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SLOVENIA: ECONOMIC DEVELOPMENTS IN 2000
AND PROSPECTS FOR 2001-2003
2001 SPRING REPORT

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SLOVENIA: Economic Developments in 2000
and Prospects for 2001-2003
2001 SPRING REPORT

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF BOXES

LIST OF GRAPHS

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

PREFACE

The Spring Report provides an estimate of the economic developments and factors of growth underlying the Slovenian economy in 2000 and examines prospects for 2001, 2002 and 2003. The Report is composed of five sections. An introduction and a short summary, providing an overview of the Report, is followed by a chapter on economic developments in the international environment. Chapter 4 presents a detailed analysis of developments in 2000 and early 2001 together with projections of macroeconomic aggregates up to the end of 2001, for 2002 and 2003. The last chapter is focused on the underlying orientatons and problems of economic policy in the next two years.

For several years, the Spring Report has been drawn up and published by the Institute of Macroeconomic Analysis and Development in the English and Slovenian languages. The Government uses the Report as one of its sources in formulating economic policy measures and drafting the state budget. The Report has been drawn up on the basis of data provided by the Statistical Offcie of the Republic of Slovenia, the Bank of Slovenia, the Agency for Payments, and estimates made by domestic and foreign institutes and international organisations.

The 2001 Spring Report has been prepared by: Maja Bednaš (editor, head of the project, summary, international environment), Branka Tavčar (national accounts), Arjana Brezigar Masten (financial market), Slavica Jurančič (international competitiveness), Alenka Kajzer (labour market policy), Rotija Kmet (production structure of gross domestic product), Jasna Kondža (public finance), Mateja Kovač (agriculture), Gorazd Kovačič (manufacturing), Saša Kovačič (incomes policy), Tomaž Kraigher (employment and unemployment), Janez Kušar (construction, trade, hotels and restaurants), Jože Markič (balance of payments, external debt), Ana Murn (industrial policy), Judita Novak (performance of companies, institutions, and legal persons), Jure Povšnar (electricity, gas and water supply, mining, transport and communications), Matija Rojec (foreign direct investment), Janez Šušteršič (introduction), Ana Tršelič (private consumption, life assurance), Boštjan Vasle (prices and price policy, monetary policy), Ivanka Zakotnik (national accounts, expenditure and cost structure of gross domestic product, investment), Eva Zver (real estate, renting and business services, public administration, defence, compulsory social insurance, education, health and social work, other public and personal services). Technical support (charts, statistical appendix): Bibijana Cirman Naglič, Marjeta Žigman, Vlado Mostnar, Dragica Kovač.

INTRODUCTION

The macroeconomic developments recorded in 2000 continued into early 2001: export growth was strong, domestic demand was low, while inflation rose sharply. This supports IMAD's projections from the March Report[1] predicting that this year's economic slowdown in the international environment will have a delayed impact on the domestic economy, that government consumption is set to rise the most within domestic demand components, and that exports should remain the main lever of economic growth. Taking these developments into account, the latest economic growth forecast for 2001 is only slightly lower than that proposed in the March Report (4.4% as against 4.5%).

The economic growth forecast has been made on the assumptions that export growth will slow down considerably in the second half of the year owing to lower foreign demand and that domestic demand will strengthen at the same time, particularly private consumption. The dynamics of private consumption strengthening will depend on income growth and the pace of the fall in the ratio of households' indebtedness to current expenses allowing higher spending at a certain level. Lower foreign demand will continue to take effect in 2002, which will not be entirely offset by stronger domestic demand, so weaker economic growth of 4.2% has been projected for 2002.

In the past two years, strong economic growth was accompanied by a **current account deficit** of 3.9% of gross domestic product in 1999 and 3.3% in 2000. This year's deficit should be about half of those figures (1.8% of gross domestic product), which will be due to the maintained strong export growth, low final domestic consumption leading to low import growth, and the unchanged terms of trade. At the same time, capital inflows from abroad are strengthening this year and they are coming in the form of foreign direct investments and portfolio investments underpinned by the announced abolition of custody accounts. This year's current account deficit can be regarded as sustainable as regards its level and financing, which is why the achievement of external balance should not pose any serious problem in the short term. From the point of view of medium-term economic policy, more attention will have to be dedicated to Slovenia's shrinking shares in almost all advanced export markets. It is therefore necessary to conclude structural reforms, particularly in the areas of labour market flexibility and removal of administrative barriers hindering economic activity, the conclusion of announced privatisation projects particularly those in the financial sector, and

[1] A report on macroeconomic developments and the implementation of economic and structural policies.

the introduction of horizontal programmes aimed at boosting the competitiveness of the corporate sector, which include investment in technological development and human resources.

This year's movements in **inflation** are causing more concern in the field of economic policy than in the past few years. Even though inflation has been primarily the result of movements in world oil prices and the dollar's exchange rate – May in particular saw the strong impact of external factors in most European countries – direct external factors have been accompanied by higher inflationary expectations in the country and above-average price rises in certain groups of products which are not under the direct influence of external factors. As a result, the Government has changed the regime of price control over local utility services, which had been transferred from the state to local authorities, so that any price rises exceeding the general level of inflation should be approved by the Government. Indirect controls by means of pricing models or other methods should be reviewed and optimised. Furthermore, it would be reasonable to introduce a target ratio of inflation to rises in the prices under various forms of direct or indirect government control so that inflation becomes more predictable and economic policies easier to co-ordinate. In the second half of the year, additional upward pressures on inflation may come from the expected strong wage growth, but they could be somewhat neutralised by short-term measures to stimulate saving. Over the next few years, the difference between wage and productivity growth in the private sector is likely to narrow gradually. Wage growth will have to be curbed in the public sector as well, as wages here rose faster than public sector productivity throughout the nineties (except in 1994 and 1998). An appropriate regulation of the wage system in the public sector is therefore urgent and one of the reasons is to reduce inflation. If we take into account the current level of prices, the expected deceleration in oil prices and the dollar's exchange rate, and the steps taken by economic policy, an 8.5% average inflation rate in 2001 proves a realistic forecast (0.7 of a percentage point higher than projected in the March Report).

2. SUMMARY

2.1. ECONOMIC DEVELOPMENTS IN 2000 – Economic growth and price movements strongly affected by the international environment

Real **gross domestic product growth in 2000** was 4.6%. Gross domestic product growth slowed down by 0.6 of a percentage point compared to 1999, but it was still above the average of the last five years.[2] The slowdown was accompanied by significant changes in the composition of economic growth. Unlike in 1999, when economic growth was driven by domestic demand and export growth was modest due to a less favourable international environment, real gross domestic product growth in 2000 was underpinned by strong exports, while domestic demand, in particular private and investment consumption, was only slightly above last year's high levels in real terms. Economic growth in EU member-states strengthened by about 1 percentage point on average, but the improvement was even stronger in Slovenia's main trading partners (Germany and Italy). Favourable developments in the international environment and stronger links with the countries of former Yugoslavia, with which Slovenia is increasing the volume of its trade and developing more sophisticated forms of international co-operation, led to the **stronger contribution of foreign demand to economic growth**. This had a positive effect on production growth, particularly in tradable sectors.

Domestic demand, in particular investment and private consumption, rose modestly in 2000. Private and investment consumption increased by 0.8% and 0.2% in real terms, while government consumption rose relatively modestly as well (up 3.1%). In addition to cyclical effects, private consumption was decelerated by the relatively weak wages growth, lower purchasing power due to domestic and external price movements, the high loan burden stemming from loans raised in 1999, and stronger savings stimulated by interest and exchange rates. Real gross fixed capital formation rose modestly because of the high levels seen a year earlier, the worsened terms of trade and the curbing of budget spending in late 2000. As regards real investment in 2000, the cyclical effects were even more pronounced because investment activity was particularly strong in the last five years. Despite the modest rise, investment demand remained at the high level of the previous year.

[2] In 1993-1998, the average annual gross domestic product growth was 4.4%.

The positive economic trends in the international environment helped manufacturing contribute the most to total value-added growth; total value added rose by 5.1% while that of manufacturing itself was up 8.6% in real terms. The biggest real increase in value added was recorded by hotels and restaurants (up 9.8% in real terms), value-added growth strengthened in financial intermediation (up from 3.3% in 1999 to 5.9% in 2000), which was largely due to high interest margins in banks, taking effect through indexation mechanisms. The poorest results were recorded in agriculture and fishing and in mining, where value added dropped in real terms compared to a year earlier. After rising strongly in 1999, value-added growth decelerated significantly in construction, wholesale, retail trade and the repair of motor vehicles, which was related to the low investment and private consumption growth.

The overall **business results of companies in Slovenia** were positive for the third year running. However, the difference between net profits and net losses was slightly lower than in 1999. This had been anticipated by the relatively low wage growth in the private sector towards the end of the year, a time when wage growth is accelerated by payments relating to company performance. The slightly worse business results, despite the high operating revenues largely earned in foreign markets, were due to high financing expenses resulting from strong corporate borrowing in the domestic and foreign markets and due to the relatively large rise in the cost of intermediate consumption resulting from unfavourable price trends in the country and high import prices.

Exports of goods and services rose by 12.7% in real terms in 2000, while imports of goods and services were up 6.1%. The trade deficit narrowed to reflect the positive effects of strong foreign demand, but by only 13% when expressed in US dollars because the significantly stronger export than import growth was somewhat outweighed by the worsening terms of trade (they fell by 5 index points in 2000). With the slightly higher surplus from services trade and the slightly higher capital expenditures, the **current account deficit** was lower than in 1999 and is estimated to have totalled USD 594 million, or 3.3% of gross domestic product (3.9% in 1999)[3]. The final figures on foreign investors' reinvested earnings for 2000 are still unavailable, so the figure only includes reinvested earnings in the same amount as in 1999 (USD 97 million). Despite the positive shifts in the current account of the balance of payments, the deficit became critical in terms of its financing and not its level, as foreign direct and portfolio investment remained low. Foreign direct investment inflows remained at the 1999 level (USD 181 million, of which more than half was represented

[3] According to the balance of payments statistics.

by the estimated reinvested earnings of the existing foreign investors). The volume of external borrowing increased substantially and borrowing abroad was further stimulated by the small size and shallowness of the domestic financial sector and the keeping of domestic interest rates at high levels. In addition to the regular issue of government eurobonds (EUR 400 million), inflows in the capital and financial account of the balance of payments were mainly long-term foreign loans raised by companies and banks. The high inflows of foreign loans and other financial assets in the capital and financial account prevented total foreign exchange reserves from falling despite the current account deficit, but this led to significantly higher external indebtedness. At the end of 2000, Slovenia's total external debt exceeded USD 6 billion and accounted for 34.3% of gross domestic product, which put Slovenia in the group of countries with medium-level indebtedness according to the World Bank's methodology. The ratio of foreign exchange reserves (USD 4,370 million) to external debt continued to drop and fell from 96.4% at end-1998, through 74.7% in 1999 to 70.3% in 2000.

The average annual inflation rate in 2000 was 8.9%, 2.8 percentage points higher than in 1999. Inflation remained high because of external factors, mainly the rising petroleum product prices in world markets and the strengthening US dollar (the prices of energy and fuels climbed by an average of 25.2% and directly added 32.4% to inflation) and the growing inflation in the EU. External inflationary pressures directly or indirectly pushed up domestic producer and consumer prices through expensive imports and the spillover effects on the one hand, and stronger inflationary expectations in the country on the other; the higher average price level was still influenced by the effects of the introduction of value-added tax in 1999.

Demand outstripped supply in the foreign exchange market in 2000. The average annual exchange rate of the German mark rose by 5.9% in 2000, but the dollar's exchange rate climbed by up to 22.5%. Exchange rate movements, in particular the strengthening of the dollar, led to an improvement in the cost competitiveness of the Slovenian economy. The tolar depreciated 2.1% year-on-year against the basket of currencies on the basis of relative consumer prices; the tolar's real effective exchange rate was on a falling trend in the first half of the year but the trend reversed in the second half. Not only price competitiveness, but the **cost competitiveness of Slovenian manufacturing** also improved in 2000 as a result of strong productivity growth and modest wage growth in manufacturing. Slovenia's market shares in the main trading partners continued to shrink despite the improved price and cost competitiveness, which points to the problem of the Slovenian economy's low export competitiveness resulting from slow restructuring, unfinished structural reforms, particularly as regards privatisation and labour market flexibility, the lagging behind in technological development, and modest foreign direct investment inflows, which are beneficial in terms of providing fresh capital as well as know-how and managerial skills.

The slow private consumption growth in 2000 was also reflected in the volume of **household bank loans**, which rose more slowly than in 1999 (up 3.6% in 2000 as against 34% in 1999), when household borrowing increased substantially before the introduction of value-added tax. Lower lending to households contributed largely to slow growth in total loans, recording a real rise of 6.6% in 2000 (13.6% in 1999). Government loans rose by 16.3% in real terms, whereas corporate loans were up by 6.6% in real terms, with companies mainly taking out short-term loans from domestic banks. Companies turned to foreign banks for long-term borrowing to an even greater extent than in 1999. Total **household savings in banks** rose by 16.6% in real terms in 2000 and were 9.8 percentage points higher than in 1999. The structure of growth in household bank deposits also changed compared to 1999. Foreign currency savings stimulated by the rising exchange rates climbed 17.7% in real terms; real tolar savings were up 14.7%, of which short-term deposits rose faster than long-term ones because of the high tolar indexation clause and stronger inflationary expectations. The favourable economic developments helped sustain the positive trends of 1999 in the labour market , when the number of persons in employment started to rise faster, while the active employment policy and deletions from unemployment registers led to a gradual drop in the number of the registered unemployed. The number of persons in employment rose by an annual rate of 1.8%, according to monthly statistics; the labour force survey also revealed a rise in employment, but the rate of increase was lower than in monthly reports suggesting that the scope of informal employment continued to decline from 1999. Like in 1999, employment continued to be restructured in favour of the service sectors. Employment growth in the full-time equivalent was 1.1% in 2000; the rate was lower than that of the number of persons in employment established by monthly reports or the labour force survey because of the growing number of people working part-time. The number of registered unemployed fell by an average of 10.4%. The average registered unemployment rate fell from 13.6% in 1999 to 12.2% in 2000 while the survey unemployment rate edged down from 7.6% to 7%.

The **real gross wage per employee** rose by an average of 1.6% in 2000. The gross wage per employee in the private sector recorded a different growth pattern than in previous years. The gross wage per employee in the private sector only rose 1.3% because of the fewer working days in 2000 compared to previous years, particularly in December, and primarily because wage growth in the private sector saw none of the big rises towards the end of the year typical of earlier years. Wages in the public sector, which are influenced by adjustments of the basic wage to price rises, promotions laid down in the Wages Act, and benefits arising from collective agreements, rose more strongly and recorded a rise of 2.1%. The underlying wages policy goal of real wages rising below labour productivity growth (3.5%) was fulfilled, with wages rising by almost 2 percentage points below the rate of labour productivity growth.

The consolidated general government revenue and expenditure recorded a general government deficit of 1.4% of gross domestic product in 2000. Some macroeconomic categories having a direct or indirect impact on the level of general government revenue did not move in line with the projections, and not all steps to increase general government revenue were taken. The amount of value-added tax collected was lower than planned in the state budget, primarily due to modest growth in domestic spending and changes in the structure of total spending, whereby exports increased their shares. Revenues from excise duties were also lower than planned because duty rates were not raised due to high price rises. Total general government revenue fell by 0.3% in real terms in 2000 and reached 42.8% of gross domestic product. General government expenditure totalled SIT 1,781 billion, according to the consolidated public finance balance it fell 1.5% in real terms from 1999 and reached 44.2% of gross domestic product. State budget expenditure totalled SIT 1,029 billion, 0.2% lower in real terms than in 1999 and a solid 3% lower than planned in the 2000 state budget because state budget expenditure was curbed in late 2000 due to revenues being lower than planned and the pressure from an early adjustment of wages and pensions on consumer price rises. Part of the budget spending planned for 2000 was transferred to the 2001 budget (a total of SIT 22 billion).

2.2. ECONOMIC DEVELOPMENTS IN 2001 – Increasing uncertainty in the international environment, domestic demand forecast to strengthen in the second half of the year

Economic developments in 2001 depend significantly on the **increased uncertainty in the international environment** and this sentiment is spilling over rapidly into the domestic environment. Price trends in early 2001 caused inflationary expectations to strengthen and made individuals more cautious when making any purchases or investments that require the taking out of loans. The rising nominal interest rates resulting from the indexation mechanisms prompted households to save more, which is another factor contributing to the modest consumer spending. Considering that this year's investment activity is expected to be modest, which is due to limited financial resources and low private funds to finance large infrastructural projects, investment consumption will also be modest, which is set to be reflected in the volume of imports. The strong **export growth** early in the year, which is **expected to slow down gradually in the second half of the year**, meaning that the contribution of foreign demand is likely to fall, and the **gradual increase in domestic demand due to cyclical effects** will help sustain real gross domestic product growth at about 4.4% in 2001 despite greater uncertainty and the worsening of economic indicators.

The composition and dynamics of this year's economic growth will be strongly influenced by changes in the international environment, which will in turn affect domestic production activity. Compared to 2000, when economic growth was strongly driven by foreign demand, **gross domestic product growth in 2001 is expected to be more balanced in terms of the contribution of domestic and foreign demand**, but foreign demand should retain its role of the main lever of economic growth owing to the highly positive developments early in the year. Foreign demand is expected to rise by 7.5% (12.7% in 2000), while domestic demand is forecast to climb by 3.7% (3.2% in 2000). The growth of exports of goods and services will slow down as a result of economic deceleration in the main export markets: the slowdown in the US economy in early 2001 will gradually affect European economies, which is likely to have a delayed but strong impact on Slovenia's export growth in the second half of this year and in early 2002. Economic growth in the EU is estimated to be 0.6 of a percentage point lower than in 2000, according to the European Commission, and the slowdown will be particularly strong in Slovenia's main trading partners such as Germany, which expects about 2.2% economic growth (3% in 2000). This year's gross domestic product growth estimates broken down by quarters show a deceleration of economic activity in most EU countries, including Slovenia's main trading partners, particularly in the second and partly in the third quarters, which should be followed by a gradual pick-up or halt in deceleration in the last quarter. Economic growth is expected to slow down in Croatia as well, but international business operations, foreign direct investment in particular, are estimated to sustain the strong trade between the two countries. Stronger investment activity of Slovenian companies abroad should stimulate exports to other countries of former Yugoslavia (except Macedonia where the risks are increasing due to the escalation of conflict) and countries in transition, which are expected to record relatively strong economic growth driven by domestic demand.

In addition to international factors, economic growth in 2001 will be shaped by the cyclical effects from the last two years, particularly as regards real growth in investment and private consumption, which recorded high growth rates in 1999 and maintained about the same levels in 2000 in real terms. Private and investment consumption are forecast to rise by 2.1% and 2.6%; growth will be slightly stronger than in 2000 due to cyclical effects, but the rates will be lower than gross domestic product growth. Intermediate consumption is expected to record the biggest rise within domestic demand components, which will be due to exports and production being sustained at relatively high levels despite the slowdown in the second half of the year, while expenditure for government consumption will lag slightly behind the rate of gross domestic product growth.

Drawing on the projected developments in the international and domestic environments, **value-added growth in industrial sectors**, manufacturing in particular, is forecast to slow down after rising considerably in 2000, but **growth should be retained at relatively high levels** (real value added should rise 5.1% in industry and about 5.5% in manufacturing). Real value-added growth in the service sectors should strengthen slightly compared to 2000, reaching some 4.5%. Value added in agriculture is forecast to rise 3% in real terms this year after recording two years of decline. Value added in construction is again estimated to rise modestly (up 2.2%) largely due to the expected slowdown in investment in economic infrastructure. The activity of hotels and restaurants is estimated to record the biggest deceleration in value-added growth among the service sectors, while real value added is expected to rise significantly in public administration, defence and social security. The liberalisation of financial and capital flows, the expected strengthening of insurance activity, and bank profits made on account of indexation mechanisms, which are expected to remain relatively high this year, will contribute to further growth in financial intermediation.

Given the expected trends in export demand, real growth in exports of goods and services will slow down in 2001 compared to last year, but it will remain relatively high at about 7.5% (exports of goods up 8.2% and services up 4.1%). Given the subdued domestic demand growth at the annual level, real imports of goods and services will rise more slowly than in 2000, going up by about 4.5% (imports of goods up 4.4% and services up 4.8%). Stronger export than import growth will contribute to narrowing the trade deficit to around USD 770 million (USD 1,081 million recorded in 2000), while the terms of trade are not expected to change (assuming that the euro gains some strength against the US dollar before the end of the year, world oil prices rise slowly, and the prices of primary commodities fall). The services trade balance is estimated to remain roughly at last year's level (about USD 430), the deficit in labour and investment income will increase to about USD 115 million (USD 60 million in 2000) mainly due to the expected rise in reinvested earnings. Current transfers totalling about USD 125 million will be higher than last year and they will mainly rise because of inflows of pre-accession aid from the EU. Taking into account the estimated export-import flows and trends in factor incomes and transfers with the rest of the world, the **current account deficit should be significantly lower** than in 2000 and should total about USD 330 million or **1.8% of gross domestic product**. Flows in the capital and financial account are estimated to intensify in both directions. Inflows from abroad will be strengthened by the continued external borrowing of banks and companies, but this should be lower than last year based on the trends seen early in the year, and by the expected increase in foreign equity investment in Slovenia stimulated by the liberalisation of capital flows and the further privatisation of state-owned assets, banks and telecommunications. The strengthening of Slovenia's trade with the countries of former Yugoslavia and the higher outward investments of Slovenian companies should contribute to higher export financing in these areas.

Consumer prices pushed up by one-off and external factors over the last two years (the introduction of value-added tax in 1999, the rising oil prices and the strengthening of the US dollar in the second half of 1999 and in 2000) have remained relatively high this year. The direct impact of external factors on price rises has been weaker this year, but the spillover effect of oil prices and other factors, particularly the prices of food under various regimes of government control, have been stronger. The **persistence of inflation at high levels has been due to internal factors to a greater extent**. Furthermore, the rapid price rises taking place since mid-1999 has led to stronger inflationary expectations. Even though prices rose by an annual rate of 9.7% in May, annual levels of price rises will decelerate in the next few months if external pressures ease, food prices rise more slowly, and appropriate steps are taken in the field of administered prices, so that the average annual inflation rate should be 8.5%. Price trends before the end of 2001 will to a large extent depend on measures taken in the field of fiscal, monetary, incomes and price policies, on the way these policies are co-ordinated and on the ability to reduce the indirect impacts of previous months' price rises. Significant external effects will continue to come from import prices, automotive fuel prices in particular; further, it is necessary to review the existing model for setting petroleum product prices.

Taking into consideration the monetary policy goal, the orientations of the Bank of Slovenia and the expected balance of payments flows, exchange rate movements of the German mark and the euro in 2001 will largely depend on the volume and distribution of financial inflows. Inflows generated by selling off companies in the telecommunications sector and possible inflows related to obtaining the right to use the third generation of mobile telephony services and bank privatisation will put pressure on the tolar's appreciation, as at least part of those funds are to be converted into the domestic currency. The **exchange rate of the German mark and the euro will rise at a rate lower than price increases**, and the dollar's exchange rate will depend on exchange rate movements in world money markets, where the euro is expected to gain strength.

Despite the envisaged real appreciation of the tolar against the euro in 2001, the average strengthening of the dollar during the year will **maintain the price competitiveness at about the same level as in 2000**. **Cost competitiveness**, on the other hand, is likely to **worsen slightly this year** mainly due to a low rise in productivity. The real compensation of employees is estimated to rise by around 2.4% and labour productivity growth is expected to slow down to 3% mainly due to a slower rise in productivity and partly due to the rise in employment. Assuming that the tolar is relatively stable, unit labour costs against the basket of currencies are expected to rise by around 1%.

Positive employment trends are expected to continue in 2001, assuming from the favourable economic developments and the estimated employment needs before the end of the year; the dynamics of employment growth and unemployment reduction should be less vigorous than in 2000. The number of employed in the full-time equivalent is forecast to rise by 0.7% and employment should continue to restructure in favour of the service sectors, according to announcements by companies and organisations. The registered and survey unemployment rates should continue to fall gradually and come to an average of 11.7% and 6.7% (12.2% and 7% in 2000), based on the projected economic developments, employment growth and deletions from unemployment registers, which were the main reasons for the rapid fall in unemployment over the last two years. The problems of structural unemployment remain pressing despite the positive shifts in employment, which points to the urgent need to consistently implement employment policy programmes.

Wages will continue to rise below the rate of productivity growth. Wage movements in the public sector will be affected by January and August's wage adjustments pursuant to the wage agreement for 2001, which has already introduced the principle of adjusting wages to the anticipated consumer price rises, as well as by benefits adopted in collective agreements and government decrees. Real wage movements in the private sector will be shaped by January and August's adjustments (the latter is pursuant to the Annex to the Wage Agreement for 1999-2001) and the usual stronger wage growth in the last quarter driven by payments based on company performance. Wage movements in the private and public sectors will result in a **2.3% overall rise in the gross wage per employee in real terms** in 2001, with wages in the public sector rising faster than in the private sector (up 3.5% and 1.4%, respectively).

The Budget Memorandum envisages the general government deficit to drop to around 1% of gross domestic product in 2001. The actual trends causing lower general government revenues as well as greater general government expenditure on pensions and health will result in higher imbalances in the general government account than planned at the beginning of the year. If the negative trends on the revenue side seen early in the year continue, particularly as regards revenue from value-added tax, it will be necessary to take restrictive steps to curb general government expenditure. The curbing of expenditure may affect economic activity at the end of the year, but the extent of the impact on economic growth is difficult to predict because it is subject to the structure and method of expenditure curbing and the possibility of liquidity adjustments of the economy; drawing on the current expectations, real growth may be about one-tenth of a percentage point lower.

2.3. PROSPECTS FOR 2002 AND 2003 – After a slight cyclical downturn in 2002, gross domestic product growth again stronger in 2003

The economic slowdown in the EU in 2001 will cause exports to rise slowly in early 2002 despite the positive effects of the diversification of Slovenia's external trade and expansion to the markets of former Yugoslavia and countries in transition. The 5.9% real rise in the exports of goods and services in 2002 will be slightly lower than a year earlier despite the revival of export growth in the second half of the year.

The subdued foreign demand will be the main reason for a **slight slowdown in economic growth to about 4.2% in 2002**. The cyclical strengthening of private and investment consumption, which is estimated to start in 2001, will gain further strength in 2002. The slightly stronger investment activity will be driven on by higher investments of the corporate sector and financial injections from private and European resources, while real private consumption will be stimulated by wage growth in 2002, further rises in employment, and weaker loan burdens from 1999. Real export growth is expected to regain strength in 2003, when exports are stimulated by more favourable trends in the international environment and the higher export competitiveness of Slovenia's products in advanced markets. In order to achieve this, Slovenia will have to carry out and conclude a number of structural reforms, particularly in the fields of corporate sector restructuring and privatisation, labour market flexibility, lifting administrative barriers to foreign and domestic investment, promotion of technological development, and investment in human resources. The strengthening of private consumption growth is expected to continue in 2003 underpinned by further employment growth and gradual rises in the real wage per employee in the private sector; however, wages are expected to rise below the rate of productivity growth, so that competitiveness will not be undermined. Household spending will largely be influenced by measures of social, fiscal and wages policies. The volume of household spending will stimulate the gradual transfer of costs for certain services, mainly in the sectors of health and education, from the state to the consumer. On the other hand, supplementary pension insurance schemes and alternative forms of saving will further stimulate household saving. Investment activity will continue to rise strongly and at rates higher than gross domestic product growth. Investment in market activities and economic infrastructure is estimated to rise fastest. Private and EU funds will be employed in financing those investment projects. Based on the projections of the main consumption aggregates, gross domestic product growth should regain strength in 2003 and achieve a rate of about 4.5%.

After the relatively low current account deficit estimated for 2001, the deficit is forecast to expand to around 2% of gross domestic product in 2002 as a result of slower real export growth and higher real import growth driven by domestic consumption. Considering the projected trends in domestic and foreign demand and higher capital inflows from abroad, the current account deficit should remain at about the same level in 2003. The **sustainability of the current account deficit** in the next few years will **strongly depend on the composition of inflows in the capital and financial account**, where the relative share foreign direct and portfolio investment is estimated to increase. This is related to the conclusion of structural reforms, restructuring and privatisation, and the liberalisation of capital flows; on the other hand, the expected strengthening of the domestic financial system and reduction of the difference between domestic and foreign interest rates will contribute to the lowering of the share of loans in financial inflows.

In order to gradually **reduce** the average **inflation** rate to about 5% in 2003, it will be **necessary to co-ordinate fiscal, monetary, incomes and price policies**, accelerate structural reforms which are under the auspices of the Government, and review the system of price control, which maintains some

Table 2: Macroeconomic indicators for the period 2000-2003

	2000	2001	2002	2003
		Estimate		
GROSS DOMESTIC PRODUCT real growth rates, in %	4.6	4.4	4.2	4.5
GDP, SIT million (current prices)	4,035,518	4,571,200	5,068,000	5,566,000
INFLATION (annual average)	8.9	8.5	6.4	5.1
USD EXCHANGE RATE - annual average (BS)	222.7	243.1	247.8	249.1
EUR EXCHANGE RATE - annual average (BS)	205.0	217.0	225.3	232.0
EUR/USD exchange rate	0.92	0.89	0.91	0.93
Effective exchange rate[1]	-2.1	-0.1	1.0	0.7
EMPLOYMENT, growth rates in %	1.1	0.7	0.7	1.0
Rate of registered unemployment, in %	12.2	11.7	11.3	10.8
Rate of unemployment by ILO, in %	7.0	6.7	6.5	6.2
LABOUR PRODUCTIVITY, growth rates in %	3.5	3.7	3.5	3.5
GROSS WAGE PER EMPLOYEE, real growth in %	1.6	2.3	2.7	3.0
EXPORTS OF GOODS AND SERVICES - real growth rates, in %	12.7	7.5	5.9	6.3
- exports of goods, real growth rates in %	12.8	8.2	6.1	6.5
- exports of services, real growth rates in %	11.8	4.1	5.1	5.3
IMPORTS OF GOODS AND SERVICES - real growth rates in %	6.1	4.5	6.2	6.4
- imports of goods, real growth rates in %	6.1	4.4	6.3	6.5
- imports of services, real growth rates in %	6.0	4.8	5.4	5.9
CURRENT ACCOUNT BALANCE, USD million	-594	-330	-407	-448
% share in GDP	-3.3	-1.8	-2.0	-2.0
GROSS FIXED CAPITAL FORMATION - real growth rates in %	0.2	2.6	6.6	6.6
- % share of GDP	26.7	26.2	26.8	27.2
PRIVATE CONSUMPTION - real growth rates in %	0.8	2.1	3.2	4.0
- % share of GDP	54.9	53.7	53.2	53.0
GOVERNMENT CONSUMPTION - real growth rates in %	3.1	4.2	4.2	4.2
% share of GDP	20.8	20.8	20.8	20.7

Source of data: SORS, estimates by IMAD.
Note:[1] Growth in index denotes appreciation of tolar and vice versa.

price discrepancies. Reducing inflation in the next few years will also depend on external factors: import prices, mainly those of strategic raw materials, exchange rate changes in world money markets and the tolar's exchange rate.

Favourable developments in the labour market are expected to continue in the next two years. In 2002, employment in the full-time equivalent is expected to rise at about the same rate as in 2001 (up about 0.7%), while in 2003 growth will strengthen slightly (1%) against the background of stronger economic activity. With the rising employment, the registered and survey unemployment rates will continue to drop and reach about 11% and slightly over 6% in 2003. The two rates will move closer together as the old unemployed no longer seeking a job or being informally active will gradually leave the labour market (their share is currently about 50%).

In 2002, the **real gross wage per employee is forecast to rise slightly more than in 2001** (up 2.7%). Wages in the private sector should rise by around 2.5% given the expected dynamics of economic activity and the number of working days, while the real gross wage per employee in the public sector should climb by about 3.1% in 2002, assuming that the same adjustment mechanism is used next year (the consequences of a possible introduction of a new wage agreement for the public sector are not taken into account). The **lagging of wages behind labour productivity growth will be sustained in the next two years**; the difference between the two rates will gradually narrow, but it will not fall below half of a percentage point. Wages policy measures co-ordinated with other policies will play a key role in meeting the goals of stable economic growth, even wage distribution, the reduction of inflation, employment growth, and improved competitiveness.

3. INTERNATIONAL ENVIRONMENT – A slowdown in international economic activity in 2001

The dynamics and rate of **global economic growth in 2001** will be significantly affected by the following factors: deceleration of the US economy, the related impact on economic developments in the EU and Asia, changes in world oil and petrol prices, economic movements in Japan, and the pace of economic restructuring in the countries hit by the 1998 financial crisis. According to the IMF (IMF 2001) and European Commission (EC 2001a) as well as some other institutions, global economic growth will average 3.2%-3.3% in 2001 (4.8% in 2000). According to this scenario, this year's deceleration of the global growth rate in comparison with 2000 will be mostly due to the slower increase in gross domestic product in the USA (5% in 2000, 1.5%-1.7% in 2001; IMF 2001, EC 2001a, LINK 2001) and in Russia (7.5% in 2000, 4% in 2001). In comparison with 2000, this year's economic growth rate will also be lower in the newly industrialised Asian economies[4] (8.2% in 2000, 3.8% in 2001), EU countries (3.4%, 2.8%), Mexico (6.9%, 3.5%), China (8%, 7%), India (6.4%, 5.6%), ASEAN-

Table 3.1: Economic growth, inflation and real growth in imports of goods and services in Slovenia's most important trading partners (in %)

	Share in exports, in %	Real growth of gross domestic product			Inflation (average)			Real growth in imports of goods and services		
	2000	2000	2001	2002	2000	2001	2002	2000	2001	2002
EU	63.9	3.4	2.8	2.9	2.1	2.1	1.8	10.3	8.8	8.1
Germany	27.2	3.0	2.2	2.6	2.1	2.0	1.5	10.2	11.1	9.3
Italy	13.6	2.9	2.5	2.7	2.6	2.2	1.9	8.3	7.9	8.1
Croatia	7.9	3.7	2.5	2.5	6.2	5.5	5.0	3.0	2.6	-
Austria	7.5	3.2	2.5	2.6	2.0	1.6	1.4	7.4	5.4	5.4
France	7.1	3.2	2.9	2.8	1.8	1.3	1.6	14.7	10.5	8.6
BiH[1]	4.3	8.0	6.0	6.0	0.6	1.0	1.0	N/A	N/A	N/A
USA	3.1	5.0	1.5	2.5	3.4	2.6	2.2	13.6	3.7	3.7
Poland	2.6	4.2	4.3	4.6	10.1	6.8	5.5	7.5	7.2	6.9

Source of data: EC Supplement A, March/April 2001; EC Economic Reform Monitor Issue 2001/2, April 2001; IMF World Economic Outlook May 2001; WIIW February 2001; LINK April 2001 .
Note: [1] inflation - BiH federation (average growth rates for Republika Srpska are 13% for 2000, 5% for 2001, 3% for 2002; WIIW); N/A - no data available.

