,305
	of which:						
	Transfers to unemployed	13,498	12,657	18,861	19,875	14,421	16,044
	Child allowances	32,322	41,100	49,487	53,151	56,301	69,718
	Social allowances	23,777	27,544	31,798	34,294	35,306	37,663
	War invalids, war veterans, war victims allowances	7,146	6,085	10,434	14,941	22,130	17,855
	Pensions	273,892	310,075	352,534	391,921	441,117	472,355
	Wage compensation	7,895	10,338	12,344	14,850	17,658	20,497
	Sick leave compensation	15,905	17,239	19,093	20,483	23,123	24,810
	Scholarship	9,549	10,884	14,066	13,926	16,171	16,778
	Other transfers to individuals	7,802	8,262	10,492	10,380	20,771	22,585
412	CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	5,501	5,980	7,368	8,489	13,777	15,011
413	OTHER CURRENT DOMESTIC TRANSFERS	252,406	294,851	341,932	383,889	402,821	440,630
	Current transfers to extrabudgetary funds	809	719	775	4,569	4,693	4,995
	Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	398,128	435,635
	- Wages, salaries and other personnel expenditure	126,861	152,469	188,044	208,458	228,266	249,104
	- Purchases of goods and services	124,736	141,663	153,113	170,862	169,862	186,531
414	CURRENT TRANSFERS	2,780	3,829	3,934	5,035	3,633	4,129
42	CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	111,383	125,193
43	CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	66,544	70,503
II- I	SURPLUS / DEFICIT (I. - II.)	913	8,230	-34,081	-25,591	-41,914	-40,246
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	59,212	69,232

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

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

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE		ACTUAL				1999 Estimate	2000 Estimate
		1995	1996	1997	1998		
CURRENT PRICES, SIT MILLION							
II.	TOTAL EXPENDITURE (40+41+42+43)	43.1	42.4	43.2	43.9	45.3	44.8
40	CURRENT EXPENDITURE	7.6	7.5	7.7	8.1	8.9	8.8
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	3.0	3.2	3.3	3.2	3.3	3.2
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.4	3.0	3.1	3.3	3.7	3.7
403	INTEREST PAYMENTS	1.2	1.2	1.2	1.3	1.6	1.6
409	RESERVES	0.1	0.1	0.1	0.3	0.3	0.3
41	CURRENT TRANSFERS	31.3	30.7	31.4	31.5	31.5	31.1
410	SUBSIDIES	1.9	1.4	1.4	1.5	1.6	1.7
411	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.6	17.4	17.9	17.7	18.1	17.7
	of which:						
	Transfers to unemployed	0.6	0.5	0.6	0.6	0.4	0.4
	Child allowances	1.5	1.6	1.7	1.6	1.6	1.8
	Social allowances	1.1	1.1	1.1	1.1	1.0	1.0
	War invalids, war veterans, war victims allowances	0.3	0.2	0.4	0.5	0.6	0.5
	Pensions	12.3	12.1	12.1	12.1	12.3	12.0
	Wage compensation	0.4	0.4	0.4	0.5	0.5	0.5
	Sick leave compensation	0.7	0.7	0.7	0.6	0.6	0.6
	Scholarship	0.4	0.4	0.5	0.4	0.5	0.4
	Other transfers to individuals	0.4	0.3	0.4	0.3	0.6	0.6
412	CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	0.2	0.2	0.3	0.3	0.4	0.4
413	OTHER CURRENT DOMESTIC TRANSFERS	11.4	11.5	11.8	11.8	11.3	11.2
	Current transfers to extrabudgetary funds	0.0	0.0	0.0	0.1	0.1	0.1
	Current transfers to public institutions and public utilities	11.3	11.5	11.7	11.7	11.1	11.0
	- Wages, salaries and other personnel expenditure	5.7	6.0	6.5	6.4	6.4	6.3
	- Purchases of goods and services	5.6	5.5	5.3	5.3	4.8	4.7
414	CURRENT TRANSFERS	0.1	0.1	0.1	0.2	0.1	0.1
42	CAPITAL EXPENDITURE	2.6	2.5	2.3	2.5	3.1	3.2
43	CAPITAL TRANSFERS	1.6	1.7	1.8	1.8	1.9	1.8
II-I	SURPLUS / DEFICIT (I. - II.)	0.0	0.3	-1.2	-0.8	-1.2	-1.0
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.7	1.8

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

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Table 12: Indicators of overall competitiveness

	<i>annual growth in %</i>						
	1993	1995	1996	1997	1998	1999 estimate	2000 estimate
Effective exchange rate¹							
Nominal	-21.3	-0.5	-9.7	-5.4	-2.6	-5.4	-3.3
Real ²	0.7	10.3	-2.8	0.7	3.9	-0.4	1.4
Unit labour cost in manufacturing³							
In SIT nominal	36.7	9.8	6.9	7.2	5.9	6.3	4.1
In the basket of currencies ⁴	7.7	9.3	-3.5	1.5	3.2	0.6	0.6
In the basket of currencies - relative ⁵	4.2	9.6	-4.2	4.9	5.0	-0.2	0.2
Components⁴							
Compensation of employees - real ⁶	10.3	4.9	3.9	3.4	3.4	2.0	2.6
Net wages and other remunerations	15.8	6.8	7.7	4.3	3.1	1.8	2.4
Tax burden on wages ⁷	-3.5	-0.6	-2.6	-0.5	0.6	0.2	0.3
Labour productivity	7.2	8.4	6.7	4.5	5.4	2.0	4.7
Prices / effective exchange rate	4.6	12.9	-0.8	2.5	5.1	0.6	2.6

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

Table 13: Population and Labour Force

in thousand

	1995	1996	1997	1998	1999 estimate	2000 estimate
Population on June, 30	1987.5	1991.2	1986.8	1982.6	1985.5	1979.2
Shares of age groups (in perc): 0-14 years	18.4	17.8	17.2	16.8	16.4	16.0
15-64 years	69.3	69.5	69.7	69.8	69.9	70.1
65 years and more	12.3	12.7	13.0	13.4	13.7	14.0
Fertility rate*	1.3	1.3	1.3	1.2	1.2	1.3
Life expectancy at birth*: - men	70.8	71.0	71.0	71.0	71.1	71.3
- women	78.3	78.6	79.0	78.6	78.7	78.9
Infant mortality rate (per 1000)	5.6	4.8	5.1	5.3	5.3	5.1
SURVEY LABOUR FORCE	952.0	943.0	978.0	978.0	967.0	970.8
Persons in employment	882.0	874.0	906.0	901.0	895.0	897.8
of which: unpaid family workers and unformal work	52.8	52.0	65.0	58.0	57.6	57.8
Unemployed persons (ILO definition)	70.0	69.0	72.0	77.0	72.0	73.0
PERSONS IN EMPLOYMENT in full time equivalent	829.2	822.0	818.3	818.3	822.4	828.6
FORMAL LABOUR FORCE	871.1	864.1	868.6	871.2	876.1	878.7
Persons in formal employment	749.7	744.3	743.4	745.2	756.5	763.9
Employees	642.0	634.7	651.2	652.5	670.4	679.7
Selfemployed persons	107.7	109.6	92.2	92.7	86.2	84.2
Registered unemployed persons	121.5	119.8	125.2	126.1	118.9	108.8
WORKING AGE POPULATION (15-64 years)	1377.2	1383.9	1385.3	1384.0	1385.5	1386.5
of which (in perc.)						
survey labour force (survey participation rate)	69.1	68.1	70.6	70.7	69.8	70.0
formal labour force (formal participation rate)	63.3	62.4	62.7	63.0	63.2	62.9
survey employment (survey employment rate)	64.0	63.2	65.4	65.1	64.6	64.8
formal employment (formal employment rate)	54.4	53.8	53.7	53.8	54.6	55.1
Survey unemployment rate (in perc.of survey labour force)	7.4	7.3	7.4	7.9	7.4	7.5
Registered unemployment rate (in perc.of formal labour force)	13.9	13.9	14.4	14.5	13.6	12.5

(continue on next page)

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Table 13: Population and Labour Force - continue

in thousand

	1995	1996	1997	1998	1999 estimate	2000 estimate
SHARES BY SECTORS OF ACTIVITY (in perc.)						
SURVEY EMPLOYMENT						
Agriculture	10.2	12.0	12.7	11.4	9.5	
Industry	42.2	40.5	40.1	39.2	39.0	
Services	47.5	47.1	46.8	48.8	51.1	
FULL TIME EQUIVALENT EMPLOYMENT						
Agriculture	6.4	5.9	5.7	5.6	5.4	5.3
Industry	43.0	41.8	40.7	40.5	40.1	39.4
Services	50.7	52.3	53.6	53.9	54.5	55.3
YEAR CHANGES (in perc.)						
FTE Employment	0.8	-0.9	-0.5	0.0	0.5	0.8
Formal employment	-0.4	-0.7	-0.1	0.2	1.5	1.0
Survey employment	3.6	-0.9	3.7	-0.6	-0.7	0.3
Registered unemployment	-4.4	-1.4	4.5	0.7	-5.7	-3.5
Formal labour force	-1.0	-0.8	0.0	0.3	0.5	-0.3
Population	-0.1	0.2	-0.2	-0.2	0.1	-0.3