[4] Hong Kong, South Korea, Singapore, Taiwan.

Table 3.2: Economic growth, the extent of global trade and movements in oil and raw materials prices (real growth, in %)

	1999	2000	2001	2002
Global economic growth	3.5	4.8	3.2	3.9
Extent of global trade	5.3	12.4	6.7	6.5
Global oil price	37.5	56.9	-5.0	-4.0
Global price of raw materials[1]	-7.1	1.8	0.5	4.5

Source of data: IMF, May 2001, LINK, April 2001.
Note: [1] weighted mean, according to shares in global exports.

4[5] countries (5%, 3.4%) and in Japan (1.7%, 0.6%). On the other hand, according to the estimates, the growth will strengthen slightly in Africa (3%, 4.2%), countries in transition (excluding Russia; from 3.8% to 3.9%) and South America (3.2%, 3.7%). According to the international institutions' estimates, global economic growth will accelerate again (3.9%, IMF 2001) in **2002** and should remain at roughly the same level in **2003**, supposing that American economic growth revives, the euro strengthens and oil prices drop below USD 25 per barrel. Besides, the global economic growth dynamics will also be strongly affected by the further development of information technologies and the extent of investments in the new economy, not only in the USA but all over the world.

In 2000, high oil and petroleum product prices boosted inflationary pressures in oil-importing countries, on average pushing up the prices of consumer goods in developed countries by 0.9 of a percentage point since 1999 - in the EU by 0.9, in the USA by 1.2; Japan, on the other hand, due to its restrictive monetary policy measures, showed a strengthened deflation (-0.6%, in 1999 -0.3%). The second half of the year brought a more pronounced spillover effect of high energy prices on to other prices, resulting in an increase in core inflation, which had remained at a relatively low level in most countries up until then. Price movements in EU countries in the first few months of this year, especially May's strong price increases, indicate that inflation in 2001 will be above 2%, mostly due to relatively high oil prices, the weak euro and the less restrictive monetary policy of the central bank (2.1%, EC 2001a; in the Euro area 2.3%, according to the European Central Bank estimate from June). This year's inflation in the USA is estimated at 2.6% (IMF 2001), while deflation of about 0.7% is expected in Japan. In 2002, inflation in developed countries will drop, presuming stabilisation of the average oil price between USD 22 and USD 25 per barrel and a slight strengthening of the euro, and would therefore gradually

[5] Indonesia, Malaysia, Phillipines, Thailand

Table 3.3: Economic growth, inflation and external imbalance in EU candidate-countries (in %)

	Real gross domestic product growth			Inflation (average)			Current account of the balance of payments relative to GDP		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Bulgaria	5.4	5.2	4.9	10.1	8.5	6.0	-5.4	-3.9	-4.2
Czech Rep.	3.1	3.5	4.0	3.9	4.3	4.4	-4.3	-4.6	-4.2
Hungary	5.3	4.6	5.0	9.8	9.0	6.8	-3.8	-4.2	-4.0
Poland	4.2	4.3	4.6	10.1	6.8	5.5	-6.2	-5.9	-5.5
Romania	1.6	1.8	2.3	49.0	36.7	23.7	-3.2	-3.6	-4.1
Slovakia	2.2	3.0	3.8	12.0	7.5	5.3	-3.7	-4.4	-4.2
Estonia	6.6	5.9	5.7	4.1	4.7	3.5	-5.2	-4.3	-3.1
Latvia	5.7	5.5	5.5	2.6	1.8	3.2	-7.6	-7.6	-7.6
Lithuania	2.9	3.5	4.0	1.0	1.5	2.5	-7.0	-5.0	-4.0
Cyprus	4.8	3.4	4.7	4.3	4.5	2.2	-4.0	-3.1	-2.9
Malta	4.1	4.3	4.0	2.6	2.2	2.3	-6.7	-6.6	-5.9
Turkey	5.8	-2.0	3.3	54.9	58.0	29.0	-3.3	-2.7	-2.1

Source of data: EC Economic Reform Monitor Issue 2001/2, April 2001.

settle at the pre-2000 level.

According to economic developments projected for 2001, the euro could show a slight strengthening before the end of 2001, but will remain below last year's annual average, which was EUR 0.92 for USD 1. Due to this year's **lowering of key interest rates in most developed countries**, most prominently in the USA, and trends in some international reference interest rates (LIBOR, EURIBOR), the average level of interest rates in 2001 is expected to fall. A further decrease, although less pronounced, is also likely in 2002, according to the IMF.

4. ANALYSIS OF CURRENT ECONOMIC TRENDS AND SHORT-TERM PROJECTIONS

4. 1. GROSS DOMESTIC PRODUCT

4.1.1. EXPENDITURE STRUCTURE OF GROSS DOMESTIC PRODUCT – A drop in exports and growth of domestic demand in the second half of 2001

According to the SORS' first estimate published in May 2001, real gross domestic product growth in 2000 was 4.6%. Last year's real economic growth was chiefly based on real export growth rather than on an increase in domestic consumption. Exports of goods and services increased by 12.7% in real terms, while domestic demand rose by only 3.2%; the contribution of international trade in goods and services to economic growth was 3.4 percentage points[6]. Among the main categories of domestic spending, private consumption and gross fixed capital formation displayed a notably low level of growth in real terms (up 0.8% and 0.2%, respectively).

Economic growth in 2001 is estimated to be 4.4%. This year's slight decrease in economic activity in comparison with the past two years will mostly be due to the expected fall in the EU's economic growth and the continued low rate of growth in private consumption and investment. As the drop in European economic activity has a delayed impact causing domestic production to slow down, real gross domestic product growth is expected to be even lower in 2002 (4.2%), but it will regain some strength in 2003.

Due to the slower increase in imports of goods and services in Slovenia's most important trading partners (Germany, Italy, Austria), this year's foreign demand growth (7.5%) will be lower than last year's (12.7%), which is estimated to contribute the most to this year's lower growth in total demand (4.5%) in comparison with the previous year's (5.2%). Despite its slower growth, foreign demand is still expected to increase at a rate double that (7.5%) of domestic demand (3.7%), thus remaining the most important lever of economic growth. As far as domestic demand is concerned, an above-average rate of increase will

[6] The contribution of international trade in goods and services to real economic growth was negative in 1997-1999 (-0.3, -2.3 and -4.2 percentage points) and amounted to 0.8 of a percentage point in 1996.

Table 4.1.1.1: Growth in aggregate demand components

	Real growth rates in %				
	1999	2000	2001	2002	2003
			Estimate		
Total aggregate demand	5.6	5.2	4.5	4.7	5.1
of which:					
Foreign demand (exports)	1.7	12.7	7.5	5.9	6.3
Domestic demand	6.6	3.2	3.7	4.4	4.7
- intermediate consumption	4.6	5.1	4.6	4.4	4.7
- private consumption	6.0	0.8	2.1	3.2	4.0
- government consumption	4.6	3.1	4.2	4.2	4.2
- gross fixed capital formation	19.1	0.2	2.6	6.6	6.6

Source of data: SORS, IMAD's estimates.

be recorded by intermediate consumption, albeit lower than last year's mainly due to a slight drop in production activity in 2000. Government consumption is expected to rise by 4.2%. Gross fixed capital formation and private consumption will gain some strength after last year's modest growth as the result of the cyclical effects. In the next two years, the real growth rate of domestic demand is expected to increase, encouraged by a slightly higher private consumption (see Chapter 4.3) and, most notably, quicker increase in gross fixed capital formation (see Chapter 4.4).

Table 4.1.1.2: Expenditure on gross domestic product

	Structure in %, current prices				
	1999	2000	2001	2002	2003
			Estimate		
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
International trade in goods and services (exports-imports)	-4.4	-3.6	-1.8	-2.0	-2.0
Total domestic demand	104.4	103.6	101.8	102.0	102.0
- Private consumption	55.8	54.9	53,.7	53.2	53.0
- Government consumption	20.2	20.8	20.8	20.8	20.7
- Gross fixed capital formation	27.4	26.7	26.2	26.8	27.2
- Changes in inventories and valuables	1.0	1.1	1.1	1.1	1.1

Source of data: SORS; IMAD's estimates.

Table 4.1.1.3: Main aggregates of national accounts

	Structure in %, current prices				
	1999	2000	2001	2002	2003
			Estimate		
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
Net primary income from the rest of the world	-0.2	-0.4	-0.6	-0.7	-0.7
GROSS NATIONAL INCOME	99.8	99.6	99.4	99.3	99.3
Net current transfers from the rest of the world	0.6	0.7	0.7	0.7	0.7
GROSS NATIONAL DISPOSABLE INCOME	100.5	100.3	100.1	100.0	100.0
Final consumption	76.0	75.8	74.5	74.0	73.7
GROSS NATIONAL SAVINGS	24.5	24.6	25.6	26.0	26.3
Surplus of the nation on current transactions	-4.0	-3.2	-1.8	-2.0	-2.0
GROSS CAPITAL FORMATION	28.4	27.8	27.3	28.0	28.3
in which: gross fixed capital formation	27.4	26.7	26.2	26.8	27.2
NET CAPITAL FORMATION	11.1	10.3	9.9	10.4	10.6

Source of data: SORS; IMAD's estimates.

In spite of the significantly worsened terms of trade, last year's current account deficit was lower by 0.8 of a percentage point of gross domestic product in comparison with 1999. Lower private spending, slower growth in investment consumption and the high increase in exports were the main reasons for last year's fall in level of the necessary foreign savings (the investment-savings gap) to 3.2% of gross domestic product. Private consumption's share in gross domestic product is expected to drop further in 2001 and 2002 (by 1.2 percentage points in 2001 and 0.5 of a percentage point in 2002), mostly due to the expected increase in household savings and disposable household income remaining burdened by the repayment of loans taken out in 1999 (see Chapter 4.3). Given this year's faster increase in savings and a slowdown in the investment cycle, investment-savings gap will decrease from last year's 3.2% to 1.7% of gross domestic product. Gross savings are expected to increase by 8.9% in real terms in 2001, by 5.6% in 2002 and 6.2% in 2003, prompting an increase in their share in gross domestic product. This year's decrease in the investment-savings gap will therefore be mostly due to a higher share of gross savings (by 1 percentage point of gross domestic product) and a lower share of gross fixed capital formation in gross domestic product (by 0.5 of a percentage point). The next two years will see an increase in the share of gross fixed capital formation, while the investment-savings gap will rise slightly at the same time.

Last year, the terms of trade seriously deteriorated for the first time since 1991, due to high oil prices and a strong dollar (export prices rose by an average of 10.5%, import prices were up by 14.8%), and the resulting losses in international trade amounted to 2.3% of gross domestic product. Import and export prices are estimated to rise at more equal rates this year. This year's movements in real gross domestic income (which measures changes in the extent of gross domestic product as well as changes in the purchasing power of income resulting from changes in the terms of trade) will be more in line with economic growth and a similar trend is expected to continue in the next few years.

4.1.2. PRODUCTION STRUCTURE OF GROSS DOMESTIC PRODUCT – Slowdown in the industrial sectors in 2001, bolstering of growth in industrial and service sectors in 2002

According to the SORS' first annual estimate, value added increased by 5.1% **in 2000** in real terms. Due to the relatively low increase in taxes on goods and services (up by 2.2% in real terms) on the one hand, and the relatively high increase in subsidies (up by 6.3% in real terms) on the other, value added increased at a rate exceeding gross domestic product growth (4.6% in real terms). Value added rose by 12% in nominal terms, with the increase in intermediate consumption (15.6% in nominal terms) outstripping the growth in domestic production (14.1% in nominal terms) due to unfavourable price trends in Slovenia and the worsening of the terms of trade (see Chapters 4.6 and 4.5.2.1).

Last year, in contrast to 1999, the favourable economic developments in foreign markets helped value added in industry to rise above that of service sectors (up 7.8% and 4.2% in real terms, respectively). The largest part of value-added growth was contributed to by manufacturing, being the most export-oriented sector of the Slovenian economy, where value added increased by 8.6% in real terms. Last year's highest increase in value added was recorded by the activity of hotels and restaurants (a 9.8% real rise), due not only to favourable results achieved in tourism but also to the 1999 tax reform, which considerably lowered the companies' costs compared with the year before (see Chapter 4.2.1). A notable increase in value added in comparison with 1999 was also recorded in financial intermediation (3.3% in 1999 as against 5.9% in 2000), which was mainly due to high interest margins in banks as the result of the indexation mechanisms (see Chapter 4.2.1). Last year's worst results were achieved by agriculture and fisheries and mining - compared to the year before, real value added decreased in these activities. After highly dynamic growth the year before, 2000 saw slower real value-added growth in construction, retail trade and the repair of motor vehicles.

After an extremely high rate of increase in 2000, growth in value added in industry, especially manufacturing, will slow down **in 2001** due to the expected drop in foreign demand, but will remain at a relatively high level (value added is estimated to rise by 5.1% in industry and 5.5% in manufacturing). Real value added in the service sectors is estimated to increase by about 4.5%, exceeding last year's level. After two years of falling, value added in agriculture is expected to rise by 3% in real terms this year. This year growth in construction will also decelerate in line with the slower infrastructure construction (roads, railways; see Chapter 4.4). Among the service sectors, a notably lower rate of increase is only expected in hotels and restaurants (see Chapter 4.2.1). On the other hand, the rate of growth in public administration, defence and social security is expected to increase from 5.7% in 2000 to an estimated 7.5% in real terms in 2001. This estimate is based on the planned increase in the numbers of employees connected with Slovenia's accession to the EU and NATO, the protection of the southern EU border, and by further reform of tax administration and agricultural policy reforms (see Chapter 4.2.1). Dynamic growth in financial intermediation (up 6.3% in real terms) is expected to continue in 2001 due to further liberalisation of financial and capital flows, the expected strengthening of the insurance sector, as well as due to profits of banks arising from indexation mechanisms, which are expected to remain at a relatively high level.

Real gross domestic product growth in 2001 is expected to slow down to 4.4% with the growth in industry slowing down and growth in services strengthening. **In 2002**, the deceleration of economic activity in the international environment, which affects the Slovenian economy with a delay, will be reflected in a lower rate of increase in industrial sectors. With average growth rates in the service sectors remaining at the level of 2000, **real gross domestic product growth** is expected to **settle at 4.2%** in 2002. A renewed strengthening of value-added growth in industry, accompanied by faster growth in the service sectors, is expected in **2003**, resulting in **gross domestic product growth of 4.5% in real terms**.

4.1.3. COST STRUCTURE OF GROSS DOMESTIC PRODUCT – A gradual drop in the share of compensation of employees in the next two years

The positive trend of declining share of total labour costs in gross domestic product seen in the 1994-1999 period came to a halt in 2000. However, real compensation of employees continued to rise more slowly than real gross domestic product growth (up 3.1% as against 4.6%). The relatively large difference between the implicit gross domestic product deflator and implicit price indices of domestic demand (5.7% and 8.5%, respectively; the reason being last year's stronger rises in import over export prices) and wage adjustment mechanisms applied last year (see Chapter 5.3) led to a 0.8 of a percentage point larger share of total labour costs (compensation of employees) in gross domestic product (up from 51.8% in 1999 to 52.6% in 2000). In 2001, compensation of employees is expected to increase by 3.2% in real terms (in 2002 by 3.9% and in 2003 by 4.3%), while its share in gross domestic product is estimated to fall by 0.6 of a percentage point. With the nominal rise in labour costs forecast to lag behind gross domestic product growth, the share of labour costs in gross domestic product is expected to return to its 1999 level by 2002 (51.8%).

In 2000, the share of value-added tax (VAT) in gross domestic product was 9.7%. With this year's slower increase in imports and exports and the expected trend of private and government consumption growth, the VAT share will fall to 9.6% of gross domestic product. Due to the increasing sales of products and services to foreign markets (entitled to VAT refunds), an even lower contribution of VAT to gross domestic product is expected in 2002 and 2003 (about 9.5%) provided that VAT rates remain unchanged (19% and 8%). Excise duties amounted to 3.4% of gross domestic product last year. On the basis of the expected private consumption trends and the expected sales of products burdened by excise duties (mineral oils and gas, alcohol and alcoholic beverages, tobacco products), they are expected to contribute 3.5% to gross domestic product[7]. Due to the implementation of free-trade agreements, the share of import duties and taxes fell by 0.3 of a percentage point to 0.9% of gross domestic product last year (3.5% of gross domestic product in 1995); this trend is expected to

[7] The estimate of this year's revenues from excise duties is based on the excise duty rates on mineral oils and gas currently in force. The estimate of revenues from excise duties on tobacco products is based on the planned amendment to the Excise Duties Act, bringing about the gradual raising of excise duties on cigarettes.

continue in 2001 and the next two years, with the contribution decreasing to 0.8% of gross domestic product (the end of 2001 brings the end of transitional periods for all free-trade agreements). In 2001 and the next two years, the share of other taxes on goods and services[8] is expected to remain at last year's level (0.8% of gross domestic product). Other taxes on production[9] accounted for 2.4% of gross domestic product in 2000, an increase of 0.3 of a percentage point from 1999, with changes in classifying taxes on gambling taken into account[10]**.** Taking into account the concession taxes on the new generation of mobile telephony planned in this year's budget, the share of other taxes on production is expected to increase to 3.1% of gross domestic product.

Table 4.1.3: Cost structure of gross domestic product

	Structure in %, current prices				
	1999	2000	2001	2002	2003
			Estimate		
1. COMPENSATION OF EMPLOYEES	51.8	52.6	52.0	51.8	51.7
2. TAXES ON PRODUCTION AND IMPORTS	18.3	17.3	17.7	17.7	17.1
- taxes on products	16.2	14.9	14.6	14.5	14.3
- other taxes on production	2.1	2.4	3.1	3.2	2.8
3. SUBSIDIES	2.2	1.9	1.8	1.8	1.8
4. GROSS OPERATING SURPLUS AND MIXED INCOME (4=5+6)	32.1	32.0	32.1	32.3	32.9
5. Gross operating surplus	22.2	22.4	22.6	22.8	23.2
6. Gross mixed income	9.8	9.6	9.5	9.5	9.8
7. GROSS DOMESTIC PRODUCT (7=1+2-3+4)	100.0	100.0	100.0	100.0	100.0

Source of data: SORS; IMAD's estimates.

[8] These taxes include the tax on CO2 emissions, the tax on motor vehicles, special taxes on gambling, the insurance tax, the real-estate tax and the tourism tax.

[9] These taxes include the taxes on motor vehicle registration paid by legal entities, the payroll tax, concession taxes on gambling, the waste-water tax, water repayments, taxes on the ownership and use of land.

[10] A special sales tax on gambling, which was in effect up until the middle of 1999, was classified under the taxes on goods and services, while concession taxes on gambling, which replaced the special sales tax on 1 July 1999, are classified under other taxes on production in the national accounts.

In the period 2001-2003, Slovenia will be intensively implementing its restructuring programmes. The contribution of subsidies to gross domestic product will be 1.8% in this period (1.9% in 2000).

Given the expected slower rises in world commodity prices, the prices of intermediate goods (most notably fuels) are expected to rise at lower rates than the prices of domestic goods and services; with the gradual reduction of imbalances resulting from last year's unfavourable terms of trade, the share of gross operating surplus in gross domestic product is expected to rise slightly in 2001. The relative share of the gross mixed income of households[11] in gross domestic product is expected to edge down this year mainly due to the continuing fall in the share of agriculture in value added; however, its share is expected to increase again in 2003 as a result of implementation of the agricultural policy reform and the relatively high protection of farmers' income (see also Chapter 4.6).

4.2. PRIVATE CONSUMPTION – Relatively moderate growth continues in 2001, gradual strengthening in the next two years

In 2000, real household consumption growth moderated significantly, as expected. It dropped from 6.0% in 1999 to just 0.8% last year, the lowest growth recorded in the last eight years. One of the reasons was the extremely high household consumption in 1999, coupled with greater burden to repay loans (see Chapter 4.8.1), while additional pressure on purchasing power in the last year stemmed from the worsened terms of trade and higher prices in the domestic market. In addition, the relatively slower growth of wages (last year, the gross wage per employee rose in real terms by 1.6%, while in 1999 it went up by 3.3%) and the slower employment trend did not allow any faster growth in household consumption. Within households' disposable income, which rose by 2.5% in real terms last year (see Box 1), another important source of income decreased – gross mixed income, which mostly concerns agricultural households, sole proprietors and the self-employed.

In line with the slower dynamics of consumption growth, household savings increased by as much as 20.1% in real terms last year. The savings ratio also

[11] Gross mixed income includes the income of farm holdings.

Box 1: Household Disposable Income

This year real growth in household disposable income is expected to be somewhat higher than last year (2.5%) and will amount to **2.7%**; the savings ratio is also expected to further increase somewhat after last year's strong improvement. This year, growth in the employment rate will be more moderate, while gross wages are to increase by a good half of a percentage point (0.7) faster than last year, which means that total gross wages will rise at about the same rate as last year in real terms (3.2%). The amendments to the law regulating social protection[12] will increase social benefits to the level covering the minimum cost of living, meaning that this form of social benefit will no longer be tied to the guaranteed wage. This will ensure harmonisation with the EU's legislation and greater security of those socially and materially deprived. Transfers for social security from the budget will be 1.7% higher in real terms this year. Family benefits and parental leave benefits are estimated to grow by 2.7% in real terms, while unemployment benefits will be lower for the fourth year in a row (expectedly by 8.6% in real terms) - as a consequence of fewer eligible persons. In accordance with the higher growth in gross wages this year, income taxes are to increase somewhat faster than last year. **Next year**, real growth in disposable income will be around 3%, while in **2003** it is to strengthen to **around 4%**, mainly due to the rapid increase in wages and employment and the drop in income taxes.

grew, so that the share of savings in gross disposable income went up by 1.9 percentage points to 14.3%. Last year, savings in banks (accounting for almost two-thirds of gross savings) increased by 14.8% in real terms and were encouraged mainly by growth in the exchange rate and higher deposit interest rates. A positive influence also came from the public tenders for the national housing savings scheme. These schemes are important in terms of long-term savings[13] and offer several possibilities to invest in real estate, which are among the safest investments (also according to the survey on the savings habits of Slovenian households of 1999; Simoneti, 1999). At the same time, the greater level of savings points to a certain shift in the mentality of the inhabitants, as the gradual

[12] The amendments to the Social Protection Act will take effect as at 1 October 2001, with the level of financial social benefits for single persons gradually (until 1 January 2003) levelling out with the level of minimum income defined by this Act.

[13] They represent around 10% of all retail deposits, however, its share has been constantly increasing; see Chapter 4.8.1.

shrinking in social security requires the strengthening of various forms of saving and alternative forms of insurance.

This year's movements in macroeconomic aggregates, showing the highest correlation with private consumption trends, draw attention to the relatively low growth in household consumption. Real growth of the gross wage per employee (2.3%) this year is estimated to be higher than last year, while the increase in the employment rate is moderating somewhat, meaning that the net effect on the growth in total gross wages will be approximately the same as last year. In the first three months of this year, retail trade turnover rose moderately; it chiefly rose in the category of foodstuffs, while it dropped in the group of motor vehicles and fuels (see Chapter 4.2). Stocks of consumer durables in industry were growing throughout last year, and particularly distinctly in the first four months of this year[14]. Imports of consumer goods in the first quarter of this year also fell in real terms. Both of these facts allow the conclusion that sales (mostly of durables) slowed down considerably.

Last year's trends of increasing savings have continued this year: in the first quarter savings in banks grew by 14.9% in real terms compared to the same period of last year. The March consumer survey, in which households regarded the next 12 months as an appropriate period for saving and in which they do not intend to make any larger purchases, only confirms this trend. A similar picture is shown by the consumer confidence indicator (reflecting the opinion of consumers on the current and expected situation in households and the economy, and also containing an assessment of the appropriateness of the current moment to purchase larger goods), which dropped significantly in May.

In the first four months of this year, the value-added tax on final consumers (which is gradually to become one of the indicators of private consumption) nominally increased by 4.6% compared to the same period last year, while in real terms it fell by 4%, which points to the distinct moderation of private consumption.

In line with the estimated growth in wages, employment and households' disposable income, price trends and increased savings and simultaneous repayment of household loans, **this year's real growth in private consumption is estimated to be 2.1%**. In the composition of consumption,

[14] At the annual level, they were 18.8% higher, and in April even 21.8% higher than last year's average. On the other hand, stocks of non-durable consumer goods have dropped this year (in the first four months, they were a good 7% lower at the annual level).

services are expected to grow relatively fastest, followed by non-durable goods (with approximately the same growth dynamics as recorded in the last few years), while the consumption of durables is estimated to fall in real terms this year. After the extensive purchases seen in 1999, the saturation of households with durables is relatively high, therefore this year the consumption of these goods is not yet expected to grow (sales of new cars in the first four months of this year halted at 82% of the sales level of the same period of last year[15]). **Next year**, the real growth of private consumption is estimated to strengthen and amount to **around 3.2%**. The estimate is based on the assumption that the wages and social policies will be implemented, and also taking into account the cyclical movement of purchases of durables and further growth in household savings, as well as the partial disburdening of household income from loans taken out in 1999. In 2003, using the assumption of 3% real growth in the gross wage per employee, households' disposable income will rise by some 4%. If the envisaged tax reform (amendments to the Personal Income Tax Act and VAT Act) is carried out in 2003, this would - given the lower burdening of wages by taxes, especially of households in lower income brackets (whose marginal propensity to consume is higher than in households of higher income brackets) - encourage their higher consumption. **Real growth in private consumption** is estimated to be **around 4% in 2003**.

4.3. INVESTMENTS AND SAVINGS – This year's growth in investment in fixed assets to remain modest

Several years of dynamic investment activity eased off last year. One of the reasons leading to the moderate investment increase in 2000 was the high level of investment in previous years, especially in 1999, which made the level of comparison extremely high. The 13.5% average real annual growth of gross fixed capital formation in the 1995-1999 period considerably exceeded the average annual gross domestic product growth in the same period (4.2%). The growth of gross fixed capital formation was extremely lively primarily in 1999, when it amounted to as much as 19.1%, with the structural share in gross domestic product achieving 27.4%, that is 6 index points more than in 1995. Due to the aggravated terms of trade, resulting in the drop in the purchasing power of income, and the reduced volume of investments from general government sources resulting from the limited funds available from the state

[15] Last year's sales in the first four months lagged 15% behind the comparable sales in 1999, which means a 30-percent fall if the first four months of this year are compared to the same period of the record-setting 1999.

budget at the end of 2000, the real growth of investments stopped last year (real growth of 0.2%). This is also a consequence of cyclical moderation, as the **volume of investments last year was practically at the high level of the previous year**, despite the lower deficit in the balance of payments current account and worsened terms of trade.

The **technical structure of gross fixed capital formation** shows that in 2000 96.1% of funds was invested in tangible fixed assets, 3.6% in intangible fixed assets and 0.3% in increase of the value of non-produced non-financial assets. Despite the fall (by 1.5% in real terms compared to the previous year), investments in building and construction works remained the most important investments last year; their share in the total fixed capital formation was 48.5%. In 2000, only investments in machines and equipment were increasing in real terms: investments in transport equipment were 5.2% higher in real terms than in 1999, while investments in other equipment and machinery (representing a good third of the total gross fixed capital formation) rose by 3.1% in real terms. Last year, investments in intangible fixed assets[16] decreased by 8.1% in real terms, while in the previous years they rose strongly (in 1999 they were as much as 155% higher than in 1995).

Gross fixed capital formation by purpose shows that in 2000 the most important investments were those in market activities (54.8% of total investments), followed by investments in economic infrastructure with a 20.8% share. The share of housing construction was 14.1%, and the share of investments in government services was 10.3%.

The share of economic infrastructure in total investments in 2000 was 1.4 index points higher than in 1995, with the structural share strengthening mostly in 1996. *In the period 1995-2000*, investments in economic infrastructure amounted on average to 5.2% of gross domestic product annually, which is comparable to the relative level of these investments in advanced industrialised countries. As regards investments in economic infrastructure, investments in the *transport infrastructure sector* prevailed. In the period 1995-2000, 3.7% of gross domestic product or 15.1% of total fixed capital formation was allocated on average annually to the construction of transport infrastructure (including communications). Among investments in transport infrastructure in the last mid-term period, investments in the motorway network and telecommunication services were the most important. Here, the share of investments in the motorway programme has

[16] Studies, projects and research work, software, licences, patents, trademarks and originals in the area of film, music etc.

been falling since 1997, while the relative significance of investments in telecommunications has increased. In 1996, the share of investments in telecommunications infrastructure was three times lower than the share of investments in the motorway programme, but in 2001 it is expected to exceed it. The growth of investments in telecommunications, primarily financed from private sources, is estimated to continue in the next few years. Another large segment of investments in economic infrastructure is *investments in the supply of electricity, gas, steam and hot water*. In the last mid-term period, their share in gross domestic product amounted to 1.1%, which is 4.5% of total investments. As opposed to the sectors of transport infrastructure and energy, *investments in the environment protection infrastructure* stagnated. It is expected, especially with regard to achieving the European environmental standards, that investments in environmental protection infrastructure (in the 2001-2006 period) will grow at an average annual level that will considerably exceed the average annual growth level of total investments. The financing of these investments is expected to include an important share of private and EU sources.

In preparing the 2001 budget, the budget funding for national infrastructure programmes had to be cut, both with regard to previous years and with regard to the funds envisaged in the national programmes. In line with the national programmes, general government sources should increase by 16.1% in real terms this year, however in the budget passed they are, compared to last year's realisation, 3.6% lower in real terms (general government sources for investment in the 2001 budget are SIT 36 billion lower than envisaged by the national programmes)[17]. In the short term and within the existing regulations, it is difficult to ensure alternative sources from borrowing or private investments on the basis of concessions, which will result in the fall of investments in infrastructure in 2001 (from 5.5% of gross domestic product in 2000 to 5% of gross domestic product in 2001). The shortage of budget funding in 2001 also

[17] The main source of financing the national motorway construction programme is targeted funds (the 'petrol tolar'). For 2001, the National Motorway Construction Programme (NMCP) envisages an inflow of SIT 59 billion from this source. The budget for 2001 restricted inflows from this source to SIT 28.1 billion. The reduced inflow of targeted funds will thus reduce the level of motorway construction compared to 2000 and the volume of works envisaged in the NMCP. The value of motorway works at the level of SIT 52.6 billion planned for this year is merely 78% of the level of works actually carried out in 2000. In line with the proposed amendments and supplements to the National Programme of the Slovenian Railway Infrastructure Development (which at the end of April 2001 the Government sent to the National Assembly of the Republic of Slovenia to be read for the third time), the funds envisaged according to the National Programme that were not included in the budget proposal for 2001 are re-allocated to the years between 2003 and 2005, for which higher budgetary sources have not yet been ensured.

means an appropriately lower realisation of national programmes in the area of economic infrastructure; however, in the following few years the volume of alternative sources could gradually increase. For this purpose, it will be necessary to implement the programme of privatising state-owned property, improve concession-related legislation and attract more foreign investors.

The projection of disposable general government sources available for investments, assuming a gradual balancing out of public finances, points to the gradual drop of the disposable general government sources for investments. In line with the current budget, the share of general government sources is to decrease this year to 3.9% of gross domestic product (from 4.3% of gross domestic product in 1999) and to be lower by 0.7% of gross domestic product than the share planned in the national programmes. As the national programmes relied

Box 2: Investment-Savings Gap

Last year, gross national savings grew by 4.1% in real terms. Due to the more modest private consumption, the share of gross savings compared to gross domestic product remained almost unchanged last year (it amounted to 24.6%, while in 1999 it was 24.5%), despite the unfavourable terms of trade. Also last year (like in the previous two years), the level of national savings did not suffice to cover the domestic gross capital formation. Last year, the share of total gross capital formation in gross domestic product fell by 0.6 of a percentage point (to 27.8%), as its growth slowed down. The slower increase in fixed capital formation in 2000, together with the higher savings of inhabitants, led to the lowering of the level of the necessary foreign savings with regard to gross domestic product by 0.8 of a percentage point (from 4.0% in 1999 to 3.2% of gross domestic product in 2000). Given the envisaged continued slower investment cycle, this year the share of gross capital formation will edge down further (by 0.5 of a percentage point of gross domestic product). With the expected further growth in savings of inhabitants, the share of gross national savings this year will rise to 25.6% of gross domestic product (8.9 percent real growth). The investment-savings gap, financed through foreign savings, will thus drop to 1.7% of gross domestic product this year (see also Chapters 4.1.1 and 4.5.2.1). Noting the continued growth in savings in 2002 (by 5.6%) and 2003 (by 6.2%), investment activity in the following years is estimated to further strengthen (real growth of 6.6% in both years; the share of gross capital formation in gross domestic product is to gradually return to the level of 1999), while the investment-savings gap is to move to around 2% the gross domestic product.

on high growth in general government sources up until 2003 (when they are already to amount to 5% of gross domestic product), the imbalance between the planned and disposable general government sources of investments will further increase in the following few years.

The existing procedure of adopting national programmes does not allow the *ex ante* harmonisation of the adopted obligations with the aggregate financial resources, therefore further amendments and supplements to the national programmes will be necessary with regard to the disposable financial sources earmarked in the budgets for this and the next year. In line with the possibilities allowed by balanced public financing, the estimate of the real growth of fixed capital formation in 2002 assumes that the volume of investments envisaged in the national programmes (the same growth in investments as envisaged in the national programmes) will be achieved by compensating for the lack of general government sources with faster growth in net loans (the national programmes plan a 5.5% increase but, with regard to the sources available, 8.4% growth is necessary), while the growth of other sources for financing fixed capital formation is expected to be similar as planned in the national programmes.[18]

In 2003, the loss of the envisaged general government sources for investment is also to be compensated for by a faster increase in own financial assets of enterprises (9.1%) than planned in the national programmes (4.6%).

With the envisaged movement of general government sources for investments, **this year's real growth of gross fixed capital formation** is estimated to amount to around **2.6%**, **while in the next two years it is to strengthen (around 6.6% real growth in both years)**. In the following two years, faster increases are estimated to be recorded especially in investments in market activities and economic infrastructure boosting the competitiveness of the economy, with private and EU sources expected to have an important share in financing these investments.

[18] According to a special expert working team, any additional financial sources for financing investments will probably not be able to be used to a large extent in 2002.

4.4. INTERNATIONAL ECONOMIC RELATIONS

4.4.1. COMPETITIVENESS – This year's price competitiveness roughly the same as in 2000, cost competitiveness expected to worsen slightly

In **2000**, the **price and cost competitiveness of Slovenian manufacturing improved** thanks to the **tolar's real depreciation against the basket of currencies** and **strong labour productivity growth** driven by dynamic production. The **shrinking of Slovenia's market shares** in international markets **continued** slowly in 2000 despite the strong production growth underpinned by strong foreign demand and a better price-to-cost ratio recorded by Slovenia's exports of goods compared to its main trading partners.