Notes: *1998: estimations by IMAD; **until 1996 without enterprises with 1-2 employees
Source: SORS, estimations, projections: IMAD

Table 14: Employment and productivity by activity

	1998	1995	1996	1997	1998	1999 estimate	2000 estimate
EMPLOYMENT IN FULL TIME EQUIVALENT							
	number in 000			real growth rate in %			
TOTAL	818.3	0.8	-0.9	-0.5	0.0	0.5	0.8
A Agriculture, hunting, forestry	45.3	-6.9	-9.3	-2.9	-2.2	-3.7	0.0
B Fishing	0.5	0.0	0.0	25.0	0.0	-4.0	0.0
C Mining and quarrying	10.1	1.8	-9.6	-1.0	-1.0	-9.9	-6.6
D Manufacturing	250.6	-1.9	-5.1	-4.9	-0.6	-0.9	-1.5
E Electricity, gas and water supply	14.1	2.2	4.3	-3.4	0.0	-6.3	-2.1
F Construction	56.8	4.0	4.2	4.4	0.7	4.9	1.6
G Wholesale and retail trade, certain repair	109.5	3.7	1.3	1.1	-2.1	1.9	1.8
H Hotels and restaurants	36.5	0.9	4.7	-0.6	2.0	0.7	2.4
I Transport, storage and communications	52.3	4.6	-1.0	-0.6	1.0	0.0	-0.1
J Financial intermediation	18.7	3.5	0.0	4.5	0.0	1.7	2.6
K Real estate, renting and business activities	49.2	7.5	3.9	1.7	2.1	3.8	4.2
L Public administration and com. soc. sec.	46.3	0.0	5.1	5.3	0.9	0.1	2.0
M Education	51.7	2.6	3.1	3.0	1.6	2.4	4.0
N Health and social work	45.7	1.4	3.3	2.1	2.0	0.8	0.7
O Other community, social and personal activities	31.0	4.4	1.7	6.2	0.3	3.4	2.7
Agriculture, hunting, forestry and fishing	45.8	-6.9	-9.2	-2.7	-2.1	-3.7	0.0
Industry and construction	331.6	-0.8	-3.5	-3.2	-0.3	-0.4	-1.1
Services	440.9	3.3	2.3	2.0	0.5	1.6	2.2
VALUE ADDED PER EMPLOYEE							
	in mio SIT			real growth rate in %			
TOTAL	3.4	3.3	4.4	5.1	3.9	3.2	3.2
A Agriculture, hunting, forestry	2.5	8.5	10.3	0.0	4.4	5.7	2.0
B Fishing	1.0						
C Mining and quarrying	3.6	-0.9	11.5	4.1	2.4	4.9	1.6
D Manufacturing	3.1	4.4	6.7	11.5	5.7	3.6	5.3
E Electricity, gas and water supply	6.8	-2.0	-3.1	7.6	2.6	1.3	2.1
E Electricity, gas and water supply	2.9	5.2	9.0	3.3	3.2	5.1	5.4
G Wholesale and retail trade, certain repair	3.0	3.0	1.7	1.7	6.2	3.1	3.2
H Hotels and restaurants	2.3	2.6	-0.3	4.2	0.5	1.8	1.6
I Transport, storage and communications	4.5	1.3	3.6	4.8	4.4	3.5	4.1
J Financial intermediation	6.4	0.0	11.0	-4.4	2.7	2.3	2.9
K Real estate, renting and business activities	6.7	-4.4	-0.4	0.8	0.7	-0.8	0.1
L Public administration and com. soc. sec.	3.5	3.1	0.2	5.0	1.2	2.4	2.2
M Education	3.1	0.2	-2.2	1.9	1.2	0.3	0.3
N Health and social work	3.3	0.7	5.1	1.0	1.8	2.2	2.5
O Other community, social and personal activities	3.2	-2.3	2.8	-2.1	3.9	0.6	1.3