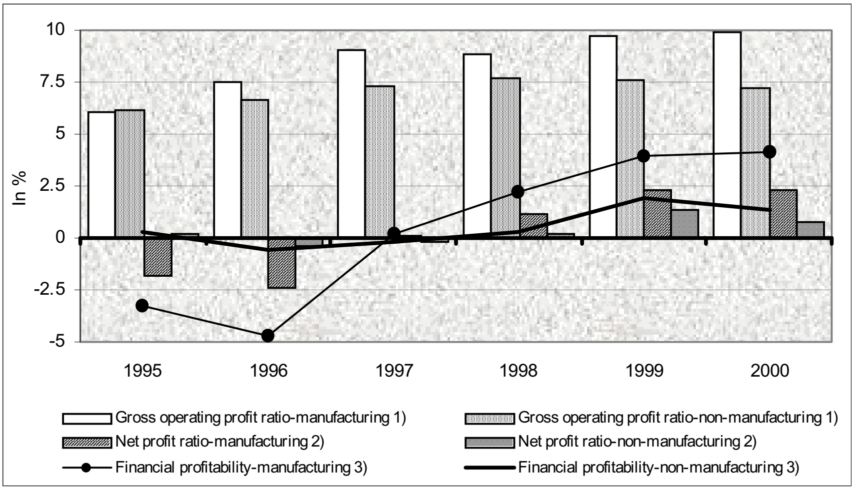
The tolar depreciated by an average of 8.1% in nominal terms against the basket of seven OECD currencies[19]. The tolar depreciated 2.1% in real terms on the basis of relative consumer prices; when measured by relative producer prices, the tolar depreciated by 4.4%. The tolar's real effective exchange rate depreciated markedly in the first half of the year. Real depreciation of the tolar against the euro came to a halt thanks to the two-month intervention of the Bank of Slovenia beginning in July, but the tolar's effective exchange rate continued to depreciate slightly in the third quarter owing to a stronger US dollar. The tolar's real effective exchange rate appreciated in late 2000 as a result of the accelerated rise in relative prices and the dollar's fall. The relative unit labour costs against the basket of currencies fell by an estimated 3.2%. This was in part due to the modest rise in the real compensation of employees compared to labour productivity growth (going up by 2.4% and 7.2%, respectively). The slow rise in the real compensation of employees (from 2.9% in 1999) was due to the stagnant other remuneration as well as due to a slow rise in wages and salaries. With contribution and tax rates remaining the same, the tax burden increased by 0.3% because of the progressive tax on wages (personal income tax) and payroll tax.

The **improvement in price competitiveness** was even **stronger** when **compared to CEFTA-3**[20]. The tolar depreciated by an average of 6.2% against

[19] The German mark, the Austrian schilling, the French franc, the Italian lira, the pound sterling, the US dollar and the Swiss franc.

[20] The Czech Republic, Hungary and Poland

Graph 1: Profitability of Slovenia's manufacturing and non-manufacturing industries[21]



Source of data: AP, calculations by IMAD.
Notes: 1) Ratio of gross operating profit or loss to net turnover;
2) Ratio of net profit loss for the year to net turnover;
3) Ratio of profit or loss for the year to equity capital.

the Czech koruna, the Hungarian forint and the Polish zloty on the basis of relative consumer prices, and by 7.7% on the basis of relative producer prices. Slovenian manufacturing's **cost competitiveness improved** compared to CEFTA-3 by 2.2%, which was almost solely due to the weaker tolar. Real wages in Slovenia rose 0.5% less than on average in the Czech Republic, Hungary and Poland, while productivity growth was 4.5% lower. The **three-year trend of worsening cost competitiveness against the EU-15 came to a halt in 2000**. Like relative consumer prices, relative unit labour costs remained roughly at the same level as in 1999 (the former fell 0.2% and the latter rose 0.2%). The price-to-cost ratio of goods exported by Slovenian manufacturing companies improved compared to the EU-15 as well as to CEFTA-3. The profitability of Slovenia's goods exports improved compared to the average of EU-15 and CEFTA-3 thanks to lower labour costs relative to the value of the exports of goods.

[21] All companies that do not belong to manufacturing.

Box 3: Slovenia's market shares in the EU-15 by groups of products[22] in 1999

Slovenia's market share in the EU started to shrink after 1998 when a record big share was recorded. According to the figures on Slovenia's share in the world goods market, the shrinking of its share in the EU in 1999 was not due to the re-orientation of exports to other markets, as Slovenia's share in world markets dropped even more significantly. Broken down by manufactures, iron and steel products were the only ones to record a larger share in the world market in 1999. The growing market share recorded by chemical products and other consumer goods[23] in the EU was in fact the result of the re-orientation to European markets. **In 1999, the position of Slovenian exporters in the EU market worsened more relative to non-members of the EU than to EU members**, particularly the position of companies exporting manufactures. Non-members saw the biggest increase in their market shares in the imports of manufactures. The only exception is other transport equipment, the sub-group within machinery and transport equipment. As regards other transport equipment, Slovenia's share in the extra-EU imports increased more than that of total imports of the EU.

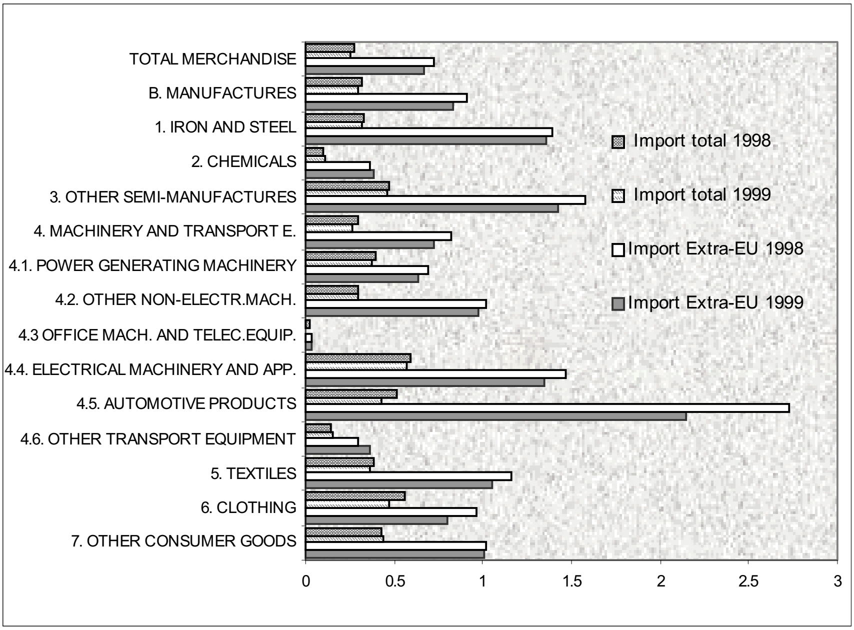
The aggregate share of Slovenia's exports in the imports of the 15 main trading partners[24] contracted less than in 1999, but the fall from 0.524% in 1999 to 0.492% in 2000 suggests that the role of **Slovenian exporters in the international environment continues to be undermined**. Unlike in 1999 (also see Box 3), the fall in market shares in 2000 was solely due to the falls in advanced OECD countries, particularly in the USA and Germany, Slovenia's main trading partner in the EU, while the fall in the Italian market was weaker. Slovenia's market shares in Central and Eastern European countries expanded slightly for the first time since 1992. The worsening of manufacturing's international competitiveness measured in this way can in part be attributed to

[22] According to the methodology of the WTO; product groups are defined in line with the Standard International Trade Classification, Rev. 3.

[23] Other consumer goods: household articles, travel goods, footwear, instruments and apparatus, photography, optical goods, watches and clocks, and other manufactured articles, n.e.s. (SITC divisions 81, 82, 83, 85, 87, 88, 89 excluding group 891, arms and ammunition).

[21] Germany, Italy, France, Austria, the United Kingdom, the Netherlands, Belgium (EU-7), the USA, Switzerland, (OECD-9), the Czech Republic, Hungary, Poland Slovakia (CEFTA-4), Croatia, Russia; weighted average.

Graph 2: Slovenia's market shares in the EU-15 by product groups in 1998 -1999



Sources of data: SORS, WTO, calculations by IMAD.

the re-orientation of exports to the countries of former Yugoslavia (excluding Croatia, which is included in the aggregate share). Even though the high nominal rates of import growth in the main trading partners were the result of not only stronger economic growth but also high rises in oil and commodity prices, the advanced CEFTA countries maintained a slow trend of expanding their market shares in the EU.

In **early 2001**, nominal depreciation of the tolar against the euro slowed down thanks to the renewed strengthening of the US dollar and an over-supply of foreign exchange in the foreign exchange market resulting from the favourable trade balance and inflows into the capital and financial account from foreign direct investments and the additional issuing of eurobonds (see Chapter 4.5.2.1). Depreciating by 1.9% in nominal terms, the tolar rose 0.2% in real terms against the basket of currencies in April over December, or 0.8% when measured by relative producer prices. In the first four months, the tolar lost 7.2% of its value against the basket of currencies compared to a year before, while in real terms it lost 1.6% or 0.5%. The tolar strengthened 1.5% against the EU-15 currencies in the first two months on the basis of relative consumer prices, but the tolar continued to depreciate against the CEFTA-3 currencies in the first three months (down 3.4%). Price competitiveness improved 0.4% and 6.7% compared to the EU-15 and CEFTA-3 in the first two and three months, respectively, as against the same period last year.

Slovenian manufacturing's cost competitiveness improved in the first three months of 2001 as a result of January's strong fall in labour costs, which had been on a rising trend since last October, with the exception of one month. In March, unit labour costs were 1.2% lower than in December, according to seasonally adjusted figures, while in the first three months they were 0.2% higher than in the respective period of last year. Real compensation of employees remained at December's level after recording an accelerated rising trend in the last quarter of 2000, while productivity growth decelerated gradually due to a slow rise in production and growing employment. In the first three months, real compensation of employees rose only slightly below the rate of labour productivity growth in annual terms (up 4% and 4.2%, respectively), which was due to strong real wage growth (up 4.5%) and a slight increase in the tax burden. Other remuneration was 0.6% lower than a year before in real terms.

Even though real compensation of employees is estimated to decelerate to around 2.4% year-on-year in 2001, Slovenian manufacturing's cost competitiveness is likely to worsen on average in 2001. The tolar is expected to remain relatively stable (the tolar's real effective exchange rate should remain roughly at last year's level when measured by relative inflation) and productivity growth should slow down to around 3% by the end of the year as a result of a slow rise in production and a slight increase in employment. Accordingly, relative unit labour costs measured against the basket of currencies should rise by around 1%.

4.4.2. THE BALANCE OF PAYMENTS AND EXTERNAL DEBT

4.4.2.1. EXPORT-IMPORT FLOWS AND THE BALANCE OF PAYMENTS - *The effects of the worsening external conditions stronger in the second half of 2001*

In 2000, the total volume of trade in goods and services rose by 9.4% in real terms. The net trade in goods and services contributed 3.4 percentage points to last year's 4.6% gross domestic product growth (the contribution of domestic consumption was 1.4 percentage points). Mainly due to the high exports, the **level of the economy's openness** (total trade in goods and services compared to gross domestic product) also grew significantly last year, amounting to 121.5%, which is 12.4 structural points more than in 1999 and the highest since 1992.

The high foreign demand resulting from the favourable conditions in the international environment strongly stimulated Slovenia's exports of goods and services in 2000; they rose by 12.7% in real terms, thus greatly exceeding the average of the past five-year period (on average 5% annually; there was also a high level of export growth in 1997, when it amounted to 11.6%). Exports of goods increased even more strongly (up 12.8% in real terms), while exports of services were considerably higher than in previous years (up 11.8%[25]).

The strong influence of the international environment on export growth is shown by the income elasticity of exports: exports respond approximately proportionately (0.97%) to a 1% change in international import demand (real growth in imports of goods in Slovenia's most important trading partners, weighted by the regional structure of Slovenian exports of goods). In 2000, the high economic growth in the most important trading partners thus had a favourable impact on real export income growth, i.e. the purchasing power of exports. In the structure of products by end-use, the most dynamic increase in 2000 was recorded in exports of investment goods (a share of 12.8%; real growth of 18.2%) and exports of intermediate goods (a share of 48.9%, real growth of 12.5%); while real growth of consumer goods exports was 6.9% (a share of 38.2%).

[25] In 1998 and 1999, exports of services dropped by 3.6% and 2.7% in real terms respectively, whereas in 1997 they rose by 4.9% in real terms, and in 1995 by 8.7%.

After the high growth in 1999 (8.2% in real terms), imports of goods and services slowed down last year (6.1% real growth; around 3 percentage points below the average of the past five years), which was due to both the cyclical deceleration in final domestic consumption and the high level of comparison from 1999. Real growth in goods imports was 6.1%, and of services 6%. Due to changes in the structure of domestic consumption, the structure of imports by end-use also changed. Imports of consumer goods fell by 5.3% in real terms, in current USD by 3.4 percentage points (to 22.3% of goods imports). Dynamic manufacturing activity led to a strong increase of imports of intermediate goods (by 7.6% in real terms), in current USD by 4.7 percentage points (to 59.6% of imports). The share of imports of investment goods in total imports expressed in current USD was 1.2 percentage points lower than in 1999.

The positive influence of the income effect (measured through the growth of export markets) reduced the trade deficit in 2000, but only by USD 164 million (from USD 1,245 million in 1999 to USD 1,081 million in 2000) as the external price effect (measures by terms of trade) worked in the opposite direction. In 2000 export prices in dollars fell much faster than import prices (high prices of oil and raw materials in global markets and higher import prices due to inflation growth in the trading partners), so that the **terms of trade deteriorated by 5 index points in 2000** (index 94.9). With the higher surplus from services and slight increase in capital expenditures, the deficit in the current account of the balance of payments was USD 188 million lower than in 1999 and, according to preliminary estimates of the Bank of Slovenia, amounted to USD 594 million, or 3.3% of gross domestic product. Hence, the savings-investment gap decreased by 0.6 of a structural point compared to 1999[26]. The capital expenditures for 2000 only include the estimated reinvested earnings of foreign investors at the same level as in 1999 (USD 97 million), as the actual amount is not yet available.

The **regional structure of trade flows** points to a halt in the downward trend in trade with the countries emerging in the territory of former Yugoslavia. In 2000, there was a strong increase in exports of goods to Bosnia, Macedonia and the Federative Republic of Yugoslavia, while Croatia remained the third most important export market (after Germany and Italy). In 2000, exports of goods to countries in the territory of former Yugoslavia rose by 14.5% in real terms, while imports of goods were 7.3% higher. With regard to the 1999 average, Slovenia's market shares in Russia and the CEFTA countries also went up. The real growth in goods exports to the EU was 7.5% (high demand of the European

[26] According to the statistics on the balance of payments; according to the statistics on the national accounts by 0.8 of a percentage point.

industrial manufacturers for Slovenian intermediate and investment products), while imports of goods from the EU only increased by 2.1% in real terms. Exports to EU countries amounted to 63.9% of the value of total goods exports (in 1999 66.1%), while imports from the EU accounted for 67.8% of total goods imports (68.9% in 1999); the share of Slovenian exports of goods to the German and Italian markets decreased (see Chapter 4.5.1).

The capital and financial account of the balance of payments recorded a surplus of USD 540.7 million in 2000. The main source of capital inflows was external borrowing, totalling USD 936 million. The borrowing of companies represented 56.7%, that of banks 29.8%, while state borrowing accounted for 13.5% of total loans taken out abroad. The domestic companies borrowing abroad was stimulated mostly by the lower foreign interest rates and easier access to larger loans, as well as the undeveloped local banking system. In 2000 households were the source of net inflows of foreign cash of USD 15.7 million (in 1999 a net outflow of USD 223 million was recorded) due to the foreign exchange rate movements and the rise in interest rates on foreign exchange deposits. The net short-term trade credits expressed in USD (USD 214.6 million) were lower than in 1999 (USD 287.7 million).

In the **first quarter of 2001**, goods exports in USD nominally increased by 10.1% year-on-year, while goods imports were just 0.7% higher. However, due to strengthening of the US dollar against the basket of currencies, the value of international trade expressed in current USD is underestimated. As most Slovenian foreign trade takes place in currencies of countries from the euro-area, trade flows expressed in euros give a more accurate picture. Merchandise exports expressed in EUR rose by 17.8% year-on-year in the first quarter of this year, whereas goods imports went up by 7.5%. Despite the moderation in global and European economic growth (see Chapter 3), exports remained an important factor of domestic economic activity in the first quarter of 2001. In this period, the trade deficit expressed in current USD fell by USD 202.3 million year-on-year, and amounted to USD 110.2 million. The terms of trade further worsened (by 1.8% year-on-year), mainly due to the further strengthening of the US dollar against the basket of currencies, meaning that the improvement in the trade balance would have been even greater if the terms of trade remained unchanged. In the first quarter of 2001, the export structure of products by end-use was approximately the same as the average structure in 2000, while in the imports structure the share of intermediate goods continued to increase, following the dynamics of growth in the manufacturing production (see Chapter 4.2), while the shares of investment and consumer goods shrank.

In early 2001, the dynamics of the trade in services were slower than the dynamics of goods trade, which was more evident on the export side. Exports of services (in USD) fell by 1.5% year-on-year in the first quarter of 2001 in nominal terms, while expressed in EUR they rose by 5.3%. In the same period, imports of services (in USD) grew nominally by 0.7%, while expressed in EUR they went up by 7.7%. The surplus from exchange in services decreased from USD 117.2 million to USD 108.9 million). Despite the slightly higher interest payments, affecting the year-on-year growth rate of capital expenditures (USD 89 million to USD 125.5 million), the factor incomes balance remained approximately at last year's level; the interest from abroad (capital income) rose as well due to the higher foreign exchange reserves compared to the same period of 2000. The net inflows of both the government and other sectors in a total amount of USD 43.8 million increased the surplus in current transfers by USD 25.5 million. Movements in the goods and services trade, as well as in the factor income and current transfers balances led to the positive balance of the current account in the balance of payments in the first quarter of this year, showing a surplus of USD 50.5 million (in the same period of 2000 deficit of USD 169.1 million). The improvement was mostly the result of the around two-thirds lower trade deficit.

In the first quarter of 2001 a net outflow of USD 84.4 million was recorded in the capital and financial account (the same period of 1999 saw a net inflow of USD 168.9 million). The difference was significantly contributed to by the differences between last year's and this year's inflows from the regular issue of Eurobonds. In 2000, it was carried out in March, while this year it was performed in April. Portfolio inflows in the first three months (USD 115.6 million) were mostly contributed to by February's re-opening of last year's issue of Eurobonds worth EUR 100 million. Net trade credits to foreign buyers dropped year-on-year, while direct investments of Slovenian companies abroad (USD 12.6 million, in the first three months of 2000 USD 4.6 million) and the purchase of foreign securities by domestic agents (USD 37.8 million, in the first three months of last year USD 6.5 million) increased. In February, the inflows of foreign direct investments grew strongly (inflows from the sale of Simobil, a telecommunications company), contributing to USD 121.3 million of inflows in the first quarter. This figure exceeded last year's total. The borrowing of companies abroad in the first quarter was below the respective average inflows of the last two years. However, borrowing has been increasing monthly. Since the last quarter of 2000, the state has preserved approximately the same dynamics of borrowing (excluding February's additional issue of regular bonds); it has net repaid USD 4.1 million of foreign loans in the first quarter. In the same period commercial banks have (net) repaid USD 2.3 million of loans obtained abroad. In the first quarter, inflows of total foreign exchange reserves increased by USD 188 million. However, due to exchange rate changes, the foreign exchange reserves amounted to only USD 4,359 million compared to the end of 2000 (see Chapter 4.5.2.2).

The data on exports for the first three months show high export dynamics, however, due to the expected effects of slower foreign demand growth, export growth is estimated to slow down by the end of the year. The dynamic exports in the first months of this year and the estimated growth in import demand in Slovenia's most important trading partners for 2001 (around 7.6%), as well as the envisaged further strengthening of co-operation with countries in transition and countries of the former Yugoslavia will contribute to this year's relatively high **real growth in exports of goods and services**, which is estimated to come in at around 7.5% (exports of goods 8.2%, exports of services 4.1%). Taking into account moderate growth in domestic consumption, especially investments, imports of goods and services are estimated to rise more slowly than in 1999 (up 4.5%, with imports of goods rising 4.4% and imports of services 4.8%). Due to the higher growth in exports than in imports, the trade deficit in 2001 is expected to be lower than in 2000 (USD 770 million). The **terms of trade are estimated to remain unchanged** on the assumption of a slight strengthening of the euro against the USD by the end of the year, moderation of growth in the prices of oil and oil derivatives in the global market and lower prices of other primary commodities. The balance of trade in services is estimated to remain approximately at last year's level (around USD 430 million). Capital expenditures in 2001 are estimated to exceed capital income, with the expected higher reinvested earnings also importantly contributing to this. The balance of factor incomes in 2001 is thus estimated to record a deficit of USD 115 million. Taking into account the envisaged inflows from pre-accession assistance to Slovenia, the balance of current transfers in 2001 will be slightly higher than last year and will amount to around USD 125 million. On the basis of the estimated export-import flows of goods and services in 2001, as well as of the movements in factor incomes and international transfers, the **deficit in the current account of the balance of payments in 2001 will be lower than in 2000 (USD 330 million or 1.8% of gross domestic product)**. In 2001, capital and financial account flows are estimated to increase in both directions. In addition to further borrowing of banks and companies, growth in inflows from abroad will be underpinned by the expected increase in foreign investments connected with the further privatisation of state-owned property, banks and telecommunications. The strengthening of Slovenian goods and services flows to countries in the territory of former Yugoslavia and the increase in direct and portfolio investments of Slovenian companies and financial agents abroad will also expand the financing of exports to these areas.

In 2002, real growth in exports of goods and services will decelerate further as this year's slowdown of economic growth in Slovenia's most important partners will influence export performance in the first half of 2002. Real export growth in 2002 is estimated to amount to around 5.9%. Taking into account the expected gradual revival of export markets, exports of goods and services will again strengthen in the second half of 2002, which is expected to continue in 2003, when the growth of total exports is estimated to be 6.3%. Given the estimated further increase in domestic demand (see Chapter 4.1.1) in both years, real growth in imports of goods will also gain strength recording around 6.3% growth in 2002 and 6.5% growth in 2003. In the structure of imports by end-use, imports of capital goods are still estimated to rise relatively faster. The share of investment goods (equipment and technology) will strengthen, while the share of consumer goods is likely to decrease. In both years, export-import movements will lead to a slight increase in trade deficit (to around USD 480 million in 2002 and approximately USD 900 million in 2003). The surplus from services is estimated to slightly grow in both years, and the surplus in current transfers will be higher as well. Taking into account the expected higher net capital expenditures and the movements in trade in goods and services, especially the slowing down of exports growth and the strengthening of imports stimulated by domestic consumption, the **deficit in the current account of the balance of payments** will again slightly increase to around **2% of gross domestic product** (in both years; around USD 400 million in 2002 and around USD 450 million in 2003).

4.4.2.2. EXTERNAL DEBT – *More moderate borrowing abroad in early 2001*

In 2000, the borrowing abroad increased substantially. At the end of 2000, the total external debt was USD 6,217 million, USD 817 million higher than at the end of 1999. With regard to the currency structure of external debt, where European currencies prevail[27], the strong dollar against the European currencies exerted a favourable influence on the level of debt expressed in USD (the actual borrowing abroad contributed USD 1,140 million to growth of the debt, while the exchange rate changes reduced it by USD 323 million). Furthermore, external debt does not include the purchases of domestic government bonds by Slovenian banks and insurance companies abroad.

27 According to the Bank of Slovenia's estimates, the following currencies were the most important in the structure of long-term debt: EUR at the level of 41.0%, DEM at the level of 29%, USD at the level of 13.7%, ATS at the level of 8.0% and CHF at the level of 2.7%.

Table 4.4.2.2: Main debt Indicators, in %

TOTAL EXTERNAL DEBT (%)	1995	1996	1997	1998	1999	2000
Total debt / Exports of goods and services	27.3	36.4	37.9	42.5	49.3	56.0
Total debt service / Exports of goods and services	6.8	8.6	8.5	13.3	7.7	9.3
Interest / Exports of goods and services	1.5	1.8	2.1	2.1	2.3	2.7
International reserves / Total debt	61.3	57.7	80.4	74.0	58.7	51.4
Foreign exchange reserves / Total debt	115.3	103.6	106.2	97.3	76.2	70.3
International reserves / Imports of goods and services (in months)	2.0	2.5	3.6	3.7	3.2	3.2
Foreign exchange reserves / Imports of goods and services (in months)	3.8	4.5	4.8	4.9	4.3	4.6

Source of data: Bank of Slovenia.

The main source of capital inflows was the increase of loans taken out abroad (USD 936 million). The composition of borrowing shows that the borrowing of companies represented 56.7%, that of banks 29.8% and the borrowing of the state 13.5% of the total loans taken out abroad. The higher borrowing of domestic companies abroad was stimulated by the still lower foreign interest rates and also the easier access to larger loans. The debt was almost entirely long-term, with an average maturity of eight years, granted with a variable interest rate, which means that the volume of repayments will strongly depend on interest rate movements in international markets. The average terms for raising new loans improved slightly with private creditors which, despite the increase in interest rates from 4.4% to 5.6%, extended the maturity of loans to 7.2 years (the previous year it was 7.1 years) and extended the grace period to 4.3 years (the previous year it was 3.8 years). At the end of 2000, the structure of external debt with regard to creditors also changed. The share of external debt with international financial organisations dropped by 1 structural point (to 11% of the long-term debt), while the share of other long-term loans accounted for 88.3% of the long-term debt.

The high net financial flows in 2000 (5.8% of gross domestic product), whose main source was private sector borrowing (commercial banks and companies) abroad, exceeded the current account deficit. Total foreign exchange reserves thus increased by USD 254.8 million to USD 4,370 million at the end of 2000. According to the Bank of Slovenia, international transactions contributed a net of USD 461 million, while exchange rate changes caused the fall of foreign exchange reserves by USD 206 million (USD strengthened by 13% compared to the basket of currencies). The total foreign exchange reserves covered 4.6 months' imports of goods and services, while in 1999 this ratio was 4.3 months.

In 2000 the ratio of total external debt to total foreign exchange reserves worsened compared to 1999 (in 2000 70.3%; in 1999 76.2%). However, the debt service ratio increased by 1.6 structural points (to 9.3%) compared to 1999. The level of borrowing per unit of export incomes also increased, as there was USD 0.56 of external debt for every US dollar of exported goods and services (in 1999 this figure was USD 0.493).

At the end of 2000, Slovenia became one of the countries with a medium level indebtedness (the share of external debt in gross domestic product above 30%; in Slovenia last year it was 34.3%), with the trend of accelerated borrowing abroad also jeopardising the sustainability of the deficit in the current account of the balance of payments.

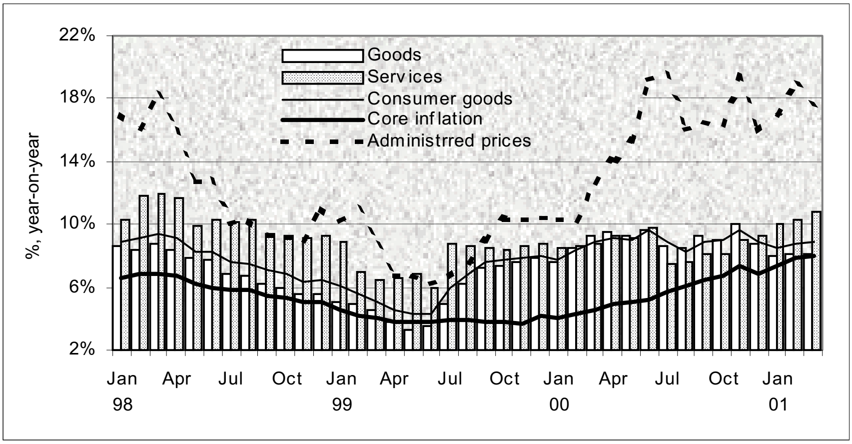
The borrowing of companies abroad in the first three months of 2001 was more modest compared to the same period of last year. There was also a distinct change in maturity in favour of short-term loans. At the end of March 2001, Slovenia's external debt amounted to USD 6,107 million, USD 110 million less than at the end of 2000 which was, despite the net borrowing abroad in this period, the result of the negative differences in exchange rates. At the end of April 2001, the total foreign exchange reserves amounted to USD 4,916 million, USD 546 million more than at the end of 2000. Despite the negative exchange rate differences (USD 133 million) resulting from the strengthening of the US dollar, the increase resulted from the net inflow from international transactions (USD 679 million), which was high especially in April (issue of Eurobonds at USD 375 million). The foreign exchange reserves to external debt ratio, amounting to 71.4% at the end of March, improved by 1.1 percentage points compared to the end of 2000.

4.5. INFLATION AND PRICE POLICY – Internal factors relatively stronger this year than in 2000

The **trend of gradually increasing prices** which started in 1999 **continued in 2000**. Unlike in 1999, when prices were pushed up by both internal and external factors (the tax reform and the rising petroleum product prices in the last quarter), prices in 2000 increased largely due to external factors, mainly the rising oil and commodity prices in world markets, the strengthening US dollar, and the rising inflation in the EU. External inflationary pressures, taking effect directly and indirectly through more expensive imports, spillover effects on to other prices and stronger inflationary expectations, pushed up domestic producer and consumer prices. Consumer prices climbed by 8.9% in 2000 (from December 1999 to December 2000), while producer prices were up 9.2%. The average annual rise in consumer prices was 8.9%, while the average annual rise in producer prices was 7.6%.

The biggest contribution to price rises in 2000 came from oil and commodity prices in world markets, which primarily had a direct impact on prices in Slovenia in the first half of the year, while in the second half their indirect impact strengthened as well. Broken down by groups of products, prices in the transport group contributed the most to total inflation, accounting for 27.4% of the total price rises, with transport fuels alone adding 13.3%. Prices in the housing group

Graph 3: Movements recorded by price groups from January 1998 to March 2001



Sorce of data: SORS, estimates by IMAD.

added 24.7% to total inflation, of which fuels and energy for heating contributed 19.1%, which was followed by the prices of food and non-alcoholic beverages, adding 13.6% to inflation, 8.5 percentage points less than in 1999. As far as other groups are concerned, a stronger contribution to inflation than in 1999 came from products and services in the culture and recreation group (7.2%) and in the health group (5.3%). The health group recorded about a five times stronger contribution to inflation compared to 1999 because of changes in the system of government control over medicine prices (direct controls were replaced by a mechanism for setting prices based on prices in selected EU countries) and the rises in health and dental services prices.

The **prices of food and non-alcoholic beverages** covered in the consumer price index rose by an average of 5.5% in 2000, recording a rate of increase lower than the average rise in consumer prices for the second year running (by 3.4 percentage points in 2000 and 2.4 percentage points in 1999). The biggest price rises were seen in the groups of bread and cereal products (up 13.3%), milk, milk products and eggs (up 8.6%), and meat (up 6.2%); other groups recorded below-average price rises last year. These relatively strong rises were primarily due to higher prices of raw materials (domestic and imported cereals and flour, higher purchase prices of milk and animals for slaughter). Consumers changed their consumption patterns because of the BSE disease, which broke out in some EU countries, even though no cases have been found in Slovenia; the prices of beef fell and the prices of pork and poultry increased as a result. The prices of bread, milk and meat started to climb in the middle of the year, so there were none of the falls in food prices in summer usually seen at this time of year.[28]

Even though the rising oil prices in early 2000 pushed up mainly the **prices of goods**, the **prices of services** rose 0.4 of a percentage point more than the prices of goods at the end of the year (by 1 percentage point in 1999). As services have a smaller relative share in the price index (25.9%), their contribution to inflation totalled 26.8%.

Industrial producer prices, which started climbing in the last quarter of 1999, continued to rise in 2000. The annual rise was only 1.9% in 1999, but producer prices rose by 9.2% in the period up to December 2000, while the average rise was 7.6%. Higher rises were accompanied by greater volatility in monthly growth

[28] Prices usually record a seasonal drop in the middle of the year thanks to lower prices fresh fruit and vegetables. The summer falls in average food prices were less pronounced in 1999 as a result of weaker seasonal falls in the prices of fruit.

Box 4: The impact of different factor productivity growth rates on price increases (the Balass - Samuelson effect)

Unlike consumer prices, which increased 3.4 times faster than the comparable prices in the EU, producer prices (the highest increase was recorded in the prices of intermediate goods) only rose 17% more than those in the EU. Such a ratio hints at the strong impact of structural factors on general price levels in Slovenia; the impact, though, seems less influential for the activities included in the producer price index (these activities are more open) – this allows for a more harmonious relation between these prices and the comparable ones in the EU.

When adjusting the relative prices to EU levels, a distinction should be drawn between **discrepancies** caused by administrative factors and those **reflecting the processes of catching up with advanced countries**. Reduction of the former requires the conclusion of structural reforms in the fields of government-administered prices, indexation, privatisation and labour market. The second category includes the differences which are **due to different factor productivity growth rates** in particular sectors of the economy, most notably the differences between the tradable sectors (which are subject to international competition) and the non-tradable sectors (which are not subject to international competition). The prices of goods and services in tradable sectors are set in the international market. Wages and salaries are determined by productivity growth, which rises faster in tradable than non-tradable sectors. Due to the tendencies to level out wages and salaries between different sectors, wages in non-tradable sectors (where productivity rises at a lower rate) can only be raised if the prices of goods and services rise faster. The result is the **Balassa-Samuelson effect** and is especially common in countries at different levels of development relative to one another. In the less developed EU countries, for example Ireland, the effect is estimated to have contributed 1 to 2.5 percentage points to price rises over the last few years.

The Balassa-Samuelson effect is also present in Slovenia. According to estimates, productivity growth in 1995-2000 was 4.6 percentage points higher in tradable than non-tradable sectors (most notably services), but the prices of goods and services in non-tradable sectors rose 11% faster than in tradable exchange sectors. Drawing on this evidence, inflation in Slovenia is estimated to be 1 to 2 percentage points higher than in the EU over the next few years solely due to the Balassa-Samuelson effect. Although Slovenian prices will slowly draw closer to the prices in less developed EU countries, the fulfilment of the Maastricht convergence criteria, which requires the inflation rate to be no more than 1.5 percentage points above the average rate of the three member-states with the lowest price rises, will only be possible if macroeconomic policies are appropriately conducted and the structural reforms mentioned above are implemented.

rates. Broken down by end-use product groups, the pirices of intermediate goods rose the most (up 11.1%), followed by the prices of consumer goods (up 8.2%), while the prices of investment goods rose modestly (up 4%). Producer prices were pushed up mostly by external factors, mainly the higher prices of oil and primary commodities.

In the **first five months of 2001**, the average consumer price rises remained at the level seen at the end of 2000. In May, consumer prices were 4.5% higher than in December 2000, while the annual rate of increase was 9.7%. **Price trends are increasingly influenced by internal factors**, while the impact of external factors, which underpinned last year's price rises, is diminishing. This year's oil prices are below the levels of 2000; furthermore, prices in the futures markets point to a fall to about USD 22 per barrel of Brent oil in the next two years. As a result, producer prices abroad started to ease, but the pace of slowdown depends on the delay with which energy prices begin to affect the prices of other industrial goods. From October 2000 to April 2001, the annual rise in producer prices fell by an average of 2.2 percentage points in the EU, with price rises decelerating the most in Portugal (by 12.2 percentage points) but strengthening in Germany (by 0.3 of a percentage point). However, the rises in oil and primary commodity prices seen in 2000 continue to have a spillover effect on to other prices in Slovenia, primarily because they have been almost entirely endogenised. This is particularly evident in the prices from the transport group, which added 29.1% to inflation, and the housing group, which added 8.3% to inflation in the same period, 5.3% of which came from higher prices for local utility services. Prices in the transport group were partly pushed up by seasonal rises in petrol prices in foreign commodity markets (in the first five months, the price for unleaded petrol expressed in dollars climbed by 59%), as Slovenia's automotive fuels prices are based on prices in foreign markets. The **above-average rises in the prices of local utility services** seen in the first five months (up 13.5%), which were related to water supply, wastewater and waste management services, were due to not only higher prices of energy but also other factors, such as the transfer of price control over those services from the state to local communities in May 2000 and the creation of new municipalities, resulting in changes in the system of local utility services provision. The **contribution of food and non-alcoholic beverages to inflation increased** in the first five months compared to previous years; they added 37.4% to inflation, 18.8 percentage points more than in the same period last year. The prices of food and non-alcoholic beverages rose by 7.1% year-on-year in the first five months. May saw the biggest annual rises in the prices of meat (up 15.3%), bread and cereal products (up 14.8%) and fish (up 10.3%). The steep rise in meat prices was due to disrupted supply caused by the prohibition on imports of certain types of meat.

The relatively stronger impact of internal factors on price rises is also revealed by **core inflation**. Different measures of core inflation show that the annual rate has remained at about 7.8%. The widening of the gap between measured and core inflation (on a year-on-year basis) started in the second half of 1999 and persisted at 3.8 to 4.5 percentage points in the first half of 2000, but the difference narrowed to about 2 percentage points in the second half of 2000; in the first quarter of 2001, the gap was 0.9 to 1.0 of a percentage point. The drawing closer of measured and core inflation rates suggests that the price rises seen in over the last few months are no longer due to one-off or exogenous factors but are due to relatively more single price rises extending over a number of goods and services included in the consumer price index.

In the **rest of 2001, price rises** will to a greater extent than last year depend on macroeconomic policy measures, as the analysis of factors pushing up prices in the first five months shows that those factors can be widely influenced by economic policy measures. Price trends before the end of 2001 will primarily depend on measures taken in the field of fiscal, monetary, incomes and prices policies, on the way these policies are co-ordinated and on the ability to reduce the indirect impacts of previous months' price rises. This year, additional pressures on price rises are coming from the increasing gap between wage growth within one industry or between different industries. Wage growth in the public sector, which exceeded growth in the private sector by 1 percentage point in 2000, is expected to be stronger in 2001 as well. If this trend continues, the increased private consumption could push up prices directly, while indirect impacts may come from demands to adjust the levels of wages and salaries between industries and from inflationary expectations. Important external factors will be seasonal movements in automotive fuels prices – an issue related to this is the need to review the current model for setting retail petroleum product prices – and a slowdown in prices abroad, particularly producer prices. Assuming that the prices of goods and services under government control rise in line with the price indices, the year-on-year price rises should decelerate towards the end of the year, while the average annual inflation rate should not be higher than 8.5%.

The factors listed above causing inflation will continue to exert some pressure on price rises in the next few years. Should the general government deficit be sustained at the current level or reduced gradually and the system of its financing remain unchanged, primarily as regards the relationship between external and internal borrowing, there will be no crowd-out effect on the domestic financial market, which could otherwise, through the existing indexation mechanisms

Box 5: Measures necessary in the area of government-administered prices

Prices under various regimes of government control increased by 16% in 2000 and **again overshot the increase in consumer prices**. They contributed 24.6% to inflation, 66% of which was contributed by petroleum products and electricity prices; an above-average increase was also recorded in the prices of municipal utility services (about 20%), on the one hand due to higher energy prices and on the other to the transfer of their control to the local level. The share of goods and services **under various regimes of government price control** (counting those included in the consumer price index) has been steadily decreasing over the last few years and, according to the IMAD's estimate, represented 14% at the beginning of 2001. About 55% of the index of government-administered prices is made up of petroleum products and electricity. In order to make the price setting more transparent, the Government and distributors adopted a new model for setting energy prices. With the introduction of the model, the regime of control over automotive fuel prices was changed in March 2000 and the regime of control over gas oil and light fuel oil prices in October 2000. In the new model for price control over automotive fuels formed in co-operation with distributors of those products, the sale price in the domestic market is set in accordance with the world market prices of petroleum products, movements in the exchange rate and the agreed profit margins. A decree was passed in October, introducing a method for setting the average sale price for gas from the transport network, which is determined in the same way as petroleum product prices. Control over the model and the planned revision are under the Government's authority.

still in force, push up prices via higher interest rates. It is therefore expected that steps taken by **fiscal policy** will not create any additional inflationary pressures. At the same time, evidence from EU member-states shows that inflation rates cannot be reduced by tightening fiscal policy in the short term.

Monetary policy, whose goal is to bring inflation down to the levels comparable to the EU, will continue with its efforts to maintain the external balance until Slovenia becomes member of the exchange rate system, which is why monetary policy is expected to remain moderately restrictive.

The system of **price controls** will need to be reviewed in order to bring inflation further down, as the current system preserves some imbalances in relative prices (see Box 5). An additional contribution to easing upward pressures

BOX 5: MEASURES NECESSARY IN THE AREA OF GOVERNMENT-ADMINISTERED PRICES - ***continued from previous page***

Over the last few years, increases in government-administered prices have exceeded inflation; the reduction of inflation to EU levels will therefore **require the abolition or change in the current method of regulating these prices**. The abolition of price controls is particularly necessary in activities where competitive structures can be established alongside the liberalisation processes, so that the balanced prices mostly depend on competition in each sector, enabling the prices to converge. Among prices still under government control, this group above all includes the prices of telecommunications services and to some extent transport services. In other sectors, where the process of establishing competition cannot be expected to proceed alongside the liberalisation process, chiefly due to the monopolistic nature of these sectors, a small market and the non-profitability of a higher number of providers, prices are supposed to be determined through negotiations between distributors of those goods and services and an independent regulatory body. Prices will be determined in accordance with the world market price trends, while taking into account certain specifics of the Slovenian market. Independent regulatory bodies, set up in accordance with the EU standards, will oversee the functioning of the price mechanisms. This group includes the prices of municipal utility services and energy-related services and to some extent the prices of transport services.

on food prices will come from agricultural policy reform, which aims to shift the focus of agricultural policy away from the protection of prices towards the protection of income.

4.6. EMPLOYMENT AND UNEMPLOYMENT – Favourable trends in employment sustained

Employment growth (monthly data provided by SORS), which started in 1999 after a ten-year period of falling and stagnation in 1997 and 1998, continued in 2000. The yearly rate of increase in the number of persons in employment was 1.3% due to a halt in October and November and a decrease in December (end of fixed-term jobs). The low rate of increase was mainly due to the falling numbers of farmers (down by 6.2%), while the number of employees rose by 1.8%, the number of individual private entrepreneurs fell by 0.5% and the number of own-account workers increased by 2.1%. The number of persons in employment also grew **according to the labour force surveys**, going up by 1.7% in comparison with the 1999 average; the number rose more slowly than in monthly reports in the first half of the year and much faster in the second half. Informal employment, which saw a large drop in 1999, apparently increased again in 2000, most notably in the second half of the year. The difference between the number of employees according to the survey and the monthly employers' reports[29] increased again in 2000 and recorded more than 70,000. The seasonal work of unpaid family workers in agriculture increased as well.

According to the monthly statistical data, the **restructuring of employment** in favour of service sectors continued in 2000. According to these figures, the number of persons in employment in agriculture fell by 5.3% last year. The number also decreased in mining and in the electricity, gas and water supply sectors. The average number of workers in manufacturing as a whole remained roughly the same as in 1999. The number of those employed faced another decrease in the manufacture of transport equipment (-6.7%) and in the textile (-5.5%), leather (-4.0%) and chemical (-1.7%) industries, while it increased in the manufacture of electrical and optical equipment (by 4.5%), the manufacture of basic metals and fabricated metal products (4.4%) and the manufacture of wood and wood products (1.8%). The numbers in other manufacturing activities remained roughly the same as in 1999. Employment growth in construction and all service activities continued as well. Among these, the lowest rate of increase was recorded in the transport and education sectors. However, last year's labour force surveys paint a different picture: the restructuring of employment came to a halt in 2000. The share of people employed in the agricultural sector (including unpaid family workers usually working in agriculture) saw a slight

[29] The highest difference was observed in 1996 when it amounted to more than 92,000; by 1999 it had decreased to 61,000.

Table 4.6: Structure and trends in the number of persons in employment by activity

		Structure (in %)			Annual growth (in %)		
		According to monthly reports		LP-ZAP estimate	According to monthly reports		LP-ZAP estimate
		1999	2000	2001	1999	2000	2001
TOTAL		**100.0**	**100.0**	**100.0**	**1.8**	**1.3**	**0.9**
A+B	**Agriculture**	**6.0**	**5.6**	**5.5**	**-8.8**	**-5.3**	**-2.1**
C:F	**Industry and construction**	**40.6**	**40.2**	**39.8**	**-0.6**	**0.2**	**0.1**
C	Mining and quarrying	0.9	0.7	0.7	-5.6	-18.0	-5.6
D	Manufacturing	30.9	30.5	30.2	-1.6	0.0	0.0
E	Electricity, gas and water supply	1.5	1.5	1.5	0.6	-2.2	-0.8
F	Construction	7.3	7.5	7.5	4.1	4.1	1.2
G:O	**Services**	**53.4**	**54.2**	**54.7**	**5.1**	**2.8**	**1.7**
G	Wholesale & retail; repair of motor vehicles	12.4	12.7	12.6	3.4	3.4	0.3
H	Hotels and restaurants	3.7	3.8	3.7	7.0	3.0	-1.8
I	Transport, storage & communications	6.2	6.2	6.2	4.8	1.0	1.4
J	Financial intermediation	2.5	2.5	2.5	9.0	3.6	2.2
K	Real estate, renting and business services	5.9	6.0	6.1	6.3	3.1	3.2
L	Public administration and defence	5.6	5.7	6.0	2.7	3.2	5.8
M	Education	6.9	6.9	6.9	1.6	1.7	0.3
N	Health and social work	6.9	7.1	7.2	9.5	3.3	3.1
O	Other community, social and personal services activities	3.3	3.4	3.4	8.1	3.8	1.2

Source of data: SORS, for 2001: ESS, LP-ZAP survey; IMAD calculations.

drop of 1.1%, which is much less than revealed by monthly statistical data[30], while the shares of those employed in services and industry saw only a slight increase (see also Table 14a in the Statistical Appendix).

In 2000, **employment growth in the full-time equivalent** was 1.1% and was lower than the growth shown by monthly statistical data or the surveys due to the increase in the number of part-time workers. Labour **productivity growth**, which was 3.5% in 2000, lower than in previous years, is expected to **remain**

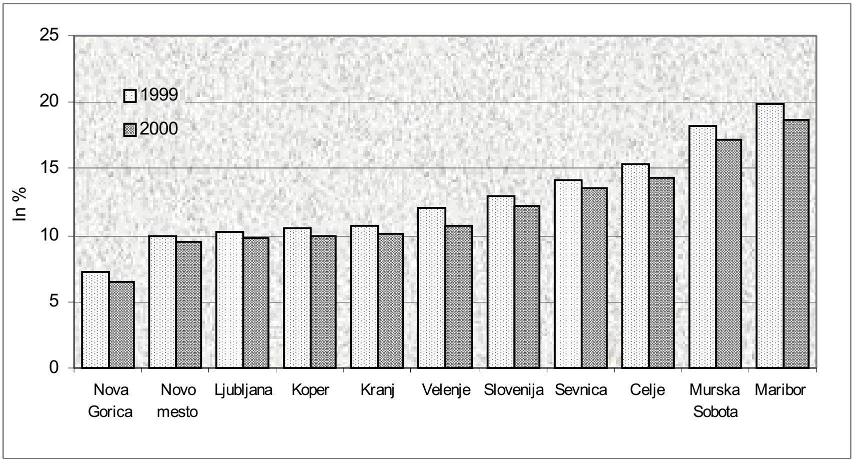
[30] In the monthly reports on the active population, the SORS considers the number of those employed in agriculture to be the workforce survey estimate for the previous three quarters of the year. The number of farmers is therefore shown with a three-month delay and also oscillates widely from quarter to quarter; this hints not so much at the actual dynamics of the number of farmers, but more so at the methodological faults in the way the survey is conducted.

at last year's level in 2001, but will rise again in the next few years although staying below the 1993-2000 average of 4.3%. In **2001 and 2002, employment growth in the full-time equivalent** is expected to increase by **approximately 0.7% annually and by around 1.0% in 2003**. In all three years, employment growth recorded by monthly statistics is expected to be higher than that in the full-time time equivalent mainly due to the expected gradual fall in the number of those informally employed.

Similar employment trends in 2001 are anticipated in businesses and organisations, as revealed by the LP-ZAP survey conducted by the Employment Service of Slovenia. The results predict a 0.9% increase in employment in 2001 – this should be due to a further drop in the number of employees in agriculture, mining, electricity, gas and water supply, stagnation in the manufacturing sector and an increase in the service sectors. Seasonal trends are expected to have a strong impact on this year's employment. A larger fall is expected in summer and in December; the usual increase in autumn is more questionable owing to the expected slower rise in exports and production in the second half of the year.

In 2000, the **favourable trends in unemployment continued**, as both the registered and the internationally comparable survey unemployment rates dropped. The number of registered unemployed persons fell from 114,348 to 104,583 from December 1999 to December 2000, while the average number

Graph 4: Unemployment rates by regional employment services centres



Source of data: SORS.

dropped from 118,950 in 1999 to 106,600 in 2000 (by 10.4%). The registered unemployment rate dropped from 13% in December 1999 to 12% in December 2000, while the average rate fell from 13.6% in 1999 to 12.2% in 2000. The survey unemployment rate fell from an average of 7.6% in 1999 to 6.6% in the last quarter of 2000; last year's average survey unemployment rate was 7%.

The flows shaping registered unemployment show that **deletions from unemployment registers** remained the **main reason behind the drop in registered unemployment** (in 2000, there were 3.9% more persons struck off the registers than in 1999). The influx of people having lost their jobs was on a rising trend, while the outflow of people from unemployment to employment was on a falling trend (especially in the area of jobs not subsidised by employment policy measures). In comparison with 1999, 4.3% more first-time job-seekers and 1.2% more previously employed persons were added to the unemployment registers last year. The number of unemployed who got jobs decreased by 3.5%. The main reason for the inflow into unemployment due to the loss of a job remained the cessation of a fixed-term employment contract (including the end of employment in the public works scheme), while the main reasons behind the deletions from unemployment registers were subjective reasons, although 2000 also saw a high number of deletions due to retirement.

Should employment grow in accordance with our expectations, **unemployment is expected to continue to decline in 2002 and 2003**, while the activity rate of the working-age population should gradually rise again. The average number of registered unemployed is expected to be around 102,600 in 2001, 11.7% of the labour force, while in 2002 and 2003 the numbers are expected to be approximately 100,100 (11.3%) and 96,400 (10.8%), respectively.

The **structural problems of registered unemployment remained almost unchanged, in fact they even got worse**. The share of long-term unemployed in total unemployed remained at the level around 63%, but the average duration of unemployment increased (2 years 5 months and 28 days in 1999, 2 years 8 months and 12 days in 2000). The share of unemployed persons without qualifications remained at 47%. The share of unemployed persons aged 40 or older increased from 48.5% in 1999 to 51.7% in 2000, while the proportion of those aged 50 or over increased from 24.1% to 27.5%. The long-term unemployed accounted for 70% of the unemployed without qualifications, and 78% of the unemployed aged over 40. The difference in the unemployment rates between men and women also remained quite high in both registered (the 2000 average was 11.1% for men and 13.5% for women) and survey unemployment (6.8% for men and 7.3% for women). A comparison of data on inflows into registered unemployment with data on the number of unemployed by duration of their unemployment shows that **new unemployed persons find a job increasingly faster** (alone or through various employment policy programmes), or they are for various reasons deleted from the unemployment registers. The increase in the average duration of unemployment is mostly due to the increase in unemployment duration of the long-term unemployed, whose employment prospects are increasingly bleak. A comparison between various categories of the unemployed shows that unemployed persons with higher education are the quickest to find a job, while those with no qualifications are the hardest to employ (with almost no difference here between first-time job-seekers and the previously employed).

4.7. THE FINANCIAL MARKET – Household savings increased strongly, the level of loans taken out abroad higher in 2000

Slovenia's financial market remains at an insufficient level of development. Although savings in banks improved last year, long-term savings more than short-term ones, the deficient sources of long-term assets in banks remain one of the key problems related to the banking system's capacity, the balancing out of the maturity structure of assets and liabilities, and the insufficient credit potential. Problems also appear because of the underdeveloped capital market, which only performs its main function to a small extent (borrowing funds from the lenders-savers and then transfer them to the borrowers-spenders), and because of the insufficiently developed alternative forms of saving (among these, it is only life and pension insurance that are growing significantly).

4.7.1. HOUSEHOLD SAVINGS AND CREDITING – Household savings are improving, while net household indebtedness is gradually falling

Household savings in banks, estimated at around two-thirds of gross household savings, strengthened greatly last year; in addition to the cyclical effects moderating consumption last year, this was also contributed to by the higher real deposit interest rates, the relatively high tolar indexation clause (TOM) and the growth dynamics of foreign exchange rates (see Chapter 5.1). After the moderate slowing down in savings in 1999 (7.5 % real growth, in 1998

15.7%), when a relatively larger amount of gross disposable household income was dedicated to consumption (see Chapter 4.3), the **level of household savings in banks** was 14.8% higher in real terms at the end of December 2000 than in December 1999. The currency and maturity structure of bank deposits saw a shift to the benefit of long-term foreign exchange savings while, among tolar deposits, short-term deposits increased relatively faster due to the high TOM and the methodological changes.

At the end of December 2000, tolar savings represented 55.6% of total household assets in banks (in December 1999 56%). In 2000 **tolar savings** recorded a 14.2 % real increase, with **short-term deposits** (excluding demand deposits) **rising more dynamically**, so that their growth exceeded the growth of long-term savings by around 8 percentage points in real terms. At the end of December 2000, the share of long-term tolar deposits in total tolar deposits was 11%, which is 0.8 of a percentage point less than in December 1999. Among short-term deposits, it was time deposits from 90 days to 1 year that grew the fastest, also having the highest structural share in tolar deposits (last year 28%, in 1999 23.8%), which was largely connected to expectations regarding the movement of TOM. According to rough estimates of the Housing Fund, savings under the housing savings scheme represented about 1.5% of total tolar savings and about 11% of long-term tolar savings in December 2000. Changes in the maturity structure were primarily due to a higher indexation clause and the rebooking of about 10% of long-term deposits to short-term ones, totalling SIT 9 billion. The latter was the result of the Bank of Slovenia's modification of the methodology used in calculating mandatory reserves at the beginning of the year.

Last year, foreign currency savings in banks rose more dynamically than tolar savings, with real growth being 15.5 %. The rise was mainly due to higher long-term savings, going up by 55.6% in real terms over December 1999. Long-term savings made up 16.2% of total foreign currency savings, 4.3 percentage points more than at the end- December 1999. Long-term foreign currency deposits already represented approximately half of the total long-terms household savings in banks. A preference for foreign currency savings is likely result of expectations that nominal exchange rates may rise faster than TOM. The changes in the structure and maturity of bank deposits also marked last year's dynamics of growth of the monetary aggregates (see Chapter 5.1).

In the first three months of 2001 household savings growth continued with approximately the same dynamics as on average last year. At the end of March, household savings in banks were 4.2% higher in real terms than at the end of

2000. The inflow of savings to banks was 4.7% higher in real terms than in the same period of last year. The strongest first-quarter growth was seen in long-term foreign currency and tolar savings (up 9.4% and 7.9%, respectively). In the same period of last year, foreign currency saving rose 4.8 percentage points faster, while tolar savings recorded an outflow of long-term savings from banks or transfers to long-term foreign currency deposits. Considering the monthly dynamics, long-term tolar deposits started to rise in April 2000 and this trend continued into 2001, so that in March 2001 the increase was 2.0%. The strongest March's growth was recorded by long- and short-term foreign currency time deposits (up 2.4% and 2.3%, respectively), while tolar savings deposits recorded a fall of 1.9%. At the end of March, the share of tolar savings in total household assets slightly improved compared to the level of December 2000 (to 55.9%). Short-term tolar deposits were 3.1% higher in real terms than at the end of December 2000 and long-term deposits were 6.6% higher.

At the end of March, foreign currency savings in banks rose by 5.0% in real terms over December 2000 and they accounted for 44.1% of total household deposits. In the first three months, long-term foreign currency deposits rose relatively faster than short-term ones (up 9.4% in real terms and 4.3%, respectively).

Household indebtedness (loans relative to deposits) fell last year in line with the dynamic growth in savings (from 0.42 at the end of 1999 to 0.38 at the end of 2000): bank loans rose much more slowly than household deposits in banks. **Household crediting in 2000 was very moderate** compared to 1999, as household loans rose by 3.6% in 2000 as against 34% in 1999. In 2000, net

Table 4.7.1: Ratio of loans to registered monthly personal income in from 1995 to March 2001

Period	Average monthly level of household loans by commercial banks (in billions of SIT)	Average registered monthly personal income (in billions of SIT)	Loans/income
1995	123.9	88.9	1.39
1996	192.9	106.4	1.81
1997	224.6	119.8	1.87
1998	272.7	131.8	2.07
1999	390.2	148.8	2.62
2000	472.8	164.3	2.88
2001 (March)	496.8	167.2	3.00

Source of data: Bank of Slovenia.

flows of household bank loans were 76.2% lower in real terms than in 1999 (and also much lower than in 1998, by 32% in real terms). At the end of March, household loans were even somewhat lower than at the end of 2000 in real terms and the flow of newly granted loans in the first three months was considerably lower than in the same period of last year. In 2000 and early 2001, long-term loans still heavily prevailed in the structure of bank retail loans (more than 80%), however, compared to the flows in 1999, the flow of short-term loans in this period increased, while the flow of long-term loans was more moderate.

The relatively low level of newly granted long-term loans last year and in the first three months of this year points primarily to the inhabitants' high loan burden. This is also reflected in the **ratio of household loans to the average registered monthly income** (including net wages, other remuneration and transfers). The value of this indicator increased distinctly in 1999 (it has grown since 1995), fell slightly last spring (in June it was 2.5), and in the second half of the year it started to rise again, so the annual average was higher than in 1999. Beside the newly granted loans in 2000, the **high value of the indicator was sustained primarily due to the taking out of long-term loans in 1999**, which continues to pose a heavy burden on personal incomes. In the first quarter of 2001, the indicator value reached 3.00.

4.7.2. CORPORATE SECTOR'S BORROWING – Short-term loans mainly raised from domestic banks, long-term loans from foreign banks

Corporate bank loans rose by 9.7% in real terms in 2000. The real growth of tolar loans was 6%, the real growth of foreign currency loans borrowed from Slovenian banks was 24.2% (foreign currency loans represented about 21% of total corporate bank loans). The increase of tolar loans was almost exclusively due to short-term loans, going up by 11.5% (short-term loans accounted for 59.5% in the corporate loan structure in December 2000). One reason for companies raising short-term loans is to avoid debt enforcement as the Act Amending the Financial Operations of Companies Act (which took effect on 31 December 1999) does not allow non-liquid companies to keep operating for a long period of time. Borrowing was further due to the rising exchange rates, which made the terms of international lending less favourable in the short run, and a more restrictive fiscal policy, particularly at the end of 2000, leading to delays in government payments.

At the end of 2000, long-term corporate loans were 6% lower in real terms than at the end of 1999, because like in 1999 companies **raised more long-term loans abroad**. Among net flows of loans the companies raised abroad, long-term loans prevailed and increased strongly last year (from SIT 91,734 million in 1999 to SIT 118,874 million in 2000 recalculated to tolars using average monthly foreign exchange rates). Companies preferred to raise loans with foreign banks, offering better lending terms. The comparison of Slovenian and German interest rates on long-term loans, taking into account exchange rate movements, shows that the difference between nominal interest rates in Slovenia and Germany increased in 1999 and 2000 despite the rising foreign interest rates in this period. Another factor that limited domestic long-term lending was too small and insufficiently developed Slovenian financial market, what is more, there are credit risk regulations, prohibiting banks to grant a loan to one single client that exceeds 25% of the bank's capital.

The real growth of tolar and foreign currency corporate bank loans amounted to 5.0% in the first three months of 2001, with tolar loans rising by 4.4 % and foreign currency loans by 6.9%. Practically the whole increase in tolar bank loans was due to growth in overdrafts and short-term loans, which grew by 7.2% in real terms. At the end of March 2001, long-term tolar loans were 0.2% higher in real terms than at the end of 2000, while total foreign currency corporate loans rose by 6.9%. Furthermore, a trend of shifting from long-term to short-term tolar loans and foreign currency loans has been evident in 2001. In the first three months of this year, the raising of loans abroad by the corporate sector was slightly more modest than in the same period last year (SIT 29.638 million in the first three months last year and SIT 16.355 million in the first three months this year).

4.7.3. LENDING, DEPOSIT AND INTERBANK INTEREST RATES – In the first four months of this year deposit interest rates over TOM higher on average

Nominal interest rates were quite volatile in 2000, which was largely due to the movements in the tolar indexation clause, which moved between 8.6% and 9.9% year-on-year during the year. In 2000, the average tolar indexation clause was 9.05%, which is 2.8 percentage points higher than in 1999. In the first seven months, the average **interest rates** on top of the indexation clause on short-term **loans** rose from 6.2% to 6.5% but fell to 6% in December. The average interest rates on top of the indexation clause on long-term loans remained at 8% throughout the year. The average interest rates on short-term and long-term loans on top of the indexation clause moved at a somewhat lower level in the first months of this year than on average in 2000. The movement in nominal lending interest rates was connected to the level of indexation clause, which was due to the way of calculating in line with the price movements in the first four months of 2001 and moved slightly below 9% at the annual level.

The movements of deposit interest rates on deposits of over 30 days were influenced by the indexation clause as well as some other factors. The average deposit interest rate was not changed up until August, when a recommendation was issued by the Bank Association of Slovenia to raise interest rates on deposits tied for more than 91 days. The real interest rate on deposits tied for one to three months did not change and remained at 0.9%. For three-month deposits, it rose from 1.9% in January 2000 to 2.1% in December 2000, while for deposits from six months to one year it went up from 2.6% to 3.1%. There was a somewhat bigger rise in the real interest rate on bank deposits tied for more than one year, going up by 0.25 of a percentage point to 4.7%. In December, some banks announced they would stop following the recommendation on the highest deposit interest rates, while in February 2001 they also officially withdrew from the recommendations of the Bank Association on the highest interest rates. In March and April, the average deposit interest rates on top of the indexation clause again rose, which was partially due to higher interest rates on instruments of the Bank of Slovenia (see Chapter 5.1).

Trends in the **average interbank interest rate** largely reflected the banking sector's liquidity and the situation in the foreign exchange market. Those rates were 6.3% last year and were on a rising trend in the first five months. The rise was particularly strong at the end of April and in May (on average 8.1%). In June, the interbank interest rate fell by 0.5 of a percentage point due to the monetisation of a large amount of government's foreign exchange, but after a short lowering in August it climbed again in September (because of lower tolar liquidity, a higher base rate on repo foreign currency bills and higher interest rate on tolar bills). Due to the more active interference of the Bank of Slovenia in the foreign exchange market in the third quarter of 2000 (see Chapter 5.1), the interbank interest rate changes depended partly on developments in the foreign exchange market. In 2001, the interbank interest rate in the money market persistently increased from the beginning of January and reached 7.49% in February. The rise is primarily a reflection of the deteriorated tolar liquidity resulting from January's relatively high net foreign exchange outflows in the foreign exchange market. In March, liquidity improved and the interest rate fell to 7.28%. Although in mid-March 2001 the Bank of Slovenia raised interest rates on its monetary policy instruments (see Chapter 5.1), the interbank interest rate did not change significantly in the first half of April because of the favourable tolar and foreign exchange liquidity.

4.7.4. THE SECURITIES MARKET – The elimination of restrictions for foreign investors is a positive step

The negative **trends in the share prices on the Ljubljana Stock Exchange** recorded in 1999 (2% real fall in prices) continued in 2000 and in the first four months of 2001. In 2000, nominal growth of the Slovenian Stock Exchange Index (SBI 20), measuring general trends in prices on the Ljubljana Stock Exchange, was only 0.1% (in real terms, it fell by 8.1%), while in the first four months of 2001 it nominally dropped by 5.9% (in real terms by 9.1%). From the end of 1998 until the end of April this year, general prices of shares on the Ljubljana Stock Exchange thus fell by as much as 21.8%. The general prices of shares traded on the Free Market of the Ljubljana Stock Exchange (Free Market Index – IPT) dropped even more. In 2000, these fell nominally by 9.9%, while in the first four months of this year they went down by a further 11.6%. Among branch indexes[31], from the end of 1999 until the end of April 2001, growth was only recorded by the index of pharmaceutical companies (5.9% nominally), which was mostly due to last year's 15.4% increase, while the values of five other industrial indexes dropped (the most in trade). The shares of authorised investment funds and investment companies were similarly (non) profitable as the shares of companies, as the value of the PIX index, measuring the general movements in the prices of these shares, increased by 2.5% in 2000, which was followed by a 7.5% fall in the first four months of 2001.

The **number of issues of long-term securities** (shares, including the shares of authorised investment funds, bonds and pension coupons) quoted on the Stock Exchange increased from 237 to 276 in the period between the end of 1999 and the end of March 2001. The largest increase was recorded in the **market capitalisation** of company shares (by SIT 120.1 billion), while relatively speaking it was the market capitalisation of bonds that grew the most (26.5%).

The volume of **securities traded** in the Ljubljana Stock Exchange nominally increased by 1.5% last year, while in real terms it fell by 6.8%. The number of deals also dropped by 13%, which shows that the liquidity of the Slovenian organised capital market fell last year despite the slight nominal trade growth.

[31] The Ljubljana Stock Exchange calculates 6 branch indexes: pharmacy, foodstuffs and beverages, chemistry, oil and gas, trade and transport.

Table 4.7.4: Market capitalisation of long-term securities on the Ljubljana Stock Exchange as at 31 March 2001 (in SIT million)

Date	Shares	Bonds	(Authorised) investment companies	Pension coupons	Total
31.12.96	124,990	52,192	0	0	177,182
31.12.97	315,945	83,400	0	0	399,344
31.12.98	483,037	145,108	82,106	0	710,252
31.12.99	566,461	221,059	125,359	7,109	912,879
31.12.00	705,092	255,015	171,621	6,703	1,138,431
31.3.01	686,579	279,571	152,235	5,887	1,124,272

Source of data: Ljubljana Stock Exchange.

In analysing the liquidity of shares in the Ljubljana Stock Exchange, one must take into account that an increasing number of trades in the Ljubljana Stock Exchange is block trades, as last year block trades accounted for 58% of total trades in the Ljubljana Stock Exchange (in 1998 and 1999 37% and 49%, respectively).

The reasons for the unfavourable movements in share prices in the Ljubljana Stock Exchange are several. Still, movements in share prices in the Ljubljana Stock Exchange were, more than by basic factors (business results of issuers and macroeconomic conditions), influenced by the transition and institutional factors and, after a longer period, also developments in foreign capital markets. The business results and macroeconomic factors, the latter to a lower degree (growth in the general level of interest rates and inflation), in this period were relatively favourable for the capital market and should not have been reflected in such a drop in share prices.

Although the foreign markets influence was not negligible last year, the transition and institutional factors still had a major impact on negative trends in the Ljubljana Stock Exchange. The reason is that the Slovenian capital market is increasingly taking on the features of a “corporate” market, that is a market whose primary function is a lever for the concentration of ownership in companies. This function of the capital market is inevitable, with regard to its transition nature and the way it was formed, but diminishing significance **of the basic function of a normally functioning capital market** (transfer of surpluses from economic units that are financially sufficient to those that are not) is worrying, if we disregard the transfers concerning concentration which take place between a very limited number of investors (Kleindienst 2001).

Due to the growth in the number of block trades, the organised capital market is losing its information function, as the prices of block trades do not reflect in the unified price shares and stock exchange indexes of the Ljubljana Stock Exchange. The information on the movements in share prices must thus be considered with caution, since they can actually be lower or higher (as most block trades are made according to higher prices than those unified, the latter is more probable). In addition to growth in the number of block trades, one reason for the prevailing form of the corporate market is the fact that portfolio investors, especially institutional ones, still play a negligible role in the Slovenian capital market. The **level of funds in Slovenia's mutual funds**, which is the most reliable criteria of measuring the participation of portfolio (especially private) investors in the capital market, remains negligible. Although the volume of assets in mutual funds in 2000 nominally increased, the growth was relatively low (21.8%) and even lagged behind the nominal increase in the volume of retail savings in commercial banks (25.2%). This could also be a consequence of the inactivity of Slovenian commercial banks and insurance companies in this area, as the mutual funds of management companies, mostly owned by commercial banks and insurance companies, also had only a 29% market share at the end of 2000, while the volume of savings in these funds only increased by a modest SIT 760 million in 2000. Pension funds do not play a significant role in the capital market. In 2000, the net inflow of investments amounted to SIT 8.75 billion (1999 recorded a net outflow of SIT 1.6 billion), while in the first quarter of 2001 it was SIT 7.5 billion. At the end of March 2001, the share of non-residents in the ownership structure of companies on the Ljubljana Stock Exchange amounted to 7.7%, including foreign strategic investors (the share of portfolio investors amounted to between 4% and 5%). Foreign portfolio investors, who are only interested in the shares of certain of the largest companies, withdrew almost completely from the organised capital market. Last year and in the first quarter of 2001, they only accounted for 1.5% of the total turnover (SIT 5.2 billion) on the Ljubljana Stock Exchange, and compared to 1999 the volume of the turnover of foreign investors increased slightly last year (by SIT 1.1 billion, to SIT 4.3 billion). However, it was still considerably lower than in 1996, 1997 and 1998 (SIT 9.7, 24.1 and 14.3 billion, respectively).