Source: SORS (national account statistics); estimations, projections: IMAD

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Table 15: Labour force flows during the year

in thousand

	1995	1996	1997	1998	1999 estimate	2000 estimate
Redundant	55.4	65.4	60.6	58.4	58.9	59.5
- per 100 persons in employment (in %)	7.4	8.8	8.1	7.8	7.8	7.8
Retired	11.5	14.8	15.1	14.8	13.9	15.8
- per 100 persons in employment (in %)	1.3	1.7	1.7	1.7	1.6	1.8
Dead	3.6	3.5	3.7	3.4	3.5	3.5
- per 100 persons in employment (in %)	0.4	0.4	0.4	0.4	0.4	0.4
Reg. unemployed who found employment	60.0	54.6	56.1	55.4	62.9	63.5
- per 100 persons in employment (in %)	8.0	7.3	7.5	7.4	8.3	8.3
Growth in work permits for foreigners during the year	2.6	0.2	-2.9	-3.3	1.5	0.0
- per 100 persons in employment (in %)	0.3	0.0	-0.4	-0.4	0.2	0.0
Others who found employment (net)	6.8	22.2	28.4	23.9	31.5	15.6
- per 100 persons in employment (in %)	0.9	3.0	3.8	3.2	4.2	2.0
First-time job seekers	24.3	21.1	17.9	18.6	17.9	17.1
- per 100 persons in employment (in %)	3.2	2.8	2.4	2.5	2.4	2.2
Crossed out of register	16.4	34.1	18.3	23.0	26.0	20.0
- per 100 persons in employment (in %)	13.5	28.5	14.6	18.2	21.9	18.4
LABOUR FORCE at the end of the year	873.6	864.6	870.9	868.3	875.7	869.1
of which: registered unemployed	126.8	124.5	128.6	126.6	114.5	107.5
Registered unemployment rate at the end of the year (M1/M, in %)	14.5	14.4	14.8	14.6	13.1	12.4

Source of data: SORS, estimate IMAD.

Table 16: Basic features of labour force and unemployment by regions

STATISTICAL REGIONS	Labour force, in %			Registered unemployment rate, in %			Percentage of women in unemployment, in %		
	1997	1998	I-VI 1999	1997	1998	I-VI 1999	1997	1998	I-VI 1999
CENTRAL SLOVENIA	63.4	63.9	64.6	10.8	11.0	10.8	47.6	49.0	48.9
LITTORAL KARST	60.6	61.1	61.2	11.0	10.6	10.4	54.9	56.4	56.1
GORENJSKA	62.0	61.8	62.2	12.0	12.6	12.5	52.5	53.8	54.5
GORIŠKA	61.0	60.9	60.9	9.6	9.2	8.0	50.4	51.1	52.7
SAVINJSKA	63.9	64.5	64.0	16.1	16.7	15.9	49.3	50.2	50.3
DOLENJSKA	65.7	65.8	65.5	12.3	10.4	10.3	48.9	51.9	51.2
POMURSKA	63.9	64.6	63.4	17.8	18.7	18.8	42.2	41.8	42.9
KARST	62.4	63.1	64.0	12.0	12.5	12.1	52.5	53.3	54.8
PODRAVSKA	61.0	61.4	61.5	22.7	22.0	21.2	48.1	49.2	49.2
KOROŠKA	59.8	60.0	60.5	13.0	13.0	12.0	52.5	52.6	50.3
POSAVSKA	62.6	64.4	62.7	16.4	15.9	15.5	45.2	48.2	47.3
ZASAVSKA	60.9	61.6	61.7	17.9	19.2	18.1	55.8	54.7	55.9
SLOVENIA	62.7	63.0	63.1	14.4	14.5	14.0	48.8	49.9	50.0

STATISTICAL REGIONS	Percentage of young people in unemployment, in %			Unemployed with qualification levels I and II, in %		
	1997	1998	I-VI 1999	1997	1998	I-VI 1999
CENTRAL SLOVENIA	25.5	23.2	24.3	42.9	43.1	44.4
LITTORAL KARST	28.1	25.6	25.6	45.6	43.6	44.0
GORENJSKA	25.5	22.3	22.5	45.8	45.7	47.8
GORIŠKA	31.3	29.2	30.6	44.9	44.1	45.2
SAVINJSKA	31.1	28.9	28.8	49.0	48.5	48.6
DOLENJSKA	27.8	22.5	22.3	57.8	59.6	60.8
POMURSKA	37.4	34.5	32.7	58.0	56.2	56.9
KARST	30.2	27.3	27.2	43.7	42.9	45.6
PODRAVSKA	27.9	25.0	24.1	45.1	45.2	46.3
KOROŠKA	33.8	27.6	27.1	46.2	47.0	47.5
POSAVSKA	31.8	28.5	27.2	47.5	47.5	49.7
ZASAVSKA	31.2	29.4	28.3	49.4	48.2	49.7
SLOVENIA	29.1	26.3	26.0	47.1	46.9	48.0

Vir: SURS, ZRSZ, preračuni ZMAR

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