The conditions that should be met for the Slovenian capital market to meet its potential are opening up of the capital market to foreign investors, balancing out of taxing interest with the taxation of returns on securities, development of competitive non-banking financial agents, improvement of the relationship of company management towards shareholders (the *shareholder value* concept) and an appropriate model for financing small- and medium-sized enterprises (Kleindienst 2001). In addition, the Slovenian capital market's integration into international flows, which in the medium term is an important condition for the normal functioning of the market, can only be successful if these factors are appropriately resolved. Here, it should be stressed that the issue of filling the privatisation gap has, mostly due to the unreasonable use of resources of the management companies, a negligible significance for further capital market development.

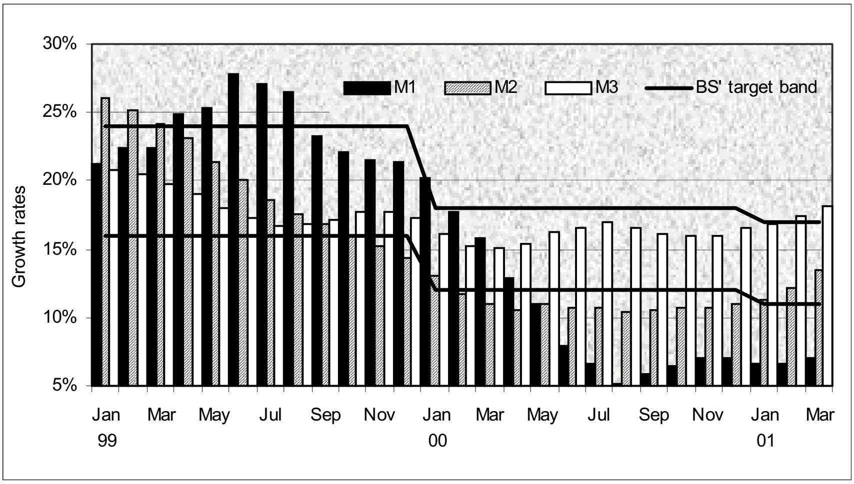
5. THE MAIN ECONOMIC POLICY GUIDELINES

5.1. MONETARY AND EXCHANGE RATE POLICIES – The role of money market instruments needs to be boosted

The ultimate monetary policy objective of bringing inflation down to levels comparable to the EU before accession to the Union remains in 2001. In 2001, the Bank of Slovenia has set **M3 growth within the band of 11% and 17% as its intermediate monetary policy target**; this target has been set on the basis of trends in macroeconomic aggregates laid down in the Macro-fiscal scenario and the draft budget of the Republic of Slovenia for 2001 and 2002 (December 2000). The floor and ceiling of the target band have been lowered by one percentage point compared to 2000, resulting in its wider relative spread. Considering the fact that the Bank of Slovenia actively managed exchange rate movements in previous years, the wider spread can be taken as an attempt to retain some manoeuvring space for managing exchange rate movements in 2001 when greater financial inflows and their higher volatility are expected.

Like in previous years, the Bank of Slovenia conducted a moderately restrictive monetary policy in 2000 in order to meet its goal. Base money rose by 17.8% year-on-year in early 2000, but the growth rate dropped to 4.8% towards the end of the year; cash in circulation rose by an annual rate of 3.3%, bank reserves increased by 4.5%, while sight deposits with the Bank of Slovenia climbed by 29.1%. Growth in broad money aggregates slowed down as well, particularly that of M1 (from 18.5% to 6.9%), while M2 rose by 11.1% as against 11.2% early in the year. Both aggregates rose faster than base money, mainly because of a quick rise in tolar sight deposits and other deposits with banks. The average M3 growth (growth in the last quarter of 2000 compared to the last quarter of a year earlier), which the Bank of Slovenia sets as its intermediate target, was 16.5%, 1.5 percentage points below the ceiling of the target band. M3 growth was primarily contributed to by higher foreign currency deposits with banks, which recorded the strongest growth, the same as in 1999. After the legislation was amended in September 1999 allowing companies to open foreign currency accounts, companies transferred part of their financial assets into foreign currency deposits, furthermore, households' foreign currency deposits rose as well. Total foreign currency deposits were up 25.3% year on year in early 2000 and they surged by 34.0% at the end of the year.

Graph 5: The bank of Slovenia's money aggregates (year-on-yer growth rates of three-month average



Source of data: Bank of Slovenia.

In the first quarter of 2001, the average amount of base money against the average of the same period last year remained the same as at end-2000; M1 growth recorded similar dynamics. Broad money aggregates rose faster as a result of a relatively faster rise in tolar time deposits with banks (up 17.1% year-on-year). At the beginning of the year, M3 growth recorded a rate above the upper end of the target band set by the Bank of Slovenia; in March[32], growth was 1.1 percentage points above the upper end.

The **issuing of base money** in 2000 was notably determined by financial flows shaped by the position of the current account of the balance of payments. In the first quarter, the Bank of Slovenia issued base money in net terms by means of tolar transactions while in the rest of the year this was done by means of foreign exchange transactions. In the first quarter, the most important instrument of determining the size of base money in circulation was tolar loans to banks (SIT 19.5 billion) and tolar bills (SIT 8.7 billion), while foreign exchange transactions, mainly the selling of foreign exchange to banks, were used by the Bank of Slovenia to soak up base money (SIT 43 billion). In the rest of the year, the Bank of Slovenia issued base money in net terms through foreign exchange transactions (SIT 41.1 billion), around 70% of which by means of foreign

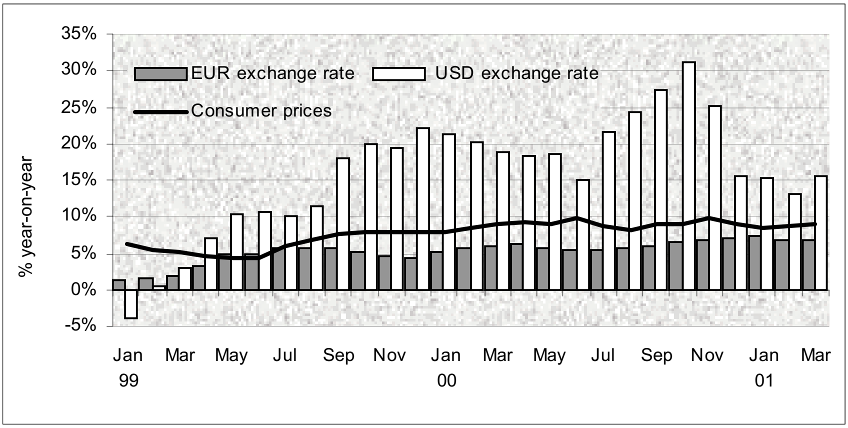
[32] The average of January-March 2001 compared to the average of the same period last year.

exchange conversions for the Ministry of Finance and the rest by temporary purchases of foreign exchange from banks. In the same period, tolar instruments were used to withdraw base money from circulation in net terms (a total of SIT 17.1 billion): base money was withdrawn by reducing the loan stock (SIT 34.6 billion) and it was issued by means of tolar bills (SIT 11.7 billion).

Among monetary policy instruments, the importance of tolar instruments diminished the most in terms of the average daily amount disbursed. The average daily amount of loans to banks dropped by 56% compared to 1999, with the volume of liquidity loans reducing the most. The Bank of Slovenia reduced the number of tolar bills, as it stopped issuing tolar bills with warrants and twin bills, while the average daily amount of the remaining bills declined from the first quarter onwards to total 25% of the 1999 value at the end of 2000. Furthermore, there were changes in the temporary purchase of foreign currency bills, as the Bank of Slovenia replaced the 28-day temporary purchase of foreign currency bills with two new instruments, i.e. 7-day and 60-day temporary purchases. This step ensured greater flexibility in responding to the liquidity needs of banks.

In 2000, the Bank of Slovenia continued to conduct a policy of a **managed floating exchange rate**, whereas its manoeuvring space was limited by the monetary policy target on one hand and the over-supply of foreign exchange on the other.

Graph 6: Year-on-year changes in the exchange rate of the euro and the US dollar and inflation



Source of data: Bank of Slovenia, SORS.

In addition to buying and selling foreign exchange in the interbank market, the Bank of Slovenia again set the minimum exchange rates at which commercial banks which had signed an agreement on co-operation in interventions in the foreign exchange market should trade; the Bank of Slovenia continued to issue foreign currency tolar bills of 60-360 day maturity, but they were only sold to commercial banks.

In the first quarter of 2000, measures taken by the Bank of Slovenia were aimed at preventing depreciation of the tolar, with the BS selling foreign exchange to banks in net terms. Early in the year, the Bank of Slovenia made a new agreement on co-operation with commercial banks in case of intervention in the foreign exchange market because of the changed situation in the foreign exchange market and the introduction of foreign exchange accounts for companies; the agreement entered into force in April. In line with the agreement, the Bank of Slovenia eased the pressures put on tolar's depreciation in the third quarter of 2000, while in November it intervened to slow down the rises in exchange rates. The monthly rise of the euro's exchange rate with the Bank of Slovenia was 0.3% to 0.8%, while the total annual rise was 7.2%. Stronger volatility and stronger appreciation were recorded by the US dollar, whose exchange rate climbed by 15.6%. In the first quarter of 2001, the Bank of Slovenia kept the tolar's depreciation against the euro at a monthly level of about 0.6%, so that the exchange rate rose 0.9 of a percentage point below the inflation rate in the first three months (relative to December 2000), while the US dollar's exchange rate climbed by 7.4% in the same period. In the next few months, the maintaining of similar dynamics in exchange rate movements will primarily depend on the level of financial flows related to the planned and already carried out sales of assets, mainly in the financial sector.

When setting its **key interest rates** and interest rates on tolar bills, the Bank of Slovenia followed its monetary policy and exchange rate targets. In the second half of the year, when the rising oil and commodity prices started to spill over on to other prices more rapidly, which is why inflation settled at a higher level, the Bank of Slovenia responded by changing interest rates. In June and September, it raised the discount and lombard interest rates by one percentage point, so that they reached 10.0% and 11.0%, respectively. At the same time, the interest rates on tolar bills were raised as well: they were up 3.3 percentage points to 5.0% on two-day bills, up 3.8 percentage points to 7.0% on 12-day bills, up 2.5 percentage points to 10.0% on 60-day bills, and up 2.0 percentage points to 11.0% on 270-day bills. As far as foreign currency bills are concerned, the Bank of Slovenia followed changes in interest rates in foreign markets. In early 2001, the Bank of Slovenia again raised the discount and lombard rates by one percentage point, with interest rates on bills climbing as a result.

Before the end of 2001, the selection of instruments and their relative importance will largely depend on the response of the Bank of Slovenia to the current rate of inflation. As the high inflation rate is more the result of internal than external factors, it can to a larger extent be controlled by economic policy instruments, in particular those of monetary policy. Furthermore, the Bank of Slovenia should adjust the range and scope of instruments in the next few years for both internal reasons, mainly the expected changes in the structure of money market, and external reasons, i.e. the EU's requirements to adjust the way monetary policy is conducted. The relative importance of money market instruments should be strengthened. The formal commitment of the Bank of Slovenia to co-operate in procedures related to the introduction of one-month treasury bills issued by the Ministry of Finance belongs to the same set of efforts. As the current regulation in the field of setting the reference interest rate is inappropriate, both in terms of a lack of the information value of interest rates now replacing the reference rate and the process of joining the EU, the reference rate is expected to be set in the process of issuing base money by means of short-term government securities provided that the central bank will dedicate more attention to the use of money market instruments.

The shortcomings of the tolar indexation clause are further revealed when applied as indexation factor. The tolar indexation clause increases the inertia of inflation owing to the method of its calculation and its use for the purposes of indexation. Even though the abolition of indexation mechanisms should bring inflation down in the long term, participants in the market show no economic interest in its immediate abolition. It is more sensible to phase out the tolar indexation clause rather than abolish it altogether because of the rising rates of price increases over the last two years. It is therefore important that the state as an important issuer of debt securities lengthens the maturity of those instruments whose interest rates are set in nominal terms, while in the commercial banking sector a similar function should be carried out by the Bank of Slovenia. As far as co-operation between the central and commercial banks is concerned, activities aimed at setting the reference interest rate in the Slovenian market should be reinforced.

In the rest of 2001, the Bank of Slovenia will continue to monitor the main monetary policy indicators, primarily the relationship between supply and demand in the foreign exchange market and the relationship between demand for and supply of base money, so as to maintain internal and external balance. The **general orientation of monetary policy** will therefore largely depend on balance of payment flows and price movements in foreign markets, which will shape financial flows on the one hand and price movements on the other. The repeated rises in inflation over the last two years were caused by the tax reform in 1999 coupled with the rising oil and commodity prices in the world markets and consequently in Slovenia, which is why monetary policy has a limited scope in attempting to curb price rises.

In spite of this, the Bank of Slovenia could assume a more active role in easing inflationary expectations and reducing inflation, which could be achieved by a clearer signalling of its decisions and steps aimed at slowing price rises down. However, should prices continue to rise primarily due to internal factors, the Bank of Slovenia will be forced to more actively apply its quantitative instruments in order to keep price rises in check.

5.2. PUBLIC FINANCE

5.2.1. GENERAL GOVERNMENT REVENUES FROM 2000 TO 2003 – Modest inflow of VAT in early 2001

General government revenues were calculated and paid in **2000** on the basis of the fiscal legislation and tax instruments in force at the end of 1999. Some changes did take place which, however, did not interfere significantly with the volume and structure of general government revenues. The system of value-added tax and excise duties was introduced in the middle of 1999 and fully implemented in 2000. Social security contributions were paid in at the same contribution rate (38%) as a year earlier. The adopted Act on the Method of Settling Overdue Liabilities, a law designed to speed up the collection of taxes, contributions in particular, had no major effect. Payroll tax remained one of the tax sources in 2000, with the payroll tax rates remaining unchanged. In a bid to improve the financial situation of private individuals from the lowest income brackets as stipulated in the Personal Income Tax Act, the Exceptional Reduction of Tax Liability Act was passed by agreement with the social partners. In February, a new Administrative Fees Act took effect. The law regulates anew tax rates and the relationships between them, abolishing some tax exemptions. It also implies a rise in general government revenues. When the state budget was being adopted, it was anticipated that excise duties on mineral oil and gas would go up as early as the beginning of 2000, which however did not occur due to the situation in the world oil market and the resulting price rises. As a result of free-trade agreements and the Europe Agreement, the tax rates on several products fell in 2000 which brought about a drop in customs duties revenues.

The year 2000 saw trends in some macroeconomic indicators that influenced the amount by which general government revenues deviated from what was anticipated, a reason why general government revenues dropped in 2000 by 1.3% of gross domestic product in comparison with the sum anticipated in the budget memorandum. The biggest gap between the anticipated and actual figures was recorded in value-added tax and excise duties. Revenues from value-added tax were subject to the drop in domestic consumption and rapid increase in exports. As tolar-denominated imports went up more than planned, revenues from the value-added tax on imports were the only revenues that exceeded the anticipated figure in the 2000 state budget. The overall revenues from value-added tax and excise duties totalled 13.2% of gross domestic product in 2000, down 1.1 of a percentage point from what was anticipated in the 2000 state budget. Despite a rise in imports, customs and imports duties dropped sharply, namely by over 23% in real terms due to a reduction in customs rates. General government revenues, calculated on the basis of wages and making up over 55% of general government revenue, rose by 3.3% in real terms in 2000 from 1999. With contribution rates remaining unchanged, social security contributions increased by 2.5% in real terms; moreover, due to the progressive tax scale, payroll tax went up by 14%, while revenues from income tax grew by 2.9%. Tax assessments made under the Personal Income Tax Act, together with tax assessments made under the Exceptional Reduction of Tax Liability Act resulted in a slowdown in overall revenue growth of income tax. General government revenue and expenditure consolidated in line with the methodology of the Ministry of Finance showed that general government revenue decreased by 0.3% in real terms in 2000, totalling 42.8% of gross domestic product, down 0.8 of a structural point from 1999.

Forecasts of tax liabilities for **2001** had shown that the share of general government revenue in gross domestic product would keep falling. Thus, the beginning of 2001 saw a rise in excise duties and the introduction of the excise duty on gas. Apart from foreign grants and capital revenues, a substantial increase in revenues from license fees (UMTS license fees) is anticipated in the 2001 state budget. The consolidated general government account from the budget memorandum for 2001 reveals that general government revenue is to go up by 5.7% in real terms, amounting to 42.9% of gross domestic product, up 0.1 of a structural point from 2000. However, the **actual trends in general government revenue in 2001 show that the general government revenues anticipated** when the budget was being drafted **will not be realised to the extent expected.** Less revenue can be expected to come from value-added tax after a modest inflow was recorded at the beginning of 2001. Domestic consumption was relatively scarce in the first few months of 2001, being hindered not only by private consumption but also government consumption. The latter was carried out in the first four months of 2001 before the state budget was adopted on the basis of what is termed the temporary financing of the national budget. Slovenia's exports were higher than expected in the first few months of this year. It has been estimated that, together with excise duties, value-added tax proceeds should reach 12.9% of gross domestic product, down 0.3 of a structural point from 2000 and 0.5 of a structural point from the figure anticipated in the state budget. Contributions and taxes paid in on the basis of wages may well bring more to the national budget. According to an IMAD estimate, salary-based general government revenues are to increase by some 5.5% in real terms, with payroll tax bringing in more than social security contributions. Salary-based general government revenues are to contribute around 0.3% of gross domestic product more to the general government revenue than first anticipated. Employing consolidated general government expenditure and revenue (in line with the methodology of the Ministry of Finance), the IMAD estimated general government revenue would rise by 4.3% in real terms in 2001, totalling 42.7% of gross domestic product, or 0.1 of a structural point less than in 2000.

Preparations for reforming direct taxes are continuing in 2001, focussing on the drafting of new systemic laws on personal income tax and corporate income tax. Property taxes are also to be reformed. The relevant laws are to come into force as of 2002 or 2003, changing the structure of general government revenue to a certain extent.

Given the expected macroeconomic trends, the share of tax liabilities in gross domestic product is likely to keep falling in 2002 and 2003. Thus, a public finance balance can only be achieved by expanding the tax and contribution bases from the existing sources, consistently collecting taxes and contributions, and with the help of revenues from foreign grants and other capital and license fee revenues. It would also be good to examine the possibility of introducing new sources, paying attention to the economy's competitiveness.

5.2.2. GENERAL GOVERNMENT EXPENDITURE FROM 2000 TO 2003 – The need to gradually reduce the share of general government expenditure in gross domestic product

State budget expenditure totalled 1,029 billion Slovenian tolars in **2000**, a drop of 2% in real terms from 1999 and a fall of over 3% from the expenditure since the state budget was endorsed. As a result of the volume of state budget revenue being lower than planned, special measures were taken at the end to the year to limit state budget expenditure. Moreover, liabilities in the value of 22 billion Slovenian tolars were transferred to the state budget for 2001. State budget expenditure totalled 25.5% of gross domestic product in 2000.

Table 5.2.2: Structure and shares of state budget expenditure in GDP, in %

	Structure, in %			Share in GDP, in %		
	1999	2000	2001	1999	2000	2001
	Real.		Adopted	Real.		Adopted
TOTAL STATE BUDGET EXPENDITURE	**100.0**	**100.0**	**100.0**	**26.4**	**25.5**	**26.5**
Current expenditure	28.6	30.5	31.2	7.5	7.8	8.3
of which:						
Salaries, contributions, other expences						
Employees of state institutions	12.3	13.0	13.1	3.3	3.3	3.5
State administration's purchases of goods and services	10.0	10.6	11.4	2.7	2.7	3.0
Domestic and foreign investment payments	5.2	5.8	5.9	1.4	1.4	1.6
Current transfers	60.1	59.6	58.9	15.9	15.2	15.6
of which:						
Subsidies	6.1	5.1	4.9	1.6	1.3	1.3
Transfers to individuals and households	14.5	14.6	13.9	3.8	3.7	3.7
Transfers to public institutions	19.7	20.8	20.7	5.2	5.3	5.5
Transfers to the Pension and Disability Insurance Institute	15.5	15.0	15.7	4.1	3.8	4.2
Investment expenditure and transfers	11.3	9.8	9.9	3.0	2.5	2.6

Source of data: Ministry of Finance, calculations by IMAD.

The state budget for **2001** anticipates expenditure of 1,210 billion Slovenian tolars, up 8.4% in real terms from 2000, and 26.5% of gross domestic product, which is 1 structural point more than in 2000. Interest payments for loans taken abroad will be the fastest growing segment of expenditure in the state budget for **2001**. Also exceeding the growth of overall state budget expenditure in real terms will be expenditure on wages, contributions and other expenses for the employees of government and public institutions, expenses for the state administrations' purchases of goods and services, and for capital expenditure. A nearly 14-percent rise in real terms in transfers from the state budget to the Pension and Disability Insurance Institute is expected, making up 15.7% of all state budget expenditure, and 4.2% of gross domestic product. Growing at a slower rate than overall state budget expenditure will be expenses for subsidies, which will be up 3.8% in real terms. Transfers to individuals and households from the state budget will increase by 2.8% in real terms, a rise much lower than that in overall state budget expenditure. Less money in real terms will go from the state budget to pay domestic interest charges, and for public institutes' purchases of goods and services as well as for capital transfers and transfers to municipalities.

With a view to cutting the state budget deficit, and having in mind the anticipated state budget revenue level, there will only be a limited possibility of increasing state budget expenditure in **2002 and 2003**. Consequently, the drafters of the budget bills for 2002 and 2003 will have to make sure that the share of state budget expenditure in gross domestic product falls gradually. Once a new law on salaries in the public sector is passed, and after the changed method of indexing contributions to the pension and disability insurance system is employed, there is to be less pressure on expenditure on salaries from the state budget and transfers to the Pension and Disability Insurance Institute. The budget bills for 2002 and 2003 will have to continue the policy of a selective approach to budget priorities.

Local government expenditure increased by 5.4% in real terms in 2000 from 1999, totalling 5.3% of gross domestic product, up 0.2 of a structural point from 1999. Purchases of goods and services, domestic interest payments, subsidies and investment transfers went up at a faster speed in 2000 than all of local government expenditure. Transfers to public institutions, however, fell by 17% in real terms. Somewhat slower growth of local government expenditure is expected in 2001. Local government expenditure is to total over 5% of gross domestic product in 2001, and should also remain at this level in 2002 and 2003.

The pension reform was implemented in 2000. As retirement conditions have gradually become stricter, and the accrual rate has gradually lowered, the pressure to **spend on pension and disability insurance** has been reduced. The possibility of voluntary pension insurance was also introduced. 13.5% of gross domestic product was spent in 2000 on realisation of rights emerging from the Pension and Disability Insurance Act (pensioners' health care contributions excluded). The number of beneficiaries went up by slightly over 1 percent. Due to considerable rises in wages and the new method of indexation, pensions and other expenditure from pension and disability insurance were adjusted twice in 2000. A high level of the average pension relative to average wages was secured. A change to the indexation method for 2001 has brought about a substantial degree of harmony between increases of wages and pensions as well as a reduced degree of vulnerability to seasonal trends. According to forecasts for **2001**, expenditure on pension and disability insurance (pensioners' health care contributions excluded) is to be 2% higher in real terms than in 2000, making up 13.2% of gross domestic product. Expenditure is to be further reduced in 2002 and 2003, when an extra cut in the accrual rate and moderate growth in the number of beneficiaries (by 1.2% yearly) should only require around 12.9% of gross domestic product to be spent on this purpose in 2002 and around 12.7% of gross domestic product in 2003.

Expenditure on **mandatory health insurance** went up 4.4% in real terms in 2000 from 1999, totalling 6.7% of gross domestic product. While no legal change occurred in the mandatory health insurance rights in 2000, a number of measures were taken in a bid to control expenditure on medicines, limit sick leave and streamline the implementation of health care programmes. Attempts will also be made to reduce expenditure in **2001**. Mandatory health insurance is anticipated to require around 6.7% of gross domestic product in 2001. This figure has already degraded the accessibility of health care services. The continuation of the trend of reducing expenditure on mandatory health insurance brings up the question of equality and solidarity in the mandatory health care system. Thus, a thorough analysis of the situation will have to be followed up by appropriate measures and some systemic changes in this field in **2002 and 2003**.

Once general government expenditure and revenue was consolidated, **general government expenditure** showed an increase of 1.4% in real terms in **2000**, totalling 44.2% of gross domestic product, or the same as in 1999. After the state budget is adopted and financial plans of the Pension and Disability Insurance Institute and the Health Insurance Institute adjusted, consolidated general government expenditure is to exceed last year's by 4.6% in real terms in **2001**, amounting to the same share in gross domestic product as in 2000. In **2002** and

2003, (consolidated) general government expenditure is expected to grow at a slower pace than gross domestic product, which is to pave the way to reducing the general government deficit's share in gross domestic product.

5.2.3. GENERAL GOVERNMENT DEFICIT FROM 2000 TO 2003 – Reduction of the general government deficit could be achieved through stable tax sources as well as by limiting and restructuring general government expenditure

While economic measures were taken to cut general government expenditure and stable sources of financing were secured, the general government deficit totalled 1.4% of gross domestic product[33] in **2000** – up 0.4 of a structural point from what was set down in the budget memorandum – despite a somewhat slower rise in general government expenditure and a slight decrease in general government revenue.

The budget memorandum anticipated a **drop in the general government deficit** to about 1% of gross domestic product for 2001. The trends influencing a reduction in general government revenues on one hand and an increase in general government expenditure on the pension and disability and health care systems on the other will result in a more unbalanced general government account by the end of 2001 than anticipated at the beginning of this year. Should the downward trends related to tax sources as noted at the beginning of

Table 5.2.3: Balance of public finance consolidated in line with GFS-IMF methodology (shares in GDP in %)

	1995	1996	1997	1998	1999	2000	2001 est.*
General government revenues	43.1	42.7	42.0	43.0	43.6	42.8	42.9
General government expenditure	43.1	42.4	43.2	43.8	44.2	44.2	43.9
Surplus / deficit	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-1.0

Source of data: Ministry of Finance, calculations by IMAD.
Note: * The estimate and calculation of the share in GDP taken from the budget memorandum for 2001; for current trends see explanations in the text.

[33] If the deficit of the Pension and Disability Insurance Institute financed with the resources of the Pension Management Fund was added, the general government deficit would total 1.7% of gross domestic product (Autumn Report).

Box 6: General government deficit measured using the GFS, and central government deficit using the ESA

In Slovenia, the general government deficit is a deficit of consolidated general government revenue and the expenditure of four general government “budgets”, namely the state budget, mandatory pension and disability insurance, mandatory health insurance, and local government budgets. In recording transactions from the four “budgets”, Slovenia’s accounting standards regarding public finance are based on Government Finance Statistics (GFS) standards as recommended by the International Monetary Fund. Following these standards, general government revenue and expenditure is entered when paid, rather than when a liability emerges, as is the case with the systems of business accounts and of national accounts (the system of national accounts is to be brought into line with GFS standards when the next GFS version comes out).

As part of preparations for co-operation in the process of multilateral control and co-ordination of economic policies which has been under way in the Economic and Monetary Union, EU candidate-countries are obliged to submit a notification of their public debt and general government deficit to the European Commission on a yearly basis up until they join the EU. Thus, Slovenia has also obliged itself to adjust its system of national accounts and its reporting to the EU in the field of taxes to international standards of national accounts (SNA), or more precisely to their European version, namely the European System of Accounts (ESA) dating from 1995. The adjustment is particularly important for monitoring whether a country meets the Maastricht convergence criteria set as a prerequisite for joining the European Monetary Union, that is its Euro-zone – for both fiscal criteria, namely central government deficit and debt. The task of adjusting the Slovenian standards to the ESA was assumed by the Ministry of Finance and the Statistical Office of the Republic of Slovenia. The method by which the deficit is calculated will have to be supplemented in several fields as a result of the adjustment. The adjustment would imply the inclusion of new transactors (particularly public funds and some other state institutions) and transactions (for instance, revenues generated by institutions themselves, some ecological taxes), a transition to recording transactions as early as when a liability emerges (which is particularly important for interest on central government debt, the adjustment to the calendar year, adjustment of the manner of consolidation etc. Final calculations have not yet been done. However, there have been some signs that the central government deficit as calculated under the ESA could be higher than when calculated by employing the GFS. Its reduction would in this case be an even tougher nut to crack in the coming years.

2001 continue, particularly as far as VAT is concerned, measures will have to be taken to limit expenditure. Limiting expenditure could have a bearing on the economic growth rate at the end of 2001, yet it would be hard to predict the actual effect on the growth rate as this would depend on the structure and manner of restricting expenditure as well as on what possibility the economy would have to adjust in terms of liquidity. Taking the current expectations into account, the effect on the growth rate could stand at 0.1 of a percentage point in real terms.

In order to have balanced general government finance, a further gradual reduction in general government deficit will be required in 2002 and 2003, and could be achieved by looking for stable sources of financing as well as by limiting and reducing general government expenditure.

5.2.4. CENTRAL GOVERNMENT DEBT - It totalled 25.1% of gross domestic product at the end of 2000

In 2000 the Republic of Slovenia borrowed through short-term and long-term financial instruments, taking out loans and issuing securities in the domestic market, and issuing securities in the world financial market plus continuing to draw the planned loans from international organisations.

Central government debt increased by SIT 120 billion in nominal terms in **2000**, totalling SIT 1,013.3 billion at the end of the year, or 25.1% of gross domestic product (24.5% of gross domestic product in 1999). Disbursements amounted to SIT 252.2 billion, while repayments of the debt stood at SIT 212.1 billion. Revaluation and exchange rate changes increased the debt by SIT 80 billion.

Broken down by currencies, tolar-denominated debt made up the largest share in the structure of central government debt, totalling 42.8% of the debt in 2000. Euro-denominated debt represented 42.6% and the US-dollar-denominated debt amounted to 14.6%. As for the interest structure of the debt, debt with a fixed interest rate comprised the largest share of central government debt, that of 47%. The share of indexed debt (debt where the principal increases by the value of an indexation factor before interest is paid) totalled 38% of the entire central government debt, and the debt with a variable interest rate 15%.

The volume of **state borrowing** is limited by an annual quota set down in the Budget Implementation Act (ZIPRO) as well as by the ratio between long-term

Table 5.2.4.1: Stock and changes in debt of RS in 2000 (SIT billion)

	31.12.1999 Stock	Disburse-ment	Repayment	Net disburse-ment	Revaluation and changes	Debt changes	31.12.2000 Stock
DEBT OF RS	893.3	252.2	212.1	40.1	80.0	120.0	1,013.3
Internal debt	498.5	158.6	189.8	-31.2	37.8	6.5	505.0
II. External debt	394.8	93.6	22.3	71.3	42.2	113.5	508.3

Source of data: Ministry of Finance, PUBLIC FINANCE BULLETIN.

and short-term debt. The state was allowed to borrow 150 billion tolars last year: it was to borrow SIT 21 billion in the short-term and SIT 129 billion in the long-term.

However, the realised volume of **short-term borrowing** totalled SIT 21.6 billion last year, of which SIT 8.3 billion came from three-month treasury bills, SIT 5.8 billion from six-month treasury bills and SIT 7.5 billion from twelve-month treasury bills. Interest rates on three-month treasury bills and six-month treasury bills, which began to rise in the second half of 1999, stopped growing in 2000. However, the interest rates of three-months treasury bills and six-month treasury bills remained relatively high chiefly due to rises in the base rate of interest (interest rates of six-months treasury bills were 0.5 of a percentage point above the interest rates of three-months treasury bills in 2000). The Treasury started regularly issuing twelve-month treasury bills in May 2000, holding four auctions by the end of 2000. Contrary to interest rates of three-month treasury bills and six-month treasury bills, interest rates on twelve-month treasury bills gradually decreased last year, and were 0.85 of a percentage point higher on average than interest rates on three-month treasury bills.

Table 5.2.4.2: Bonds of RS issued in the domestic market in 2000

Bond	Maturity	Interest rate	Total value
RS 16 - 3-years	24.02.2003	TOM+4.20%	6,000 mln SIT
RS 17 - 5-years	24.02.2005	TOM+4.70%	9,000 mln SIT
RS 18 - 10-years	26.04.2010	6.00%	50 mln EUR
RS 19 - 3-years	24.07.2003	TOM+4.20%	6,000 mln SIT
RS 20 - 3-years	01.12.2003	TOM+4.20%	6,000 mln SIT

Source of data: Ministry of Finance

Table 5.2.4.3: Bonds of RS issued by the end of April 2001

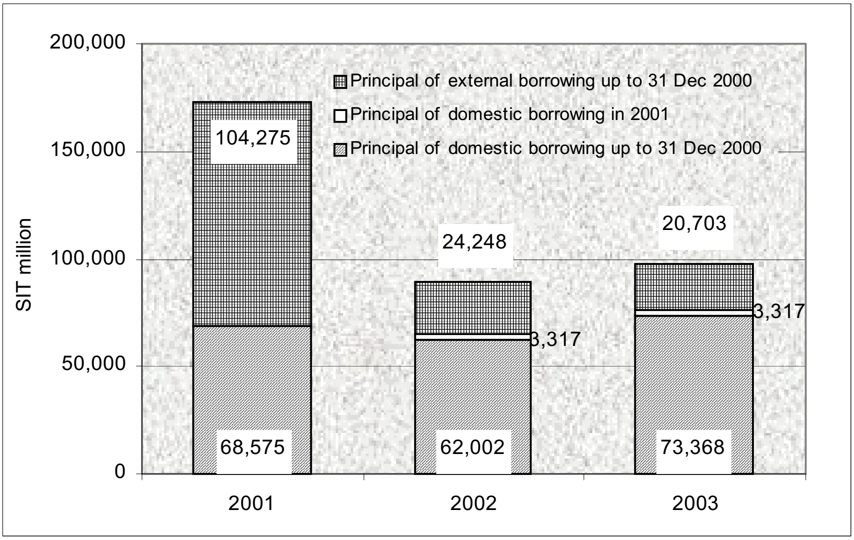
Bond	Maturity	Interest rate	Total value
RS 22 - 5-years	13.02.2006	TOM+4.70%	8,000 mln SIT
RS 23 - 10-years	13.02.2011	6.00%	8,561 mln SIT
Reopening of eurobond 2010	24.03.2010	6.00%	100 mln EUR
RS 24 - 3-years	13.03.2004	TOM+4.20%	4,996 mln SIT
Eurobond 2011	11.04.2011	6.00%	450 mln EUR
RS 25 - 5-years	18.04.2006	TOM+4.70%	3,188 mln SIT

Source of data: Ministry of Finance.

To balance current liquidity, the Republic of Slovenia issued 77 promissory notes in the value of SIT 46.9 billion in 2000, with their interest rate ranging from 4% to 12.14%. Borrowing emerging from the issued promissory notes totalled SIT 13.04 billion on 31 December 2000.

As part of **long-term borrowing**, five new bonds, namely RS 16, RS 17, RS 18, RS 19 and RS 20 in a total value of SIT 37.3 billion were issued in 2000 to finance the national budget and for repayments of principal.

Graph 7: Repayment of principal of the RS debt in 2001-2003



Source of data: Ministry of Finance.

A ten-year euro-bond totalling EUR 400 million[34] was issued in March 2000 in the foreign market. The Republic of Slovenia borrowed SIT 148.3 billion in 2000 to finance the budget deficit, to repay principal and to pay the surplus of expenditure over revenues on the account of financial liabilities and investment.

As part of its long-term borrowing, the Republic of Slovenia had issued four new bonds - RS 22, RS 23, RS 24 and RS 25 – in the domestic market by the end of April 2001 in a bid to finance the budget deficit and to repay principal. The euro-bond issued last year was reopened in February in the foreign market, its value totalling EUR 100 million. Furthermore, a new ten-year euro-bond was issued in April, amounting to EUR 450 million. The price achieved stood at 98.438 percent, the margin above the reference interest rate (5.25% BUND 2011) totalling 89 base points. The annual coupon interest rate of the new euro-bond totals 5.375%. The table below shows the bonds issued up until 30 April 2001.

Given the borrowing carried out so far in 2001 and the projections of further borrowing for this year, central government debt is expected to total **SIT 1,120.1 billion**, or **24.5%** of anticipated gross domestic product[35] at the end of 2001.

5.3. INCOMES POLICY – Wage growth lagging behind productivity growth by more than one percentage point

Using the relevant instruments, incomes policy creates a macroeconomic environment that helps maintain economic stability in times when it is necessary to adjust to structural changes and the impacts of globalisation are becoming increasingly significant. One of the objectives is to make the real gross wage per employee rise below the rate of productivity growth.

In **2000**, incomes policy was laid down in the Agreement on Incomes Policy for the 1999-2001 period and enacted by the Act on Minimum Wage, Wage Adjustment Mechanism and Holiday Allowance for 1999-2001. In 2000, the adjustment mechanism set the safety valve (early adjustment in the event of

[34] 99.49 percent of the price was achieved, with the margin above the reference interest rate (5.25% BUND 2010) totalling 73 base points. The coupon interest rate of the new euro-bond was 6% per year.

[35] The calculations do not take into account any possible debt takeover.

inflation rising faster than expected) at a 4% rise in consumer prices. Given prices rising faster than expected, mostly due to external factors, prices rose considerably last spring. As a consequence, there was a 4.3%-rise in consumer prices in June (compared to the previous December) and the basic wage and minimum wage for July therefore had to be adjusted by 3.7%.

In the **private sector**, growth in the gross wage per employee was slightly different from the pattern seen in previous years. In the period 1997-1999, the gross wage rose by a little less than 1% in real terms from January to October and recorded a gradually higher rise in the last two months of previous years (5% in 1997, 9% in 1998 and 13.8% in 1999). In 2000, the gross wage rose by 2.9% in real terms from January to October, yet it rose by only 8.7% in the last two months of the year. The frequency of basic wage adjustments to price rises during the year varied (in 1997 in January, April and December, in 1998 in January, in 1999 in January and August, and in 2000 in January and July), but did not, at least up until 1999, significantly affect the basic pattern of wage movements in real terms. The number of working days was constantly increasing until 1999, but fell below the 1997 level in 2000 and clearly affected the movement of wages, particularly in December 2000, being the shortest December in the period under consideration. Therefore, the trend of gross wage growth in real terms stopped at the end of the year. In the private sector, the **gross wage per employee in real terms rose** by 1.5% in 1997, by 2.2% in 1998, by 3.2% in 1999 and **by 1.3% in 2000**.

Wage growth in the **public sector** depends mainly on the frequency of basic wage adjustments to price rises during the year, on regular and extraordinary promotions in accordance with the Act on Wage Ratios, as well as on wage supplements introduced in collective agreements for activities with the only purpose of increasing wages in these activities. In 2000, the remaining part of the supplement was paid in education on the basis of amendments to the collective agreement (the first quarter was paid in November 1999, the second quarter in January and the remaining half in April), meaning a 7%-rise in wages. In May, the first third of the wage supplement in public administration was paid on the basis of the adopted decree (the second and third parts to be paid in January and December 2001), which as a whole also led to a 7%-rise in wages. In health and social work, nurses were paid the first half of the wage supplement defined in the annex to the branch collective agreement for those employed in health care in August and were also paid the difference from May, generating a total wage increase of 8%. The second half of the increase was paid in December. In October and November, doctors were paid the first half of the supplement defined in the annex to the branch collective agreement for doctors and dentists, meaning a 12.4%-rise in wages, including the difference from January. The other half of the supplement, generating another 11.1%-rise in wages and to be paid on 1 July 2001, is subject to the adoption of the new collective agreement. The remaining staff of health and social care received a higher wage supplement on the basis of the annex to the collective agreement for health and social care in December's wage, meaning a 6.5%-rise in wages. Wages in the culture sector rose by 4.5% in November thanks to the supplement defined in amendments to the collective agreement for cultural activities. The basic wage increased by 1% in December 2000. Given the basic wage adjustments to price rises, the wage supplements and November's wage growth due to employees' regular promotion pursuant to the rules on promotion, which are reviewed every three years, the gross wage per employee in the public sector rose by **2.1%** in real terms in 2000.

In 2000, the gross wage per employee increased by 10.6% in nominal terms, recording a **1.6%** rise in real terms compared to the previous year. The rise in labour productivity was 3.5%, meaning that the **real gross wage per employee lagged behind productivity growth by almost two percentage points.**

In **2001**, the wage adjustment mechanism defined in the Act on the Minimum Wage, Wage Adjustment Mechanism and Holiday Allowance for 1999-2001 remained in force until the end of June. The directions of the new incomes policy were discussed by the social partners before the end of last year, but only the social partners in the **public sector** reached an agreement. The signed "Agreement on Wage Adjustment Mechanism in the Public Sector in 2001" sets a new wage adjustment mechanism taking into account the anticipated movements in consumer prices. Therefore, this year employees in the public sector are no longer subject to the provisions regarding wage adjustments in the Agreement on Incomes Policy for the 1999-2001 period. In 2001, wages are being adjusted by 90% of the anticipated consumer price rises partly in January and partly in August. Basic wages in the public sector therefore increased in January by 3.6%, while the remaining part of the total 6.3% increase will occur in August. The 2.6%-rise in August only applies to employees in the public sector whose wages are regulated by the branch collective agreement, and to civil servants whose wages are regulated by the Act on Government of the Republic of Slovenia. Such a rise is intended to reduce the disparities in wages in individual activities and should be defined in the collective agreements and the Act on Government of the Republic of Slovenia, respectively. If inflation exceeds the expected 7% (from December 2000 to December 2001), the safety valve will be released which in the basic wage adjustment in January 2002 will take into account the total difference in consumer prices rising above

6.3%.

In the **private sector**, negotiations on incomes policy for 2001 were concluded at the beginning of May. The social partners agreed upon the adjustment mechanism defined in the annex to the Agreement on Incomes Policy for the 1999-2001 period. In January 2001, the basic wage in the private sector rose by 4.5% as envisaged by the adjustment mechanism defined in the annex to the Agreement on Incomes Policy for the 1999-2001 period. According to the annex, in August the basic wage in the private sector will increase by 92.5% of consumer price rises in the first half of the year, and in January 2002 by 2.7% (meaning 90% of the expected consumer price rise in the second half of the year). The adjustment in January 2002 already represents the transition to wage adjustment by the anticipated consumer price rise and the introduction of an adjustment mechanism which has been in force in the public sector since the beginning of 2001. If at the end of the year inflation exceeds 7%, the safety valve will provide for a basic wage adjustment to any consumer price rises above 6.3% as a whole: however, according to the provisions of the annex, the total basic wage increase in 2001 must not exceed 95% of consumer price rises.

In the first quarter of 2001 growth in the gross wage per employee was relatively high compared to the first quarter of last year, going up by 5% in real terms as against 0.3% in the same period of 2000. According to the estimates for **2001**, in the remaining three quarters of the year moderate wage growth is expected **in the private sector** with a slightly higher rise in the last quarter, suggesting approximately **1.4%** growth in the gross wage per employee in real terms in 2001 compared to last year. **In the public sector**, growth in the gross wage per employee will be more accentuated. The estimates for the upcoming quarters take into account the mechanism from the agreement for 2001, representing a 2.6%-rise in August, as well as the supplements agreed in the adopted collective agreements and Government regulation. In December, the second half of supplements will be paid in education and research, both signed last year and meaning a 3.5%-rise in the gross wage in these two activities. Moreover, the amendment to the collective agreement in culture was signed, meaning 7% growth in the gross wage to be paid in two parts (in July and December 2001). In December, the last third of the supplement will be paid in public administration, generating a 2.3%-rise in wages. According to the amendment to the regulation adopted at the beginning of 2001, the last third of the supplement will be paid in December instead of July and there will be another supplement in May 2002 (the latter meaning a 1.5%-rise in wages). A new amendment to the collective agreement in education was adopted in April, and a new amendment to the collective agreement in research was adopted in

May, generating 3% growth in the gross wage in these two activities. The supplement will be paid in two parts in November and December. Following considerable growth in the first quarter of the year, wage growth in the public sector will slow down, whereas in December the gross wage per employee will rise again due to the above supplements, generating approximately **3.5%** growth in the gross wage per employee in the public sector in real terms in 2001.

The **average gross wage per employee in Slovenia in real terms will rise by 2.3%** on the basis of the wage movements expected in the private and public sectors and **will lag behind the estimated 3.7% productivity growth by more than one percentage point.**

In 2001, a new uniform wage system should be introduced in the public sector. Such a system will provide for the predictability of wage movements and for the transparency in wage determination within the individual activities as part of the requirements for the normal functioning of activities in the public sector. Given the Government's intention to introduce a new wages system, pressures for further wage increases prior to adoption of the new law are arising in the public sector on the part of individual trade unions. Such strains have no positive impact on the creation of a new wages system.

According to the estimates for **2002**, the gross wage per employee will grow by 2.7% in real terms and the lagging behind estimated labour productivity growth (3.5%) will drop slightly. In the private sector - given the estimated dynamics of economic activity (see Chapter 4.5.2) and due to the increase in the number of working days in a year - the gross wage per employee will increase by about 2.5% in real terms. In the public sector, the gross wage per employee will grow by about 3.1% in 2002 supposing that next year the same wage adjustment mechanism as used today will still be in force. Given that consumer prices are rising faster than expected in 2001, the estimates for 2002 take into account the triggering of the safety valve in January 2002, leading to an estimated higher rise in the gross wage per employee in the public sector. Moreover, the projections for 2002 only take into account the amendment to the Government regulation adopted at the beginning of 2001, meaning a 1.5%-rise in wages in May. The estimated growth in the gross wage per employee in 2002 will also be affected by a wage increase at the end of 2001 in education and public administration. Wage movements for 2002 do not take into account any consequences of introducing the new wages system in the public sector.

For the **minimum wage**, the same adjustment mechanism is taken into account as for wages. It is additionally adjusted once a year by the rise in gross domestic product for the previous year so long as the minimum wage in the previous year does not reach 58% of the average gross wage per employee set in the collective agreement for manufacturing. The wage adjustment mechanism for the private sector adopted in 2001 differs from the adjustment mechanism for the public sector. In the amendments to the Act on the Minimum Wage, Wage Adjustment Mechanism and Holiday Allowance for 1999-2001 it was therefore necessary to determine that the minimum wage is adjusted in the same way as wages in the private sector. Thanks to the additional adjustment of the minimum wage by the rise in gross domestic product, in 2000 the minimum wage stayed the same as in the previous year, that is 53.3% of the average gross wage per employee set in the collective agreement for manufacturing. The institution of the minimum wage with the existing adjustment mechanism has a positive effect on wage distribution. Statistical data on wage distribution show that in the last two years the inter-decile ratio in the private sector has not changed and remains at 3.2, whereas in the public sector it has changed from 3.4 to 3.5. The introduction of the supplements laid down in branch collective agreements has contributed to the negative effects of incomes policy on wage distribution in the public sector.

Work-related allowances and other remuneration, and payments based on contracts for work and author's fees in 2000 were rising slightly faster than the wages bill and achieved 43.5% of the total wages bill (around 43% in previous years). In 2001, their growth is slowing down to again achieve 43%.

5.4. LABOUR MARKET POLICY – EU guidelines and problems in implementation

The legislative framework regulating labour market is still incomplete. Negotiations between the social partners on the Employment Relationship Act, vital for regulation of the employment relationship, are continuing. The main issues of the draft Employment Relationship Act are the complete regulation of employment relationship as a contractual relationship between the employee and the employer, and the regulation of the minimum guaranteed rights and duties of such a relationship, as well as integrating the requirements of the EU's directives relating to labour law and the equality of men and women in the employment relationship. In the sense of promoting flexibility in the labour market, the draft Employment Relationship Act sets the legal basis for: (i) the conclusion of all flexible forms of an employment contract[36], (ii) the flexible allocation of working time, (iii) the denunciation of an employment contract, (iv) the training of employees, (v) the introduction of tax relief or the simplifying of procedures for small-sized employers. The long-running debates about drawing up new labour legislation have caused a situation where changes in the socio-economic system as well as harmonisation of the law with the relevant legislation in other European countries are necessary.

The new **Employment and Work of Foreigners Act**, adopted in July 2000, determines under which conditions foreigners may be employed and work in the Republic of Slovenia, if not otherwise provided by treaties. The most important new characteristics of such a law are the introduction of a system of quotas in the issuing of work permits, the state's greater regulatory role in regulating the inflow of foreign labour in the employment of foreigners, and less complicated procedures for issuing work permits to foreigners already working and living in Slovenia. However, the maximum possible quota for issuing work permits to foreigners (5% of the work force), provided by the law may become too small and hinder any further development in the forthcoming years.

In 2000, Slovenia started to implement the **National Employment Action Plan for 2000 and 2001** which follows the EU's employment guidelines of 1998. The basic pillars of the employment policy are: improving employability (first pillar), promoting entrepreneurship (second pillar), encouraging the adaptability of business and employees (third pillar), and equal employment opportunities (fourth pillar). The employment policy thus consists of measures to make operations and employment more flexible, measures to promote entrepreneurship, measures to increase the qualification level of the work force, and measures providing equal access to work to various social groups. Carrying out of the programme requires co-operation and co-ordination among the ministries, governmental and non-governmental institutions and the social partners which are, however, still at the beginning or have come to a standstill (for example in the area regulated by the Employment Relationship Act).

The main pillars of employment policy will probably remain employability, entrepreneurship, adaptability and equal opportunities. The EU's employment guidelines emphasise the importance of lifelong learning increasing both employability (first pillar) and adaptability (third pillar). In accordance with the above guidelines, the role of the social partners in solving the problems of unemployment and employability will have to be strengthened, and employment policy will become increasingly regionalised, meaning that the measures will

[36] The act regulates labour relations in the case of temporary work agencies that were introduced by the amendments to the Employment and Insurance against Unemployment Act of 1998.

BOX 7: STRATEGIC GOALS OF LABOUR MARKET DEVELOPMENT UP UNTIL 2006

In 2000, Slovenia started to implement a new employment policy programme adopted by the Government in November through the National Employment Action Plan for 2000 and 2001, and the Strategic Goals of Labour Market Development up until 2006, the employment policy and implementing programmes. The Strategic Goals of Labour Market Development up until 2006 are intended to reduce unemployment and stimulate employment in a way that employment policy is not limited to its traditional active labour market measures. The Strategy identifies the following objectives:

- raising the education level of the labour force or increasing workers' qualifications and competencies;
- reducing structural discrepancies which would result in the drop in the share of long-term unemployed (to about 40%) and the share of the unemployed without any vocational qualifications (to about 25%);
- integration into active programmes of all young unemployed persons who, within 6 months of unemployment, have not found a job, or others who have not found a job within 12 months;
- reducing regional disparities in the labour market;
- increasing employment by an average of 1% a year in the period 2000-2006 given the accelerated economic growth, facilitating cutting the unemployment rate to about 5% according to the international methodology or the registered rate down to about 8% by the end of 2006; and
- further development of the social partnership in dealing with the issue of unemployment and in increasing employment.

The Strategy envisages the active and co-ordinated co-operation of all ministries which directly or indirectly influence the situation in the labour market. Furthermore, it envisages an active role of the social partners and local communities. For this purpose, the Government and the social partners established a group for monitoring and implementing the National Employment Action Plan for 2000 and 2001 but, following the change of government after the elections, it has not yet been re-established.

adjust to individuals' needs as well as to the development needs of the regions. Employment policy guidelines are also defined in the **Joint Assessment of Medium-term Priorities of Employment in Slovenia**, signed by Slovenia and the European Commission in July 2000. It emphasises the need to monitor regional mobility in order to reduce structural disparities in the regions; assess the influence of the new Employment Relationship Act; the impact of the new Employment and Insurance against Unemployment Act; the existing programmes in the labour market; and the more efficient functioning of the Employment Service of Slovenia and strengthening its role in providing jobs. At the same time, the Joint Assessment stresses the following problems which should be addressed in the future: (i) the system of regulated jobs with the purpose of reducing their number; (ii) the system of social benefits and taxes – it is necessary to revise the mutual influence of different taxes and benefits and their impact on encouraging employability and job creation; (iii) assessment of the potential for job creation, in particular in the service sector; and (iv) increasing the level of response of the vocational training system to labour market needs.

5.5. INDUSTRIAL POLICY – The main objective is to improve competitiveness and innovation

The main objective of macroeconomic policy is to create a stable environment and the conditions necessary to complete the processes of transition and EU integration, whereas the key objective of industrial policy is to complete the transition and allow Slovenia's economy to function as a competitive partner in the common internal market.

The main goal of the Slovenian economy – to improve competitiveness and innovation – will be achieved by pursuing the aggressive restructuring of the corporate sector and accelerated development of information-communications technology and infrastructure. Given the level of development in Slovenia, it is necessary to complete the process of transitional restructuring of the non-financial corporation sector, and in particular the financial corporation sector and infrastructure services, and further promote investments which are the main factors behind the increase in competitiveness.

The measures will be directed at: (i) the creation and acceleration of implementation of an adequate institutional framework for the non-financial and financial corporation sectors to function; (ii) the elimination of the implementation deficit[37] through ownership and other reforms as well as restructuring; and in particular (iii) the development of know-how and technology. State financial measures intended to eliminate the implementation deficit and the activities in the area of development policy are reflected in state aids.

[37] The implementation deficit is the difference between the formally accepted and actual realisation of the accepted obligations, meaning the lack of efficiency of the state administration, Government and economic policies.

(1) Creation and implementation of the institutional framework and institutions. Within the non-financial and financial corporation sectors, the EU integration process has accelerated the adoption of a legislative framework and solutions complying with those of the Single Market. Slovenia asked for transitional periods only with regard to specific areas and it has, in most cases, already adopted regulations similar to those in other European countries which will be followed by the more demanding implementation thereof.

In the area of **market activities**, amendments to the Companies Act will be adopted this year, and institutions with a considerable impact on competitiveness will be set up. They include various forms of mutual integration and co-operation of existing companies and institutions for the promotion of corporate development. A rise in the number of acquisitions is expected; the state will encourage the acquisitions that increase competitiveness and do not limit competition, and hinder those that lead to an oligopolistic market structure.

Incomplete market structures in Slovenia, mostly present in **public utilities**, are gradually being phased out by basic legislation through the introduction of competition and regulatory institutions. The management of activities of the electricity generating industries, telecommunications, railways and other traffic and power generation infrastructures is carried out by *state regulatory institutions* responsible for regulating companies' entry into and exit from the sector and maintaining an optimal level of competition by granting licenses, taking into account the technical and environmental standards and price regulation. Slovenia has opted for sectoral regulatory authorities whose main advantage is specialisation in individual areas (Energy Act - Energy Agency, Telecommunications Act - Telecommunications Agency, Railway Transport Act - Railway Directorate).

The competitiveness of Slovenia's economy is also influenced by the **organisation of state administration and its efficiency** in allocating the permits necessary for the entry and exit of companies, urban planning policy and the supply of utility services to building sites, various administrative procedures and its supervisory (inspection) function. The *legislative aspect of the reform* has to be accelerated and it is necessary to set up public agencies performing regulatory, development and/or analytical tasks in the areas where a particularly high level of independence is required or which may provide for a more systematic management of public funds and a more efficient and user-oriented performance of services. *The introduction of quality standards* in public administration is formally provided by the project of attaining ISO standards in the operation of administrative units and by the Decree on administrative authorities' work with customers. *E-government strategy* means, firstly, the amendment to the Decree on office work in order to eliminate the legal barriers to electronic commerce and, secondly, the standardisation and simplification of administrative procedures. The *fundamental legal act on regions* introduces regionalism as the basis for the faster and more balanced development of Slovenia. The regions will integrate small municipalities and provide for those economic and citizens' needs that are beyond the capabilities of single municipalities. Furthermore, it is necessary to set up the regions in Slovenia in order to be able to compare with EU Member States and become a more successful candidate for EU funds for regional development, as well as due to the increasingly important border and cross-border co-operation of local and regional communities in Europe.

(2) Elimination of the implementation deficit through ownership and other reforms and restructuring. The two short-term priorities are clearly the completion of privatisation and of the restructuring processes.

The **privatisation** of *market activities* is mostly completed, yet there still is the problem of unsuccessful state companies owned by the Slovenian Development Corporation which took them over in 1998 pursuant to the Act Concluding the Ownership Transformation and Privatisation of Legal Entities Owned by the Development Corporation of Slovenia. In 2001, the Slovenian Development Corporation will be transformed, and the state plans to sell off the Slovenske železarne company and certain other companies that it owns fully or partially.

The gradual privatisation of public utilities has been set in motion. The existing water management, electricity distribution and production as well as road companies have been partially privatised by turning over the relevant invested capital to the investment firms. Privatisation will continue this year and in the years to follow. According to the programme of selling off state financial and physical assets, in 2001 the state plans to sell to key investors a certain part of its equity share in electricity distribution companies, in Telekom, Ljubljana Airport, Luka Koper as well as in water management companies.

According to the programme of selling *state equity in the financial corporation sector*, the state will in 2001 sell off part of its equity share in Nova ljubljanska banka (NLB), Nova kreditna banka Maribor (NKBM), Slovenska investicijska banka, d.d., and in Poštna banka, d.d. In May, the Government adopted the programmes of privatisation of the Nova ljubljanska banka and the Nova kreditna banka Maribor, according to which the first phase of privatisation of the NLB should have been completed by March 2002, and of the NKBM by the end of the year. In both banks, following the completion of the first phase of privatisation, the state will maintain 25% (plus one share).

According to the report on implementation of the *Denationalisation Act*, 38,104 claims for denationalisation were filed by the middle of last year. Although the legal deadline for filing claims has already expired, it was still possible to file claims regarding property restitution and the rights of former agricultural communities by 1 July 2001. 126,658 ha of agricultural land and 166,819 ha of forests were claimed and decisions were issued for 44% and 62% of them, respectively. The decisions were implemented in 86% of agricultural land and 92% of the forests. In order to speed up the denationalisation process, at the end of last year Slovenia adopted a number of measures, the most important being the allocation of alternative land where the land claimed cannot be returned in kind.

It is necessary to continue the process of **restructuring** the *non-financial corporation sector* in order to increase the competitiveness of companies and guarantee the ongoing dynamic growth of Slovenia's economy. Although the process of restructuring has already reached its lowest point and changed from relatively defensive to relatively offensive restructuring, there are still considerable differences among the various ownership categories. In order to complete transitional restructuring it is necessary to reduce, as soon as possible, the number of companies that need to be restructured defensively by removing the vital parts from problematic companies and by winding up their inefficient parts. The rescue and restructuring of unsuccessful companies by state aid schemes is defined in substance and very limited. Financial solutions to cover indispensable surviving costs are limited to half a year only. Yet the restructuring of big companies may only be carried out by preparing and adopting adequate programmes of restructuring, generating the relevant effects of the restructuring on the company as well as on the economic growth of this sector. By 2002, only special programmes for restructuring the textile, footwear manufacturing and steel industries are possible.

In *public utilities* the process of restructuring will be carried out gradually with the opening of the market. In *energy services*, the (internal) market of electricity opened on 15 April 2001. The establishment thereof should only be experimental at the beginning, and trade in excessive electricity was only planned, according to Slovenia's electricity production and consumption balance for 2001. Prior to the actual start of trade in electricity, it is necessary to deal with the expected stranded investments by means of proceeds (10% of value) gained from privatisation (up to 45% of capital value) of distribution and production companies, the only exception being the Krško Nuclear Power

Station. The market with natural gas for customers with a yearly consumption of 25 million m^3 per consumer will expectedly open on 1 January 2003. In *railway transport*, the state assumed a considerable part of the company's debt due last year and thus washed away the burdens from the past. The company is still registering a loss, and the recently adopted obligation (Railway Transport Act of 1999) to split into two different companies, one (infrastructure) remaining in the hands of the state while the other (transport) opening to the market and operating according to market principles, has not yet been implemented. Railways and railway transport are annually allocated a considerable amount of state aid which will have to be reduced gradually. In *telecommunications*, Slovenia recorded substantial progress in development, however, the process of liberalisation should be accelerated for it is necessary to keep up with the level of the developed countries and maintain the competitiveness of the entire economy. Up until the end of 2000, Telekom held a monopoly over the administration of the fixed public switching telephone network (PSTN) and the performing of compulsory public utilities for voice telephony and telex services. The provision of telecommunications services connected by means of a radio frequency spectrum, except for the services of compulsory public utilities for the transmission and broadcasting of radio and TV programmes of the RTVS, has already been liberalised and is based on concessions for broadcasting individual frequencies. Opportunities for full liberalisation of telecommunication services in Slovenia are provided by the new Telecommunications Act adopted in April 2001. Pursuant to this Act, Telekom will no longer be a public company and telecommunication services will no longer have the status of public services. The public company is to be transformed within a year following the coming into force of the new Telecommunications Act.

Reforms are also gradually being carried out in the *financial corporation sector* with the main objective of increasing international competitiveness. In order to meet this objective, in the following few years Slovenia needs more balanced development in all parts of the financial sector, requiring a relative increase in the significance of the non-banking segment. Restructuring of the financial intermediation sub-sector will be encouraged by changing customers' demands. The measures for continuing restructuring of the financial sector involve the establishment of a competitive structure, regulation and supervision. The significance of such measures will vary in individual segments of the financial corporation sector (banking, insurance, capital market). The banking and insurance sub-sectors are still characterised by a high concentration and a relatively low competition level, and the entry of new providers, both national and foreign, will therefore need to be encouraged. At least in the first phase, relatively low competition from foreign banks is expected with regard to the collection of retail deposits and loans to small and medium-sized corporations. Insurance will expectedly record stronger foreign competition in the segment of various forms of life and pension insurance and in insurance services where there are most reserves for increasing the volume of business. The already institutionalised supervision of the financial corporation sector will be carried out by three co-ordinated supervisory institutions, each responsible for supervision of its own segment of financial services – the Bank of Slovenia for banking, the Agency for Insurance Supervision for insurance, and the Securities Market Agency for the capital market.

The already mentioned *agricultural reform* brought about substantial changes in the concept and measures of agricultural policy. The implementing plan of the reform – the Agriculture, Food, Forestry and Fisheries Development Programme - specifies individual measures, their financial and implementing frameworks and the effects of the reform. Implementation of the agricultural structural and development policy is provided by the following categories of measures: (i) improvement of the agricultural structure (with assistance to: investments of economically strong agricultural economies favourable to development; young people taking over farms and rehabilitation of agricultural economies in the case of fire, natural disasters and other instances of force majeure; land operations and producers' organisation in the market); (ii) modernisation and adaptation of the agro-industrial sub-sector (with assistance to: improving competitiveness, creating additional jobs, reducing costs and increasing value added per employee, and the partial covering of costs arising from the adoption of the *acquis communnautaire* mostly in veterinary legislation, fulfilment of environmental standards, hygienic requirements and technological upgrading); (iii) integrated rural development (rural spatial planning, maintenance of the diversity and development of rural economies, where the state will encourage the spatial, social, ecological and cultural functions of rural areas). With the Rural Development Programme 2001-2006, Slovenia applied for EU pre-accession assistance to agriculture (SAPARD). According to the programme, in this period Slovenia will receive approximately SIT 1.5 billion. Pre-accession assistance consists of the following four measures: assistance to investments in agricultural economies contributing to the improvement of their competitiveness and the fulfilment of the requirements of the *acquis communnautaire* in the hygiene-veterinary sub-sector, in environmental protection and the protection of animals; assistance to investments in agro-industrial sub-sectors of meat, fish and milk; assistance to investments for the development of supplementary activities on farms; and assistance to investments for the development and improvement of rural infrastructure. The SAPARD programme should start in

2001.

The regulatory framework of *regional policy* set up in 1999 defines the principles of implementing regional policy in a narrow sense (elimination of regional development diversity within the country) and the promotion of non-exploited development potential at the local and regional levels. For such a regulatory framework to be implemented, Slovenia has to upgrade the network of regional development agencies with the main objective of solving the development problems in the environments where they arise. National financial incentives to accelerate harmonious regional development will flow from budgetary funds for the co-financing of projects particularly in economically weak areas, areas with structural problems and a high level of unemployment, scarcely developed border areas as well as in areas with limited development factors. Due to the increased pressure to restructure the border economy, such areas will receive state assistance in form of incentives for the creation of new jobs and for the strengthening of corporate initiative. Priority will be given to cross-border programmes encouraging international border co-operation. On the basis of the Preliminary National Development Plan 2000-2002, Slovenia this year expects to receive funds from the Phare programme for economic and social cohesion for three projects in Pomurje, in the Savinjska region and in Zasavje.

(3) Development policy. Accelerated investment in human resources, research and technological development as well as in the development of information-communications infrastructure and new services will generate dynamic economic growth and increase the competitiveness of the Slovenian economy.

The figures for 1998 show that Slovenia ranks in the upper half of developed countries in terms of *expenses for research and development* in gross domestic product in the amount of 1.48% (1.42% in the previous year) as well as in terms of persons employed in R&D per 1000 inhabitants (4.15). However, technological development and the development of products is below average since Slovenia's technological policy, as part of modal policies, still leans more towards survival strategy than towards (aggressive) innovation strategy. Innovations are hindered by a lack of staff in research and development, by excessive costs of prototypes, expensive co-operation with institutes and university, as well as by mistrust and barriers to co-operation of companies in the consortium. Besides eliminating the above weaknesses, through its fiscal policy Slovenia should adopt a fiscal system favourable to innovations and upgrade the system facilitating the development and preparation of technological supervision, increase researchers' mobility, promote strategic partnerships among companies as well as promoting innovation benefits.

Box 8: The role of state aid

The state's financial measures intended to eliminate the implementation deficit in restructuring the corporate sector and the activities in the field of development policy are reflected in state aid.

So far, state aid in Slovenia has mostly served as a mechanism to resolve social tensions in deteriorating large companies and to cover regular operating costs, and to a lesser degree to promote activities with a development component (research and development, environmental protection, training etc.). Because of a regional policy which is not properly defined, Slovenia has not been allocating regional aids that fall under the category of aids with the least restrictions. Slovenia still needs substantial adaptation as far as state aid is concerned, and it will include a thorough transformation of the existing microeconomic policy which will go beyond its short-term objectives (the rescue of existing large companies) and focus on meeting long-term objectives of economic development such as promoting the increase of competitiveness in the Slovenian economy by selecting horizontal measures that support such an objective the most.

In accordance with the European system of allocating and monitoring state aid, state aid in Slovenia in 2001 will be directed to the promotion of knowledge transfer from the academic-research sphere to the economy, basic research, industrial research, pre-competition activities, investments to protect the environment, material and non-material investments, the creation of new jobs in small and medium-sized companies, and employment and training.

A well-qualified labour force is the foundation of the economic development of any country. Slovenia does have relatively good workers, but it nevertheless lacks certain specific managerial, financial, administrative as well as technical and technological knowledge. The problem of gaining specific functional knowledge will be resolved with the transformation of the schooling system for future generations and by training the labour force already employed. Accelerated *investments in labour force training* are envisaged by the new approach to the employment policy defining, among the strategic goals of labour market development, the increase in the education level of the labour force or its vocational training provided by the National Employment Action Plan for 2000 and 2001 that identifies the basic pillars of employment policy. Employment policy thus consists of measures to make operations and employment more flexible, measures to promote entrepreneurship, measures to increase the qualification level of the labour force including increasing its formal education level, and measures providing equal access to work to various social groups.

STATISTICAL APPENDIX

TABLE of CONTENTS

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998	1999
GROSS DOMESTIC PRODUCT	4.1	3.5	4.6	3.8	5.2
Structure in value added in % [1]					
Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.2	3.7
Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.5	38.3
- Industry (C+D+E)	33.4	32.8	32.5	32.8	32.0
- Construction F	5.1	5.7	5.7	5.7	6.3
Services (G...O)	59.2	59.5	59.8	59.7	60.3
FISIM	-2.3	-2.5	-2.3	-2.4	-2.2
GDP in mil. SIT (current prices)	2,221,459	2,555,369	2,907,277	3,253,751	3,648,401
GDP in mil. EUR	14,508	15,075	16,116	17,468	18,843
GDP in mil. US$	18,745	18,878	18,206	19,585	20,071
GDP per capita in US$	9,431	9,481	9,163	9,878	10,109
GDP per capita purchasing power in US$	12,500	13,200	14,100	14,800	
GDP per capita (PPS)	11,300	12,200	13,200	13,900	15,000
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS					
Exports of goods and services- real [2]	1.1	3.6	11.6	6.7	1.7
- Exports of goods		2.4	13.3	9.2	2.7
- Exports of services		8.7	4.9	-3.6	-2.7
Imports of goods and services- real [2]	11.3	2.1	11.9	10.4	8.2
- Imports of goods		1.8	13.3	10.9	8.8
- Imports of services		3.6	3.1	7.0	3.6
Exports of goods and serv. in mil. US$	10,378	10,488	10,455	11,118	10,522
As a % of GDP	55.4	55.6	57.4	56.8	52.4
Imports of goods and serv. in mil. US$	10,753	10,679	10,601	11,415	11,403
As a % of GDP	57.4	56.6	58.2	58.3	56.8
Trade balance in mil. US$ [2]	-953	-825	-776	-789	-1,245
As a % of GDP	-5.1	-4.4	-4.3	-4.0	-6.2
Current account balance in mil. US$	-99	31	11	-147	-783
As a % of GDP	-0.5	0.2	0.1	-0.8	-3.9
Foreign exchange reserves in mil. US$	3,426	4,124	4,377	4,781	4,115
External debt in mil. US$	2,970	3,981	4,123	4,915	5,400
As a % of GDP	15.8	21.1	22.6	25.1	26.9

Continued on next page.

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	2000	2001	2002	2003
		Estimate		
GROSS DOMESTIC PRODUCT	4.6	4.4	4.2	4.5
Structure in value added in % [1]				
Agriculture, forestry, fishing (A+B)	3.3	3.3	3.2	3.1
Industry and construction (C+D+E+F)	38.3	37.5	37.0	36.5
- Industry (C+D+E)	32.1	31.6	31.2	30.8
- Construction F	6.2	5.9	5.8	5.7
Services (G...O)	60.6	61.4	62.0	62.4
FISIM	-2.2	-2.2	-2.1	-2.1
GDP in mil. SIT (current prices)	4,035,518	4,571,200	5,068,000	5,566,000
GDP in mil. EUR	19,682	21,065	22,494	23,991
GDP in mil. US$	18,122	18,804	20,452	22,344
GDP per capita in US$	9,105	9,461	10,290	11,244
GDP per capita purchasing power in US$				
GDP per capita (PPS)	16,100			
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS				
Exports of goods and services- real [2]	12.7	7.5	5.9	6.3
- Exports of goods	12.8	8.2	6.1	6.5
- Exports of services	11.8	4.1	5.1	5.3
Imports of goods and services- real [2]	6.1	4.5	6.2	6.4
- Imports of goods	6.1	4.4	6.3	6.5
- Imports of services	6.0	4.8	5.4	5.9
Exports of goods and serv. in mil. US$	10,692	11,326	12,240	13,307
As a % of GDP	59.0	60.2	59.8	59.6
Imports of goods and serv. in mil. US$	11,347	11,666	12,647	13,755
As a % of GDP	62.6	62.0	61.8	61.6
Trade balance in mil. US$ [2]	-1,081	-770	-842	-898
As a % of GDP	-6.0	-4.1	-4.1	-4.0
Current account balance in mil. US$	-594	-330	-407	-448
As a % of GDP	-3.3	-1.8	-2.0	-2.0
Foreign exchange reserves in mil. US$	4,370	4,825 [3]		
External debt in mil. US$	6,217	6,710 [4]		
As a % of GDP	34.3			

Continued on next page.

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998	1999
EMPLOYMENT, WAGES AND PRODUCTIVITY					
Employment	1.0	-1.0	-0.5	0.0	1.2
Registered unemployed (annual average in thousand)	121.5	119.8	125.2	126.1	119.0
Rate of registered unemployment in %	13.9	13.9	14.4	14.5	13.6
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9	7.6
Gross wage per employee	5.1	5.1	2.4	1.6	3.3
Labour productivity	3.1	4.5	5.1	3.8	4.0
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS					
Final consumption	7.4	2.3	3.2	3.9	5.6
As a % of GDP	78.7	77.6	76.7	75.9	76.0
in which:					
Private consumption	9.1	2.0	2.8	3.3	6.0
As a % of GDP	58.5	57.5	56.4	55.7	55.8
Government consumption	2.5	3.4	4.3	5.8	4.6
As a % of GDP	20.1	20.1	20.4	20.3	20.2
Gross fixed capital formation	16.8	8.9	11.6	11.3	19.1
As a % of GDP	21.4	22.5	23.4	24.6	27.4
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY					
General government revenue (per cent share relative to GDP)	43.1	42.7	42.0	43.0	43.6
General government expenditure (per cent share relative to GDP)	43.1	42.4	43.2	43.8	44.2
Surplus/deficit (per cent share relative to GDP)	0.0	0.3	-1.2	-0.8	-0.6
EXCHANGE RATE AND PRICES					
Average exchange rate SIT/US$	118.5	135.4	159.7	166.1	181.8
Average exchange rate SIT/EUR	153.1	169.5	180.4	186.3	193.6
Effective exchange rate [5]	10.3	-2.8	0.7	3.9	-0.7
Inflation (annual average) [6]	12.6	9.7	9.1	7.9	6.1

Continued on next page.

Table 1: Main Macroeconomic Indicators of Slovenia

- Real growth rates in %

	2000	2001	2002	2003
		Estimate		
EMPLOYMENT, WAGES AND PRODUCTIVITY				
Employment	1.1	0.7	0.7	1.0
Registered unemployed (annual average in thousand)	106.6	102.6	100.1	96.4
Rate of registered unemployment in %	12.2	11.7	11.3	10.8
Rate of unemployment by ILO in %	7.0	6.7	6.5	6.2
Gross wage per employee	1.6	2.3	2.7	3.0
Labour productivity	3.5	3.7	3.5	3.5
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS				
Final consumption	1.4	2.6	3.5	4.0
As a % of GDP	75.8	74.5	74.0	73.7
in which:				
Private consumption	0.8	2.1	3.2	4.0
As a % of GDP	54.9	53.7	53.2	53.0
Government consumption	3.1	4.2	4.2	4.2
As a % of GDP	20.8	20.8	20.8	20.7
Gross fixed capital formation	0.2	2.6	6.6	6.6
As a % of GDP	26.7	26.2	26.8	27.2
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY				
General government revenue (per cent share relative to GDP)	42.8	42.9		
General government expenditure (per cent share relative to GDP)	44.2	44.2		
Surplus/deficit (per cent share relative to GDP)	-1.4	-1.3		
EXCHANGE RATE AND PRICES				
Average exchange rate SIT/US$	222.7	243.1	247.8	249.1
Average exchange rate SIT/EUR	205.0	217.0	225.3	232.0
Effective exchange rate [5]	-2.1	-0.1	1.0	0.7
Inflation (annual average) [6]	8.9	8.5	6.4	5.1

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

Notes: [1] Letters in brackets refer to NACE Rev. 1, Classification of Economic Activities, [2] Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets, [3] May 2001, [4] April 2001, [5] Growth in index denotes appreciation of tolar and vice versa, [6] Retail prices as a measure of inflation until 1998, after 1998 consumer price index

Table 2a: Value Added by Activities and Gross Domestic Product

- Current prices, in SIT million

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

Continued on next page.

Table 2a: Value Added by Activities and Gross Domestic Product

- Current prices, in SIT million

		2000	2001	2002	2003
			Estimate		
A.	Agriculture, hunting, forestry	115,101	128,694	139,599	149,576
B.	Fishing	534	609	660	707
C.	Mining and quarrying	36,763	38,931	40,105	41,928
D.	Manufacturing	970,014	1,088,606	1,197,548	1,307,327
E.	Electricity, gas and water supply	112,768	124,216	132,468	139,869
F.	Construction	214,935	233,782	254,228	275,179
G.	Wholesale, retail, trade, repair	403,227	458,659	508,835	561,305
H.	Hotels and restaurants	111,721	128,555	144,687	160,370
I.	Transport, storage, communications	282,646	326,790	367,797	407,665
J.	Financial intermediation	156,326	182,978	208,882	234,833
K.	Real estate, renting and business activities	421,884	478,488	533,399	588,458
L.	Public administration and com. soc. sec.	203,034	240,331	273,066	304,107
M.	Education	205,041	234,808	261,919	290,310
N.	Health and social work	195,243	225,737	254,063	281,603
O.	Other community and personal activities	133,145	152,183	171,036	190,480
	FISIM	-77,324	-85,913	-93,010	-99,165
1. TOTAL VALUE ADDED (basic prices)		3,485,059	3,957,451	4,395,282	4,834,553
2. CORRECTIONS [1]		550,460	613,749	672,718	731,447
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4,035,518**	**4,571,200**	**5,068,000**	**5,566,000**
TOTAL VALUE ADDED (basic prices)		3,485,059	3,957,451	4,395,282	4,834,553
in which:					
1. Agriculture, forestry, fishing (A+B)		115,635	129,302	140,260	150,283
2. Industry and construction (C+D+E+F)		1,334,480	1,485,534	1,624,349	1,764,302
Industry (C+D+E)		1,119,545	1,251,752	1,370,121	1,489,124
Construction F		214,935	233,782	254,228	275,179
3. Services (G...O)		2,112,268	2,428,528	2,723,683	3,019,132
4. FISIM		-77,324	-85,913	-93,010	-99,165

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

Table 2b: Value Added by Activities and Gross Domestic Product

- Shares in GDP in %, current prices

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

Continued on next page.

Table 2b: Value Added by Activities and Gross Domestic Product

- Shares inGDP in %, current prices

		2000	2001	2002	2003
			Estimate		
A.	Agriculture, hunting, forestry	2.9	2.8	2.8	2.7
B.	Fishing	0.0	0.0	0.0	0.0
C.	Mining and quarrying	0.9	0.9	0.8	0.8
D.	Manufacturing	24.0	23.8	23.6	23.5
E.	Electricity, gas and water supply	2.8	2.7	2.6	2.5
F.	Construction	5.3	5.1	5.0	4.9
G.	Wholesale, retail, trade, repair	10.0	10.0	10.0	10.1
H.	Hotels and restaurants	2.8	2.8	2.9	2.9
I.	Transport, storage, communications	7.0	7.1	7.3	7.3
J.	Financial intermediation	3.9	4.0	4.1	4.2
K.	Real estate, renting and business activities	10.5	10.5	10.5	10.6
L.	Public administration and com. soc. sec.	5.0	5.3	5.4	5.5
M.	Education	5.1	5.1	5.2	5.2
N.	Health and social work	4.8	4.9	5.0	5.1
O.	Other community and personal activities	3.3	3.3	3.4	3.4
	FISIM	-1.9	-1.9	-1.8	-1.8
1. TOTAL VALUE ADDED (basic prices)		86.4	86.6	86.7	86.9
2. CORRECTIONS [1]		13.6	13.4	13.3	13.1
3. GROSS DOMESTIC PRODUCT (3=1+2)		100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT		**100.0**	**100.0**	**100.0**	**100.0**
in which:					
1. Agriculture, forestry, fishing (A+B)		2.9	2.8	2.8	2.7
2. Industry and construction (C+D+E+F)		33.1	32.5	32.1	31.7
Industry (C+D+E)		27.7	27.4	27.0	26.8
Construction F		5.3	5.1	5.0	4.9
3. Services (G...O)		52.3	53.1	53.7	54.2
4. FISIM		-1.9	-1.9	-1.8	-1.8
5. Corrections [1]		13.6	13.4	13.3	13.1
Shares in Value Added % in %					
TOTAL VALUE ADDED (basic prices)		100.0	100.0	100.0	100.0
in which:					
1. Agriculture, forestry, fishing (A+B)		3.3	3.3	3.2	3.1
2. Industry and construction (C+D+E+F)		38.3	37.5	37.0	36.5
Industry (C+D+E)		32.1	31.6	31.2	30.8
Construction F		6.2	5.9	5.8	5.7
3. Services (G...O)		60.6	61.4	62.0	62.4
4. FISIM		-2.2	-2.2	-2.1	-2.1

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

Table 3a: Value Added by Activities and Gross Domestic Product

- Prices 1995, in SIT million

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

Continued on next page.

Table 3a: Value Added by Activities and Gross Domestic Product

- Prices 1995, in SIT million

		2000	2001	2002	2003
			Estimate		
A.	Agriculture, hunting, forestry	85,309	87,911	89,625	91,373
B.	Fishing	409	430	438	447
C.	Mining and quarrying	27,253	27,130	26,588	26,707
D.	Manufacturing	692,199	730,270	764,227	801,598
E.	Electricity, gas and water supply	61,513	63,697	64,620	65,557
F.	Construction	146,663	149,963	155,137	161,342
G.	Wholesale, retail, trade, repair	275,444	284,671	294,493	307,597
H.	Hotels and restaurants	70,635	73,849	77,504	81,341
I.	Transport, storage, communications	180,708	189,834	199,231	209,092
J.	Financial intermediation	97,833	104,045	110,756	117,900
K.	Real estate, renting and business activities	264,951	273,032	283,817	296,475
L.	Public administration and com. sec. sec.	139,909	150,472	159,425	168,114
M.	Education	126,659	131,789	137,080	143,866
N.	Health and social work	125,101	131,415	137,916	144,738
O.	Other community and personal activities	80,961	84,078	88,115	92,919
	FISIM	-51,230	-51,719	-52,208	-52,704
1. TOTAL VALUE ADDED, (basic prices)		2,324,317	2,430,867	2,536,764	2,656,363
2. CORRECTIONS [1]		422,705	436,933	451,235	466,037
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,747,021**	**2,867,800**	**2,988,000**	**3,122,400**
TOTAL VALUE ADDED, (basic prices)		2,324,317	2,430,867	2,536,764	2,656,363
in which:					
1. Agriculture, forestry, fishing (A+B)		85,718	88,341	90,063	91,819
2. Industry and construction (C+D+E+F)		927,628	971,060	1,010,572	1,055,205
Industry (C+D+E)		780,965	821,097	855,436	893,863
Construction F		146,663	149,963	155,137	161,342
3. Services (G...O)		1,362,201	1,423,185	1,488,337	1,562,042
4. FISIM		-51,230	-51,719	-52,208	-52,704

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

Table 3b: Value Added by Activities and Gross Domestic Product

- Real growth rates in % (prices 1995)

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

Continued on next page.

Table 3b: Value Added by Activities and Gross Domestic Product

- Real growth rates in % (prices in 1995)

		2000	2001	2002	2003
			Estimate		
A.	Agriculture, hunting, forestry	-1.0	3.0	2.0	2.0
B.	Fishing	-3.5	5.0	2.0	2.0
C.	Mining and quarrying	-1.4	-0.5	-2.0	0.5
D.	Manufacturing	8.6	5.5	4.7	4.9
E.	Electricity, gas and water supply	2.9	3.5	1.5	1.5
F.	Construction	2.8	2.2	3.5	4.0
G.	Wholesale, retail, trade, repair	2.5	3.3	3.5	4.5
H.	Hotels and restaurants	9.8	4.5	5.0	5.0
I.	Transport, storage, communications	4.7	5.0	5.0	5.0
J.	Financial intermediation	5.9	6.3	6.5	6.5
K.	Real estate, renting and business activities	3.0	3.0	4.0	4.5
L.	Public administration and com. sec. sec.	5.7	7.5	6.0	5.5
M.	Education	3.7	4.0	4.0	5.0
N.	Health and social work	4.2	5.0	5.0	5.0
O.	Other community and personal activities	4.5	3.8	4.8	5.5
	FISIM	1.9	1.0	1.0	1.0
1. TOTAL VALUE ADDED, (basic prices)		5.1	4.6	4.4	4.7
2. CORRECTIONS [1]		1.9	3.4	3.3	3.3
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4.6**	**4.4**	**4.2**	**4.5**
TOTAL VALUE ADDED, (basic prices)		5.1	4.6	4.4	4.7
in which:					
1. Agriculture, forestry, fishing (A+B)		-1.0	3.1	2.0	1.9
2. Industry and construction (C+D+E+F)		7.0	4.7	4.1	4.4
Industry (C+D+E)		7.8	5.1	4.2	4.5
Construction F		2.8	2.2	3.5	4.0
3. Services (G...O)		4.2	4.5	4.6	5.0
4. FISIM		1.9	1.0	1.0	1.0

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

Table 4: Gross Domestic Product and Primary Incomes

- Current prices, in SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1	**GROSS DOMESTIC PRODUCT (1=2+3-4+5)**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,571,200**	**5,068,000**	**5,566,000**
2	Compensation of employees	1,271,699	1,400,005	1,558,696	1,700,323	1,889,714	2,122,115	2,377,163	2,627,568	2,880,046
	Wages and salaries	1,070,010	1,213,825	1,363,936	1,482,608	1,646,253	1,847,245	2,069,325	2,287,148	2,506,741
	Employees' actual soc. cont.	201,689	186,180	194,760	217,716	243,462	274,869	307,838	340,420	373,305
3	Taxes on production and imports	377,964	444,708	493,398	572,126	668,115	697,701	811,202	896,275	952,463
a	Taxes on products	368,834	418,577	444,275	511,757	591,242	602,030	669,344	733,534	797,126
b	Other taxes on production	9,130	26,131	49,123	60,369	76,873	95,671	141,858	162,741	155,337
4	Subsidies	48,001	52,873	59,868	71,771	79,200	77,108	83,655	91,224	99,075
	Subsidies on products	31,686	35,709	39,507	48,904	53,250	51,570	55,595	60,816	65,679
	Other subsidies	16,315	17,164	20,361	22,867	25,950	25,538	28,060	30,408	33,396
5	Gross operating surplus and gross mixed income (5=6+7)	619,797	763,529	915,051	1,053,073	1,169,772	1,292,810	1,466,490	1,635,381	1,832,566
	in which:									
6	Gross operating surplus	380,932	488,300	614,485	717,938	810,600	905,932	1,031,204	1,154,375	1,289,397
	Consumption of fixed capital	352,315	417,938	468,585	521,930	571,139	637,742	718,659	806,330	890,129
	Net operating surplus	28,617	70,362	145,900	196,008	239,461	268,190	312,545	348,045	399,268
7	Gross mixed income	238,865	275,229	300,566	335,135	359,172	386,878	435,286	481,006	543,169
	Consumption of fixed capital	38,576	45,528	54,360	59,059	63,005	68,351	77,275	85,376	93,644
	Net mixed income	200,289	229,701	246,206	276,076	296,167	318,527	358,011	395,630	449,525

Continued on next page

Table 4: Gross Domestic Product and Primary Incomes

- As share in GDP in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1	**GROSS DOMESTIC PRODUCT (1=2+3-4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Compensation of employees	57.2	54.8	53.6	52.3	51.8	52.6	52.0	51.8	51.7
	Wages and salaries	48.2	47.5	46.9	45.6	45.1	45.8	45.3	45.1	45.0
	Employees' actual soc. cont.	9.1	7.3	6.7	6.7	6.7	6.8	6.7	6.7	6.7
3	Taxes on production and imports	17.0	17.4	17.0	17.6	18.3	17.3	17.7	17.7	17.1
a	Taxes on products	16.6	16.4	15.3	15.7	16.2	14.9	14.6	14.5	14.3
b	Other taxes on production	0.4	1.0	1.7	1.9	2.1	2.4	3.1	3.2	2.8
4	Subsidies	2.16	2.07	2.06	2.21	2.17	1.91	1.83	1.80	1.78
	Subsidies on products	1.43	1.40	1.36	1.50	1.46	1.28	1.22	1.20	1.18
	Other subsidies	0.73	0.67	0.70	0.70	0.71	0.63	0.61	0.60	0.60
5	Gross operating surplus and gross mixed income (5=6+7)	27.9	29.9	31.5	32.4	32.1	32.0	32.1	32.3	32.9
	in which:									
6	Gross operating surplus	17.1	19.1	21.1	22.1	22.2	22.4	22.6	22.8	23.2
	Consumption of fixed capital	15.9	16.4	16.1	16.0	15.7	15.8	15.7	15.9	16.0
	Net operating surplus	1.3	2.8	5.0	6.0	6.6	6.6	6.8	6.9	7.2
7	Gross mixed income	10.8	10.8	10.3	10.3	9.8	9.6	9.5	9.5	9.8
	Consumption of fixed capital	1.7	1.8	1.9	1.8	1.7	1.7	1.7	1.7	1.7
	Net mixed income	9.0	9.0	8.5	8.5	8.1	7.9	7.8	7.8	8.1

Source of data: SORS, IMAD's estimates.

Table 5a: Expenditure on Gross Domestic Product

- Current prices in SITmillion

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,571,200**	**5,068,000**	**5,566,000**
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,424,628	1,669,985	1,842,906	1,916,217	2,386,009	2,753,351	3,033,072	3,314,774
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,451,273	1,693,895	1,892,614	2,077,530	2,529,423	2,836,005	3,133,927	3,426,371
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4= 2-3)	-44,987	-26,645	-23,910	-49,708	-161,313	-143,414	-82,654	-100,855	-111,597
5	TOTAL DOMESTIC DEMAND (5=6+9)	2,266,445	2,582,014	2,931,187	3,303,459	3,809,714	4,178,932	4,653,854	5,168,855	5,677,597
6	FINAL CONSUMPTION (6=7+8)	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,403,973	3,751,780	4,104,756
7	PRIVATE CONSUMPTION	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,453,430	2,698,076	2,950,645
	- Households	1,275,971	1,443,649	1,609,667	1,780,915	2,000,581	2,179,351	2,412,658	2,653,284	2,901,708
	- Non-profit institutions	24,353	25,493	29,015	30,815	33,434	36,823	40,771	44,791	48,937
8	GOVERNMENT CONSUMPTION	447,519	514,518	592,535	658,989	738,388	841,108	950,543	1,053,704	1,154,111
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,249,881	1,417,075	1,572,841
10	GROSS FIXED CAPITAL FORMATION	474,626	574,631	679,465	800,629	999,183	1,076,840	1,198,750	1,360,288	1,512,888
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	23722	20,505	32,111	38,128	44,810	51,131	56,787	59,953

Continued on next page

Table 5a: Expenditure on Gross Domestic Product

- As share in GDP in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	EXPORTS OF GOODS AND SERVICES	55.2	55.8	57.4	56.6	52.5	59.1	60.2	59.8	59.6
3	IMPORT OF GOODS AND SERVICES	57.2	56.8	58.3	58.2	56.9	62.7	62.0	61.8	61.6
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-2.0	-1.0	-0.8	-1.5	-4.4	-3.6	-1.8	-2.0	-2.0
5	TOTAL DOMESTIC DEMAND (5=6+9)	102.0	101.0	100.8	101.5	104.4	103.6	101.8	102.0	102.0
6	FINAL CONSUMPTION (6=7+8)	78.7	77.6	76.7	75.9	76.0	75.8	74.5	74.0	73.7
7	PRIVATE CONSUMPTION	58.5	57.5	56.4	55.7	55.8	54.9	53.7	53.2	53.0
	- Households	57.4	56.5	55.4	54.7	54.8	54.0	52.8	52.4	52.1
	- Non-profit institutions	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
8	GOVERNMENT CONSUMPTION	20.1	20.1	20.4	20.3	20.2	20.8	20.8	20.8	20.7
9	GROSS CAPITAL FORMATION (9=10+11)	23.3	23.4	24.1	25.6	28.4	27.8	27.3	28.0	28.3
10	GROSS FIXED CAPITAL FORMATION	21.4	22.5	23.4	24.6	27.4	26.7	26.2	26.8	27.2
11	CHANGES IN INVENTORIES AND VALUABLES	2.0	0.9	0.7	1.0	1.0	1.1	1.1	1.1	1.1

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

Table 5b: Expenditure on Gross Domestic Product

- Prices 1995, in SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**2,221,459**	**2,299,900**	**2,404,764**	**2,495,956**	**2,625,942**	**2,747,021**	**2,867,800**	**2,988,000**	**3,122,400**
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,270,085	1,416,863	1,512,395	1,538,789	1,733,512	1,862,659	1,973,487	2,096,830
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,297,490	1,451,977	1,602,804	1,733,995	1,839,624	1,923,327	2,041,611	2,173,295
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-27,405	-35,114	-90,409	-195,206	-106,112	-60,668	-68,124	-76,465
5	TOTAL DOMESTIC DEMAND (5=6+9)	2,266,446	2,327,305	2,439,879	2,586,364	2,821,148	2,853,133	2,928,469	3,056,123	3,198,864
6	FINAL CONSUMPTION (6=7+8)	1,747,844	1,788,413	1,845,160	1,917,730	2,025,866	2,054,222	2,107,946	2,181,818	2,269,482
7	PRIVATE CONSUMPTION	1,300,324	1,325,902	1,362,595	1,407,115	1,491,768	1,503,349	1,534,168	1,584,028	1,646,676
	- Households	1,275,971	1,302,942	1,338,965	1,383,268	1,467,679	1,478,792	1,509,108	1,558,153	1,619,778
	- Non-profit institutions	24,353	22,960	23,630	23,847	24,089	24,557	25,060	25,875	26,898
8	GOVERNMENT CONSUMPTION	447,519	462,511	482,565	510,615	534,098	550,873	573,778	597,790	622,807
9	GROSS CAPITAL FORMATION	518,602	538,892	594,719	668,635	795,282	798,911	820,523	874,305	929,382
	in which:									
	GROSS FIXED CAPITAL FORMATION	474,626	516,828	576,673	642,087	764,422	766,172	786,093	838,368	893,281

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Table 5b: Expenditure on Gross Domestic Product

- Real growth rates in % (prices 1995)

		1996	1997	1998	1999	2000	2001	2002	2003
							Ocena		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**3.5**	**4.6**	**3.8**	**5.2**	**4.6**	**4.4**	**4.2**	**4.5**
2	EXPORTS OF GOODS AND SERVICES	3.6	11.6	6.7	1.7	12.7	7.5	5.9	6.3
3	IMPORT OF GOODS AND SERVICES	2.1	11.9	10.4	8.2	6.1	4.5	6.2	6.4
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)								
5	TOTAL DOMESTIC DEMAND (5=6+9)	2.7	4.8	6.0	9.1	1.1	2.6	4.4	4.7
6	FINAL CONSUMPTION (6=7+8)	2.3	3.2	3.9	5.6	1.4	2.6	3.5	4.0
7	PRIVATE CONSUMPTION	2.0	2.8	3.3	6.0	0.8	2.1	3.2	4.0
	- Households	2.1	2.8	3.3	6.1	0.8	2.1	3.2	4.0
	- Non-profit institutions	-5.7	2.9	0.9	1.0	1.9	2.1	3.2	4.0
8	GOVERNMENT CONSUMPTION	3.3	4.3	5.8	4.6	3.1	4.2	4.2	4.2
9	GROSS CAPITAL FORMATION	3.9	10.4	12.4	18.9	0.5	2.7	6.6	6.3
	in which:								
	GROSS FIXED CAPITAL FORMATION	8.9	11.6	11.3	19.1	0.2	2.6	6.6	6.6

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

Table 6: Main Aggregates of National Accounts

- Current prices, in SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1	**GROSS DOMESTIC PRODUCT**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,571,200**	**5,068,000**	**5,566,000**
2	Net primary income from the rest of the world	21,023	17,528	5,680	5,048	-6,250	-14,941	-27,957	-34,692	-37,365
3	GROSS NATIONAL INCOME (3=1+2)	2,242,482	2,572,897	2,912,957	3,258,799	3,642,151	4,020,577	4,543,243	5,033,308	5,528,635
4	Net current transfers from the rest of the world	11,273	11,625	19,472	20,701	22,890	27,809	30,388	34,692	37,365
5	GROSS NAT. DISPOS. INCOME (5=3+4)	2,253,754	2,584,522	2,932,429	3,279,500	3,665,041	4048386	4,573,631	5,068,000	5,566,000
6	FINAL CONSUMPTION	1,747,843	1,980,106	2,231,217	2,470,719	2,772,403	3,057,282	3,403,973	3,751,780	4,104,756
	- Private consumption	1,300,324	1,463,249	1,638,682	1,811,730	2,034,015	2,216,174	2,453,430	2,698,076	2,950,645
	- Government consumption	447,519	516,857	592,535	658,989	738,388	841,108	950,543	1,053,704	1,154,111
7	GROSS SAVING (7=5-6)	505,911	604,416	701,212	808,781	892,638	991,104	1,169,658	1,316,220	1,461,244
8	CURRENT ACCOUNT BALANCE	-12,691	4,014	1,242	-23,959	-144,673	-130,546	-80,223	-100,855	-111,597
9	GROSS CAPITAL FORMATION (9=7-8)	518,602	600,402	699,970	832,740	1,037,311	1,121,650	1,249,881	1,417,075	1,572,841
	in which:									
	- Gross fixed capital formation	474,626	576,680	679,465	800,629	999,183	1,076,840	1,198,750	1,360,288	1,512,888
	- Changes in inventories and valuables	43,976	23,722	20,505	32,111	38,128	44,810	51,131	56,787	59,953
10	CONSUMPTION OF FIXED CAPITAL	390,891	463,466	522,945	580,989	634,144	706,093	795,934	891,706	983,773
11	NET CAPITAL FORMATION (11=9-10)	127,711	136,936	177,025	251,751	403,167	415,557	453,947	525,369	589,068

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Table 6: Main Aggregates of National Accounts

- As share in GDP in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Ocena		
1	**GROSS DOMESTIC PRODUCT**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Net primary income from the rest of the world	0.9	0.7	0.2	0.2	-0.2	-0.4	-0.6	-0.7	-0.7
3	GROSS NATIONAL INCOME (3=1+2)	100.9	100.7	100.2	100.2	99.8	99.6	99.4	99.3	99.3
4	Net current transfers from the rest of the world	0.5	0.5	0.7	0.6	0.6	0.7	0.7	0.7	0.7
5	GROSS NAT. DISPOS. INCOME (5=3+4)	101.5	101.1	100.9	100.8	100.5	100.3	100.1	100.0	100.0
6	FINAL CONSUMPTION	78.7	77.5	76.7	75.9	76.0	75.8	74.5	74.0	73.7
	- Private consumption	58.5	57.3	56.4	55.7	55.8	54.9	53.7	53.2	53.0
	- Government consumption	20.1	20.2	20.4	20.3	20.2	20.8	20.8	20.8	20.7
7	GROSS SAVING (7=5-6)	22.8	23.7	24.1	24.9	24.5	24.6	25.6	26.0	26.3
8	CURRENT ACCOUNT BALANCE	-0.6	0.2	0.0	-0.7	-4.0	-3.2	-1.8	-2.0	-2.0
9	GROSS CAPITAL FORMATION (9=7-8)	23.3	23.5	24.1	25.6	28.4	27.8	27.3	28.0	28.3
	in which:									
	- Gross fixed capital formation	21.4	22.6	23.4	24.6	27.4	26.7	26.2	26.8	27.2
	- Changes in inventories and valuables	2.0	0.9	0.7	1.0	1.0	1.1	1.1	1.1	1.1
10	CONSUMPTION OF FIXED CAPITAL	17.6	18.1	18.0	17.9	17.4	17.5	17.4	17.6	17.7
11	NET CAPITAL FORMATION (11=9-10)	5.7	5.4	6.1	7.7	11.1	10.3	9.9	10.4	10.6

Source of data: SORS,IMAD's estimates.

Table 7: Balance of Payments

- US$ million

	1995	1996	1997	1998	1999	2000	2001	2002	2003
							Estimates		
I. CURRENT ACCOUNT	-99	31	11	-147	-783	-594	-330	-407	-448
1. TRADE BALANCE	-953	-825	-776	-789	-1,245	-1,081	-770	-842	-898
1.1. Exports fob	8,350	8,353	8,408	9,091	8,623	8,806	9,366	10,246	11,217
1.2. Imports fob	9,303	9,178	9,184	9,880	9,868	9,887	10,136	11,087	12,115
2. SERVICES	578	633	630	493	364	426	430	435	450
2.1. Receipts	2,028	2,135	2,048	2,028	1,899	1,886	1,960	1,995	2,090
-Transport	505	481	465	540	521	493	515	525	560
-Travel	1,084	1,240	1,187	1,088	954	957	985	1,000	1,025
-Other	439	414	396	400	424	436	460	470	505
2.2. Expenditure	1,449	1,502	1,417	1,535	1,535	1,460	1,530	1,560	1,640
-Transport	436	408	367	409	378	354	365	370	390
-Travel	573	602	518	558	539	517	530	540	560
-Other	440	493	532	568	618	589	635	650	690
1.2. GOODS AND SERVICES	-375	-191	-146	-297	-881	-655	-340	-407	-448
Exports	10,378	10,488	10,455	11,118	10,522	10,692	11,326	12,240	13,307
Imports	10,753	10,679	10,601	11,415	11,403	11,347	11,666	12,647	13,755
3. FACTOR SERVICES	179	132	39	28	-25	-60	-115	-140	-150
3.1. Receipts	411	413	397	417	410	395	415	420	445
Labour income	216	234	206	206	199	178	190	200	205
Investment income	195	179	191	211	211	217	225	220	240
3.2. Expenditure	231	280	357	389	435	455	530	560	595
Profits from direct investment	25	24	26	27	25	26	25	25	30
Interest	206	256	331	362	410	429	505	535	565
4. UNREQUITED TRANSFERS	96	91	118	122	123	121	125	140	150
4.1. Receipts	248	251	260	300	334	342	360	385	410
4.2. Expenditure	152	160	142	178	211	221	235	245	260

Continued on next page.

Table 7: Balance of Payments

- US$ million

	1995	1996	1997	1998	1999	2000
II. CAPITAL AND FINANCIAL ACCOUNT	294	-26	-89	85	755	541
A. CAPITAL ACCOUNT	-7	-2	1	-2	-1	1
1. Capital transfers	-5	1	2	0	0	1
2. Non-produced non-financial assets	-2	-3	-1	-1	-1	1
B. FINANCIAL ACCOUNT	301	-24	-90	86	756	540
1. Direct investment	183	188	340	250	144	133
1.1. Foreign in Slovenia	177	194	375	248	181	181
1.2. Domestic abroad	5	-6	-36	2	-38	-48
2. Portfolio investment	-14	637	236	90	354	189
3. Other long-term capital	369	-261	622	-95	178	396
3.1. Assets	-240	-432	261	-459	-575	-537
3.2. Liabilities	609	171	361	364	753	933
4. International reserves	-237	-588	-1,287	-158	81	-179
III. STATISTICAL ERRORS	-195	-5	78	62	28	53

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

Table 8: Exports and Imports of Goods and Services by End-use of Products

- Million US$, current exchange rates

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1.	Exports of goods	8,350	8,353	8,408	9,091	8,623	8,806	9,366	10,246	11,217
	Investment goods	944	1,002	1,069	1,174	1,089	1,127	1,273	1,414	1,577
	Intermediate goods	3,941	3,767	3,825	4,123	4,052	4,315	4,632	5,083	5,583
	Consumer goods	3,465	3,584	3,514	3,794	3,482	3,364	3,461	3,749	4,057
2.	Exports of services	2,028	2,135	2,048	2,028	1,899	1,886	1,960	1,995	2,090
3.	EXPORTS TOTAL	10,378	10,488	10,455	11,118	10,522	10,692	11,326	12,240	13,307
4.	Imports of goods	9,303	9,178	9,184	9,880	9,868	9,887	10,136	11,087	12,115
	Investment goods	1,572	1,478	1,480	1,764	1,895	1,780	1,796	1,983	2,180
	Intermediate goods	5,627	5,259	5,354	5,643	5,427	5,903	6,087	6,671	7,332
	Consumer goods	2,104	2,441	2,350	2,474	2,546	2,205	2,253	2,433	2,603
5.	Imports of services	1,449	1,502	1,417	1,535	1,535	1,460	1,530	1,560	1,640
6.	IMPORTS TOTAL	10,753	10,679	10,601	11,415	11,403	11,347	11,666	12,647	13,755
7.	BALANCE	-375	-191	-146	-297	-881	-655	-340	-407	-448
	Services	578	633	630	493	364	426	430	435	450
	Goods	-953	-825	-776	-789	-1,245	-1,081	-770	-842	-898
8.	Exports to imports ratio, in %	90	91	92	92	87	89	92	92	93

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Table 8: Exports and Imports of goods and Services by End-use of Products

- Nominal percentage change at annual rate, in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate		
1.	Exports of goods	22.2	0.0	0.7	8.1	-5.1	2.1	6.4	9.4	9.5
	Investment goods	23.2	6.1	6.7	9.8	-7.2	3.5	13.0	11.1	11.5
	Intermediate goods	29.0	-4.4	1.5	7.8	-1.7	6.5	7.3	9.7	9.8
	Consumer goods	15.1	3.4	-1.9	8.0	-8.2	-3.4	2.9	8.3	8.2
2.	Exports of services	12.1	5.3	-4.1	-1.0	-6.3	-0.7	4.0	1.8	4.8
3.	EXPORTS TOTAL	20.1	1.1	-0.3	6.3	-5.4	1.6	5.9	8.1	8.7
4.	Imports of goods	29.8	-1.3	0.1	7.6	-0.1	0.2	2.5	9.4	9.3
	Investment goods	37.4	-6.0	0.1	19.2	7.4	-6.1	0.9	10.4	9.9
	Intermediate goods	27.7	-6.5	1.8	5.4	-3.8	8.8	3.1	9.6	9.9
	Consumer goods	30.0	16.0	-3.7	5.2	2.9	-13.4	2.2	8.0	7.0
5.	Imports of services	24.3	3.6	-5.6	8.3	0.0	-4.9	4.8	2.0	5.1
6.	IMPORTS TOTAL	29.0	-0.7	-0.7	7.7	-0.1	-0.5	2.8	8.4	8.8

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

Table 9a: Foreing Trade by Geographical Area

- in US$ million

	EXPORTS (f.o.b.)						IMPORTS (c.i.f.)					
	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
TOTAL	8,316	8,310	8,369	9,051	8,546	8,731	9,492	9,421	9,366	10,111	10,083	10,115
DEVELOPED INDUSTRIAL COUNTRIES	6,086	5,842	5,796	6,453	6,199	6,176	7,423	7,325	7,205	7,963	8,043	7,917
EUROPEAN UNION	5,575	5,367	5,320	5,928	5,650	5,580	6,532	6,360	6,312	7,017	6,945	6,856
Germany	2,508	2,545	2,460	2,572	2,626	2,376	2,206	2,044	1,936	2,089	2,072	1,919
Italy	1,212	1,103	1,248	1,255	1,176	1,188	1,611	1,593	1,558	1,697	1,686	1,761
France	682	598	463	748	491	619	798	925	980	1,258	1,100	1,043
United Kingdom	229	162	150	161	170	186	190	208	241	233	307	310
Netherlands	117	125	123	142	144	150	207	194	200	225	208	211
Belgium	71	76	85	158	134	98	144	145	149	155	149	147
Spain	42	44	53	69	76	84	225	170	199	233	234	265
Denmark	42	47	54	75	79	81	46	42	46	55	53	52
Greece	32	23	24	23	24	24	11	13	15	19	24	22
Irland	17	4	5	5	9	14	20	29	26	35	38	38
Portugal	9	13	14	12	12	16	5	5	11	14	11	12
Luxembourg	2	2	1	3	10	4	10	8	10	17	18	19
Austria	535	551	565	621	623	656	919	835	789	802	805	832

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Table 9a: Foreign Trade by Geographical Area

- in US$ million

	EXPORTS (f.o.b.)						IMPORTS (c.i.f.)					
	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Finland	18	20	18	19	17	23	39	39	41	43	53	58
Sweden	58	54	56	65	61	61	101	111	110	143	185	167
EFTA	87	83	87	98	112	124	237	249	194	208	239	213
Swiss	71	68	70	78	89	101	199	178	162	172	215	162
Norway	12	12	14	16	18	17	34	68	30	36	22	49
Liechtenstein	3	3	2	3	3	5	4	2	1	1	1	2
Island	0	0	0	1	2	1	0	1	1	0	0	0
OTHER OECD	361	340	340	382	387	404	549	585	546	737	717	680
of which:												
United States of America	261	245	243	252	258	270	291	325	287	296	293	299
Other countries	100	95	97	130	129	134	258	260	259	441	424	381
OTHER DEVELOPED COUNTRIES	64	53	50	45	50	67	105	132	153	135	142	168
DEVELOPING COUNTRIES	2,230	2,462	2,568	2,592	2,343	2,554	2,069	2,095	2,160	2,148	2,039	2,197
COUNTRIES OF EX-YUGOSLAVIA	1,209	1,385	1,387	1,397	1,296	1,363	671	709	594	593	572	594
Croatia	891	855	837	815	671	688	576	590	466	432	444	447

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Table 9a: Foreign Trade by Geographical Area

- in US$ million

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

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

Table 9b: Foreign Trade by Geographical Area

- Structure in %

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

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Table 9b: Foreign Trade by Geographical Area

- Structure in %

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

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Table 9b: Foreign Trade by Geographical Area

- Structure in %

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

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

Table 10a: Gross Capital Formation

- Current prices in SIT million

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

Continued on next page.

Table 10a: Gross Capital Formation

- Structure in %

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

Source of data: SORS.

Table 10b: Gross Capital Formation

- Constant 1995 prices in SIT million

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

Continued on next page.

Table 10b: Gross Capital Formation

- Annual changes in volume in %

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

Source of data: SORS.

Table 11: Consolidated General Government Revenues; GFS - IMF Methodology

- Curren prices, SIT million

		CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000
			ACTUAL					
	I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	958,186	1,091,815	1,222,587	1,397,903	1,590,017	1,726,724
		CURRENT REVENUES (70+71)	955,790	1,089,017	1,217,023	1,390,982	1,579,255	1,695,040
70		TAX REVENUES	916,328	1,032,285	1,156,099	1,302,752	1,499,430	1,599,594
		TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	311,429
		Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634
		Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795
		SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	496,371	552,574
		Employees contributions	195,413	221,929	247,519	276,805	305,649	342,129
		Employer's contributions	151,504	134,112	127,472	142,649	157,206	172,980
		Self-employed contributions	13,096	17,167	20,657	25,492	30,626	33,875
		Other unallocable social security contributions	2,987	2,976	4,982	3,452	2,889	3,590
		TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071
		Payroll tax	809	14,943	33,994	42,058	51,454	63,849
		Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222
		TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513
		DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895
		TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089
		OTHER TAXES	451	241	208	787	100	23
71		NON-TAX REVENUES	39,462	56,732	60,924	88,230	79,825	95,447
		ENTERPRENEURIAL AND PROPERTY INCOME	6,628	8,301	9,792	24,186	23,522	27,619
		FEES AND CHARGES	8,291	8,813	10,452	11,903	13,624	19,964
		FINES AND FORFEITS	2,784	3,690	3,921	5,576	6,793	7,696
		SALES OF GOODS AND SERVICES	5,166	4,996	6,800	8,608	5,830	9,075
		OTHER NON-TAX REVENUES	16,592	30,932	29,959	37,956	30,055	31,093
72		CAPITAL REVENUES	1,824	1,738	3,805	4,471	6,430	5,897
73		VOLONTARY DONATIONS	470	940	1,760	2,449	4,332	7,421
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	66,199

Continued on next page.

Table 11: Consolidated General Government Revenues; GFS - IMF Methodology

- Per cent share relative to GDP

		CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000
			ACTUAL					
	I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	43.1	42.7	42.0	43.0	43.6	42.8
		CURRENT REVENUES (70+71)	43.0	42.6	41.9	42.8	43.3	42.0
70		TAX REVENUES	41.2	40.4	39.8	40.0	41.1	39.6
		TAXES ON INCOME AND PROFIT	7.2	7.7	7.8	7.8	7.5	7.7
		Personal income tax	6.6	6.8	6.7	6.6	6.3	6.4
		Corporate income tax	0.6	0.9	1.2	1.2	1.2	1.3
		SOCIAL SECURITY CONTRIBUTIONS	16.3	14.7	13.8	13.8	13.6	13.7
		Employees contributions	8.8	8.7	8.5	8.5	8.4	8.5
		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 unallocable 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	1.7
		Payroll tax	0.0	0.6	1.2	1.3	1.4	1.6
		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	0.7	0.7
		DOMESTIC TAXES ON GOODS AND SERVICES	13.4	13.7	14.2	14.7	16.5	14.9
		TAXES ON INTERN. TRADE AND TRANSACTIONS	3.5	3.0	2.0	1.5	1.3	0.9
		OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0
71		NON-TAX REVENUES	1.8	2.2	2.1	2.7	2.2	2.4
		ENTERPRENEURIAL AND PROPERTY INCOME	0.3	0.3	0.3	0.7	0.6	0.7
		FEES AND CHARGES	0.4	0.3	0.4	0.4	0.4	0.5
		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	0.8	0.8
72		CAPITAL REVENUES	0.1	0.1	0.1	0.1	0.2	0.1
73		VOLONTARY DONATIONS	0.0	0.0	0.1	0.1	0.1	0.2
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	1.6	1.6

Source of data: Ministry of finance, calculations by IMAD.

Table 12: Consolidated General Government Revenues; GFS - IMF Methodology

- Current prices, in SIT million

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE			1995	1996	1997	1998	1999	2000
			ACTUAL					
	II.	TOTAL EXPENDITURE (40+41+42+43)	957,273	1,083,586	1,256,668	1,423,494	1,613,314	1,781,444
40		CURRENT EXPENDITURE	169,751	192,816	223,184	262,658	309,000	355,364
400		WAGES, SALARIES AND OTHER PERSONNEL EXPEND. IN GOVERN. AGENCIES AND LOCAL COMMUNIT.	66,826	81,983	96,725	104,147	116,560	131,911
402		PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	149,900
403		INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	60,956
409		RESERVES	1,225	1,783	1,736	10,713	10,552	12,597
41		CURRENT TRANSFERS	694,218	783,390	912,303	1,020,473	1,136,544	1,255,135
410		SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951
411		CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077
		Transfers to unemployed	13,498	12,657	18,861	19,875	20,374	20,008
		Child allowances	32,322	41,100	49,487	53,151	61,314	73,653
		Social allowances	23,777	27,544	31,798	34,294	34,523	38,407
		War invalids, war veterans, war victims allowances	7,146	6,085	10,434	14,941	14,876	15,568
		Pensions	273,892	310,075	352,534	391,921	441,027	490,682
		Wage compensation	7,895	10,338	12,344	14,850	18,262	22,326
		Sick leave compensation	15,905	17,239	19,093	20,483	20,552	22,737
		Scholarship	9,549	10,884	14,066	13,926	15,038	16,338
		Other transfers to individuals	7,802	8,262	10,492	10,380	22,105	31,358
412		CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	5,501	5,980	7,368	8,489	14,598	16,883
413		OTHER CURRENT DOMESTIC TRANSFERS	252,406	294,851	341,932	383,889	405,573	444,402
		Current transfers to extrabudgetary funds	809	719	775	4,569	6,648	2,757
		Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	398,925	441,645
		- Wages, salaries and other personnel expenditure	126,861	152,469	188,044	208,458	234,079	255,590
		- Purchases of goods and services	124,736	141,663	153,113	170,862	164,846	186,055
414		CURRENT TRANSFERS	2,780	3,829	3,934	5,035	5,214	3,822
42		CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	111,003
43		CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942
	III.	SURPLUS / DEFICIT (I. - II.)	913	8,230	-34,081	-25,591	-23,297	-54,720
		EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	58,751	66,199

Continued on next page.

Table 12: Consolidated General Government Revenues; GFS - IMF Methodology

- Per cent share relative to GDP

CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE			1995	1996	1997	1998	1999	2000
			ACTUAL					
	II.	TOTAL EXPENDITURE (40+41+42+43)	43.1	42.4	43.2	43.8	44.2	44.2
40		CURRENT EXPENDITURE	7.6	7.5	7.7	8.1	8.5	8.8
400		WAGES, SALARIES AND OTHER PERSONNEL EXPEND. IN GOVERN. AGENCIES & LOCAL COMMUNITIES	3.0	3.2	3.3	3.2	3.2	3.3
402		PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.4	3.0	3.1	3.3	3.6	3.7
403		INTEREST PAYMENTS	1.2	1.2	1.2	1.3	1.4	1.5
409		RESERVES	0.1	0.1	0.1	0.3	0.3	0.3
41		CURRENT TRANSFERS	31.3	30.7	31.4	31.4	31.2	31.1
410		SUBSIDIES	1.9	1.4	1.4	1.5	1.7	1.5
411		CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.6	17.4	17.9	17.6	17.8	18.1
		Transfers to unemployed	0.6	0.5	0.6	0.6	0.6	0.5
		Child allowances	1.5	1.6	1.7	1.6	1.7	1.8
		Social allowances	1.1	1.1	1.1	1.1	0.9	1.0
		War invalids, war veterans, war victims allowances	0.3	0.2	0.4	0.5	0.4	0.4
		Pensions	12.3	12.1	12.1	12.0	12.1	12.2
		Wage compensation	0.4	0.4	0.4	0.5	0.5	0.6
		Sick leave compensation	0.7	0.7	0.7	0.6	0.6	0.6
		Scholarship	0.4	0.4	0.5	0.4	0.4	0.4
		Other transfers to individuals	0.4	0.3	0.4	0.3	0.6	0.8
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	11.1	11.0
		Current transfers to extrabudgetary funds	0.0	0.0	0.0	0.1	0.2	0.1
		Current transfers to public institutions and public utilities	11.3	11.5	11.7	11.7	10.9	10.9
		- 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	4.5	4.6
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	2.5	2.5
43		CAPITAL TRANSFERS	1.6	1.7	1.8	1.8	2.5	2.5
	III.	SURPLUS / DEFICIT (I. - II.)	0.0	0.3	-1.2	-0.8	-0.6	-1.4
		EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6	1.6

Source of data: Ministry of finance, calculations by IMAD.

Table 13a: Population and Labour Force

in thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003
							Estimate		
POPULATION, as at 30 June	**1987.5**	**1991.2**	**1986.8**	**1982.6**	**1985.6**	**1990.3**	**1987.5**	**1987.5**	**1987.2**
% of total									
Aged 0 - 14	18.4	17.8	17.2	16.8	16.4	15.9	15.8	15.5	15.1
Aged 15 - 64	69.3	69.5	69.7	69.8	69.9	70.1	70.0	70.1	70.2
Aged 65 and over	12.3	12.7	13.0	13.4	13.7	14.0	14.2	14.4	14.7
Fertility rate *	1.29	1.28	1.25	1.23	1.21	1.22	1.24	1.25	1.27
Life expectancy *									
Men	70.8	71.0	71.1	71.2	71.2	71.3	71.5	71.8	72.0
Women	78.3	78.6	78.7	79.0	79.0	78.9	79.1	79.3	79.5
Infant mortality (per 1000)*	5.5	4.7	5.2	5.2	4.5	5.5	5.2	4.9	4.7
LABOUR FORCE (by Labour Force Survey)	**952.0**	**946.0**	**978.0**	**978.0**	**959.0**	**968.0**	**971.0**	**974.0**	**979.0**
PERSONS IN EMPLOYMENT	882.0	878.0	906.0	901.0	886.0	901.0	906.0	910.0	917.0
Of whom (%):									
Agriculture	10.4	10.1	12.7	11.4	10.2	9.9	9.7	9.5	9.3
Industry and construction	43.3	42.6	40.5	39.7	38.6	38.7	38.1	37.5	36.9
Services	46.3	47.3	46.8	48.8	51.2	51.4	52.2	53.1	53.9
UNEMPLOYED JOB-SEEKERS (by ILO standards)	70.0	69.0	72.0	77.0	73.0	68.0	66.0	64.0	62.0
FORMAL LABOUR FORCE (by current statistics)	**873.0**	**864.1**	**868.6**	**871.2**	**877.4**	**874.8**	**877.7**	**884.7**	**891.3**
PERSONS IN FORMAL EMPLOY.	751.5	744.3	743.4	745.2	758.5	768.2	775.1	784.6	794.9
Persons in paid employment **	642.0	634.7	651.2	652.5	671.0	683.0	688.9	697.0	705.8
Self-employed persons (the main source of income)	109.6	109.6	92.2	92.7	87.5	85.1	86.2	87.6	89.1
REGISTERED UNEMPLOYED PERSONS	121.5	119.8	125.2	126.1	119.0	106.6	102.6	100.1	96.4
EMPLOYMENT in full-time equivalent	**824.7**	**816.7**	**812.5**	**812.6**	**822.6**	**831.8**	**837.6**	**843.5**	**851.5**
ANNUAL GROWTH RATES (%)									
Employ. in full-time equivalent	**1.0**	**-1.0**	**-0.5**	**0.0**	**1.2**	**1.1**	**0.7**	**0.7**	**1.0**
Labour productivity	**3.1**	**4.5**	**5.1**	**3.8**	**4.0**	**3.5**	**3.7**	**3.5**	**3.5**
Persons in formal employment	-0.1	-1.0	-0.1	0.2	1.8	1.3	0.9	1.2	1.3
Persons in paid employment **	-0.8	-1.1	0.1	0.2	1.9	1.8	0.9	1.2	1.3
Persons in employment by survey	3.6	-0.5	3.2	-0.6	-1.7	1.7	0.5	0.5	0.8
Registered unemployed persons	-4.4	-1.4	4.5	0.7	-5.7	-10.4	-3.7	-2.5	-3.7
Formal labour force	-0.7	-1.0	0.5	0.3	0.7	-0.3	0.3	0.8	0.7
Working age population	-0.1	0.5	0.1	-0.1	0.3	0.5	-0.2	0.1	0.1
Population	-0.1	0.2	-0.2	-0.2	0.1	0.2	-0.1	0.0	0.0

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

Table 13b: Participation Rates, Employment Rates, and Unemployment Rates

in thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003
							Estimate		
WORKING AGE POPULATION (15-64 years old)	**1377.2**	**1383.9**	**1385.3**	**1384.0**	**1388.1**	**1395.1**	**1392.1**	**1393.2**	**1394.8**
of whom: women	685.4	686.7	684.9	684.3	685.8	687.3	687.6	688.2	688.9
Paricipation rates (% of working age pop.)									
Survey participation rate	69.1	68.4	70.6	70.7	69.1	69.4	69.8	69.9	70.2
Men	74.0	72.3	75.0	75.3	73.8	73.7	74.4	74.5	74.8
Women	64.2	64.4	66.1	65.9	64.3	64.9	65.1	65.2	65.4
Formal participation rate	63.4	62.4	62.7	63.0	63.2	62.7	63.1	,63.5	63.9
Men	66.0	64.9	67.2	67.4	67.6	66.9	67.3	67.8	68.2
Women	60.8	59.9	58.1	58.4	58.7	58.3	58.7	59.1	59.5
Employment rates (% of working age population)									
Survey employment rate	64.0	63.4	65.4	65.1	63.8	64.6	65.1	65.3	65.8
Men	68.4	67.1	69.7	69.6	68.3	68.8	69.4	69.7	70.2
Women	59.7	59.7	61.0	60.5	59.2	60.2	60.6	60.8	61.3
Agriculture	6.7	6.4	8.3	7.4	6.5	6.4	6.3	6.2	6.1
Industry and construction	27.7	26.7	26.2	25.5	24.3	24.4	24.8	24.5	24.2
Services	29.6	30.0	30.6	31.8	32.7	33.2	34.0	34.7	35.4
Formal employment rate	54.6	53.8	53.7	53.8	54.6	55.1	55.7	56.3	57.0
Informal employment rate (difference)	9.5	9.7	11.7	11.3	9.2	9.5	9.4	9.0	8.8
LFS unemployment rate (% of survey labour force)									
Total	7.4	7.3	7.4	7.9	7.6	7.0	6.7	6.5	6.2
Men	7.7	7.5	7.1	7.7	7.3	6.8	6.6	6.5	6.2
Women	7.0	7.0	7.6	8.1	7.9	7.3	6.9	6.7	6.4
Registered unemployment rate (% of formal labour force)									
Total	13.9	13.9	14.4	14.5	13.6	12.2	11.7	11.3	10.8
Men	14.1	13.7	13.6	13.4	12.4	11.1	10.8	10.5	10.2
Women	13.7	14.0	15.3	15.7	15.0	13.5	12.8	12.2	11.6
Registered unemployment rate, year end	14.5	14.4	14.8	14.6	13.0	12.0	11.5	11.1	10.6

Source of data: SORS, IPDIS, estimations by IMAD.

Table 14: Labour Force Flows During the Year

- in thousand

	1995	1996	1997	1998	1999
Inflows into formal labour force (net)	**1.7**	**-6.2**	**4.1**	**-2.8**	**12.2**
New first-time job seekers*	25.7	25.6	25.4	22.0	26.7
Change in number of work permits for foreigners	4.2	1.2	-0.2	-5.0	2.4
- as % of formal labour force	0.5	0.1	0.0	-0.6	0.3
Retirements (-)**	11.5	14.8	15.1	14.8	13.8
- as % of formal labour force	1.3	1.7	1.7	1.7	1.6
Deaths (-)*	2.8	2.7	2.7	2.7	2.7
- as %o of formal labour force	0.3	0.3	0.3	0.3	0.3
Other net inflows into formal labour force*	-13.8	-15.6	-3.3	-2.3	-0.3
Change in registered unemployment (net)	**3.2**	**-2.3**	**4.1**	**-1.9**	**-12.3**
Redundancies	57.5	65.4	60.6	58.4	61.1
- as % of formal employment	7.7	8.8	8.1	7.8	8.1
New unemployed first-time job seekers	22.1	21.1	17.9	18.6	19.6
- as % of the generation	86.3	82.4	70.4	84.5	73.6
Reg.unemployed who found employment (-)	60.0	54.6	56.1	55.4	62.4
- as % of formal employment	8.0	7.3	7.5	7.4	8.2
Unemployed struck off the register (-)	16.4	34.1	18.3	23.5	30.7
- as % of registered unemployment	13.5	28.5	14.6	18.7	25.8
of whom: deaths and retirements	4.3	5.3	5.4	5.3	5.3
Change in formal employment (net)	**-1.5**	**-3.9**	**0.0**	**-0.8**	**24.5**
Net inflow from registered unemployment	2.5	-10.7	-4.5	-3.0	1.2
Net inflow of foreigners	4.2	1.2	-0.2	-5.0	2.4
Deaths and retirements (-)*	10.0	12.2	12.4	12.2	11.2
Others who found employment (net)*	1.8	17.8	17.2	19.3	32.1
- as % of formal employment	0.2	2.4	2.3	2.6	4.2
FORMAL LABOUR FORCE, year-end	**873.1**	**867.0**	**871.1**	**868.3**	**880.5**
- formal employment	746.4	742.5	742.5	741.7	766.2
- registered unemployment	126.8	124.5	128.6	126.6	114.3

Continued on next page.

Table 14: Labour Force Flows During the Year

- in thousand

	2000	2001	2002	2003
		Estimate		
Inflows into formal labour force (net)	**-7.5**	**2.9**	**7.0**	**6.6**
New first-time job seekers*	29.7	27.5	26.7	27.4
Change in number of work permits for foreigners	2.3	0.5	0.7	0.7
- as % of formal labour force	0.3	0.1	0.1	0.1
Retirements (-)**	14.4	14.4	14.4	14.5
- as % of formal labour force	1.6	1.6	1.6	1.6
Deaths (-)*	2.7	2.7	2.7	2.8
- as %o of formal labour force	0.3	0.3	0.3	0.3
Other net inflows into formal labour force	-22.3	-7.9	-3.3	-4.2
Change in registered unemployment (net)	**-9.8**	**-4.0**	**-2.5**	**-3.7**
Redundancies	61.8	61.5	61.4	61.4
- as % of formal employment	8.1	7.9	7.8	7.7
New unemployed first-time job seekers	20.5	18.7	17.9	18.1
- as % of the generation	68.9	68.0	67.0	66.1
Reg.unemployed who found employment (-)	60.2	62.0	62.8	63.6
- as % of formal employment	7.8	8.0	8.0	8.0
Unemployed struck off the register (-)	31.9	22.2	19.1	19.6
- as % of registered unemployment	29.9	21.6	19.1	20.3
of whom: deaths and retirements	7.3	6.0	6.0	6.1
Change in formal employment (net)	**2.3**	**6.9**	**9.5**	**10.3**
Net inflow from registered unemployment	-1.7	0.5	1.3	2.2
Net inflow of foreigners	2.3	0.5	0.7	0.7
Deaths and retirements (-)*	9.8	11.1	11.1	11.2
Others who found employment (net)*	11.5	17.1	18.6	18.6
- as % of formal employment	1.5	2.2	2.4	2.3
FORMAL LABOUR FORCE, year-end	**873.1**	**876.0**	**883.0**	**889.6**
- formal employment	768.5	775.4	784.9	795.2
- registered unemployment	104.6	100.6	98.1	94.4

Source of data: SORS, NEO, IPDIS estimations by IMAD.
Notes: * estimates IMAD, ** 1999 and 2000 estimates IMAD.

Table 15a: Business Results of Commercial Companies

- in SIT million

		1995	1996	1997	1998	1999	2000
1.	TOTAL REVENUES	5,000,198	5,675,134	6,515,716	7,087,515	7,842,728	9,093,265
1.1.	Operating revenues	4,656,188	5,313,406	6,069,739	6,641,894	7,374,225	8,535,744
	in which:						
	-net revenues from sales on the domestic market	3,462,672	3,960,935	4,433,408	4,824,976	5,475,444	6,137,458
	-net revenues from sales on the foreign market	1,121,167	1,269,740	1,549,827	1,716,478	1,789,116	2,281,702
1.2.	Financial revenues	192,396	197,669	235,546	219,307	254,966	317,585
1.3.	Extraordinary revenues	151,614	164,059	210,431	226,314	213,537	239,936
2.	TOTAL EXPENSES	5,010,131	5,717,271	6,497,855	7,026,553	7,691,869	8,936,870
2.1.	Operating expenses	4,671,862	5,321,870	6,019,222	6,575,573	7,276,498	8,402,439
	in which:						
	- Costs of goods, materials and ser.	3,526,450	4,026,663	4,560,282	4,986,685	5,512,068	6,463,224
	- Labour costs	835,872	906,553	1,002,793	1,093,716	1,206,412	1,355,366
	Wages and salaries	582,871	642,920	712,350	776,846	856,076	960,749
	Social security	131,251	118,816	125,876	139,608	155,406	175,364
	Other labour costs	121,750	144,817	164,567	177,262	194,930	219,253
	- Depreciation	229,653	293,875	330,089	378,718	411,554	460,265
	- Current assets write-offs	45,070	52,814	61,742	59,713	59,256	57,995
	- Long-term provisions	23,463	22,918	30,137	24,912	40,020	38,730
	- Changes in the value of inventories of products and work-in-progress	-21,136	-21,842	-10,732	-19,314	-11,058	-39,468
2.2.	Financing expenses	246,547	279,345	337,645	298,763	295,081	421,541
2.3.	Extraordinary expenses	91,722	116,056	140,988	152,217	120,290	112,890
3.	TOTAL PROFIT	127,918	139,976	198,855	233,607	290,018	341,998
4.	TOTAL LOSS	137,850	182,112	180,995	172,644	139,159	185,603
5.	TAXES ON PROFIT	15,006	18,281	21,729	24,426	31,339	38,875
6.	NET PROFIT	112,956	121,764	177,258	209,269	258,786	303,288
7.	NET LOSS	137,893	182,181	181,126	172,733	139,266	185,768
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	-24,937	-60,417	-3,868	36,536	119,520	117,520
9.	NUMBER OF EMPLOYEES	484,602	467,238	460,376	459,094	463,481	468,677
10.	NUMBER OF COMPANIES	33,609	35,786	36,717	37,585	37,553	37,695

Source of data: Agency for Payments, Statistical data from profit and loss statements of companies for 1995, 1996, 1997, 1998, 1999 and 2000.

Table 15b: Business Results of Commercial Companies

- Indices in %

		95/94	96/95	97/96	98/97	99/98	00/99
1.	TOTAL REVENUES	116.6	113.5	114.8	108.8	110.7	115.9
1.1.	Operating revenues	117.2	114.1	114.2	109.4	111.0	115.8
	in which:						
	-net revenues from sales on the domestic market	119.3	114.4	111.9	108.8	113.5	112.1
	-net revenues from sales on the foreign market	112.0	113.3	122.1	110.8	104.2	127.5
1.2.	Financial revenues	103.7	102.7	119.2	93.1	116.3	124.6
1.3.	Extraordinary revenues	117.1	108.2	128.3	107.5	94.4	112.4
2.	TOTAL EXPENSES	116.1	114.1	113.7	108.1	109.5	116.2
2.1.	Operating expenses	117.2	113.9	113.1	109.2	110.7	115.5
	in which:						
	- Costs of goods, materials and ser.	117.6	114.2	113.3	109.4	110.5	117.3
	- Labour costs	115.6	108.5	110.6	109.1	110.3	112.3
	Wages and salaries	114.5	110.3	110.8	109.1	110.2	112.2
	Social security	114.1	90.5	105.9	110.9	111.3	112.8
	Other labour costs	122.7	118.9	113.6	107.7	110.0	112.5
	- Depreciation	118.4	128.0	112.3	114.7	108.7	111.8
	- Current assets write-offs	121.5	117.2	116.9	96.7	99.2	97.9
	- Long-term provisions	96.1	97.7	131.5	82.7	160.6	96.8
	- Changes in the value of inventories of products and work-in-progress	97.2	103.3	49.1	180.0	57.3	356.9
2.2.	Financing expenses	102.7	113.3	120.9	88.5	98.8	142.9
2.3.	Extraordinary expenses	105.9	126.5	121.5	108.0	79.0	93.8
3.	TOTAL PROFIT	134.8	109.4	142.1	117.5	124.1	117.9
4.	TOTAL LOSS	115.0	132.1	99.4	95.4	80.6	133.4
5.	TAXES ON PROFIT	130.0	121.8	118.9	112.4	128.3	124.0
6.	NET PROFIT	135.4	107.8	145.6	118.1	123.7	117.2
7.	NET LOSS	115.0	132.1	99.4	95.4	80.6	133.4
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	68.4	242.3	6.4	-944.6	327.1	98.3
9.	NUMBER OF EMPLOYEES	102.0	96.4	98.5	99.7	101.0	101.1
10.	NUMBER OF COMPANIES	108.6	106.5	102.6	102.4	99.9	100.4

Source of data: Agency for Payments, Statistical data from profit and loss statements of companies for 1995, 1996, 1997, 1998, 1999 and 2000.

Table 15c: Business Results of Commercial Companies

- Structure in %

		1995	1996	1997	1998	1999	2000
1.	TOTAL REVENUES	100.0	100.0	100.0	100.0	100.0	100.0
1.1.	Operating revenues	93.1	93.6	93.2	93.7	94.0	93.9
	in which:						
	-net revenues from sales on the domestic market	69.3	69.8	68.0	68.1	69.8	67.5
	-net revenues from sales on the foreign market	22.4	22.4	23.8	24.2	22.8	25.1
1.2.	Financial revenues	3.8	3.5	3.6	3.1	3.3	3.5
1.3.	Extraordinary revenues	3.0	2.9	3.2	3.2	2.7	2.6
2.	TOTAL EXPENSES	100.2	100.7	99.7	99.1	98.1	98.3
2.1.	Operating expenses	93.4	93.8	92.4	92.8	92.8	92.4
	in which:						
	- Costs of goods, materials and ser.	70.5	71.0	70.0	70.4	70.3	71.1
	- Labour costs	16.7	16.0	15.4	15.4	15.4	14.9
	Wages and salaries	11.7	11.3	10.9	11.0	10.9	10.6
	Social security	2.6	2.1	1.9	2.0	2.0	1.9
	Other labour costs	2.4	2.6	2.5	2.5	2.5	2.4
	- Depreciation	4.6	5.2	5.1	5.3	5.2	5.1
	- Current assets write-offs	0.9	0.9	0.9	0.8	0.8	0.6
	- Long-term provisions	0.5	0.4	0.5	0.4	0.5	0.4
	- Changes in the value of inventories of products and work-in-progress	-0.4	-0.4	-0.2	-0.3	-0.1	-0.4
2.2.	Financing expenses	4.9	4.9	5.2	4.2	3.8	4.6
2.3.	Extraordinary expenses	1.8	2.0	2.2	2.1	1.5	1.2
3.	TOTAL PROFIT	2.6	2.5	3.1	3.3	3.7	3.8
4.	TOTAL LOSS	2.8	3.2	2.8	2.4	1.8	2.0
5.	TAXES ON PROFIT	0.3	0.3	0.3	0.3	0.4	0.4
6.	NET PROFIT	2.3	2.1	2.7	3.0	3.3	3.3
7.	NET LOSS	2.8	3.2	2.8	2.4	1.8	2.0
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	-0.5	-1.1	-0.1	0.5	1.5	1.3

Source of data: Agency for Payments, Statistical data from profit and loss statements of companies for 1995, 1996, 1997, 1998, 1999 and 2000.

Table 16: Indicators of International Competitiveness

- Annual growth in %

	1995	1996	1997	1998	1999	2000	2001 Estimate
Effective exchange rate [1]							
Nominal	-0.5	-9.7	-5.4	-2.6	-5.5	-8.1	-5.8
Real [2]	10.3	-2.8	0.7	3.9	-0.7	-2.1	-0.1
Unit labour cost in total economy							
In SIT nominal	13.7	6.4	6.4	5.1	5.6	7.4	7.3
In the basket of currencies - relative [5]	10.9	-5.1	0.3	2.1	-1.4	-1.4	0.0
Unit labour cost in manufacturing [3]							
In SIT nominal	9.8	6.9	7.3	5.9	7.3	4.0	7.9
In the basket of currencies [4]	9.3	-3.5	1.5	3.1	1.4	-4.4	1.6
In the basket of currencies - relative [5]	9.0	-4.9	4.0	5.5	1.2	-3.2	1.1
Components [4]							
Compensation of employees - real [6]	4.9	3.9	3.4	3.4	2.9	2.4	2.4
Net wages and other remunerations	6.8	7.7	4.3	3.1	2.5	1.9	1.9
Tax burden on wages [7]	-0.6	-2.6	-0.5	0.6	0.4	0.3	0.3
Labour productivity	8.4	6.7	4.5	5.4	1.8	7.2	3.0
Prices / effective exchange rate	12.9	-0.8	2.5	5.1	0.3	0.1	2.2

Sources of data: APP, BS, SORS ,EC ,OECD, calculations IMAD.

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

Table 17: Comparison of the Pre-tax Prices of Selected Oil Products, Retail Prices and the Taxes on Oil Products Between Slovenia and the EU Average, in SIT / litre

- in SIT / litre

	5. I. 1998	4. I. 1999	3. I. 2000	15. I. 2001
Pre-tax prices of selected oil products				
Lead-free 95-octane automotive petrol				
Slovenia	43.0	31.1	45.0	58.0
EU	44.2	34.9	59.8	67.5 [1]
SLO / EU, in %	-3	-11	-25	-14
Gas oil				
Slovenia	39.0	30.5	51.4	67.9
EU	42.8	34.1	60.9	71.0 [1]
SLO / EU, in %	-9	-11	-16	-4
Light fuel oil				
Slovenia	37.4 [2]	28.0 [2]	44.6	57.1 [2]
EU	35.4	26.4	50.2	62.1 [1]
SLO / EU, in %	6	6	-11	-8
Retail prices of selected oil products				
Lead-free 95-octane automotive petrol				
Slovenia	94.4	103.5	119.7	152.8
EU	158.1	148.1	185.6	206.1
SLO / EU, in %	-40	-30	-36	-26
Gas oil				
Slovenia	86.2	100.5	128.7	152.2
EU	124.2	114.1	152.7	172.0
SLO / EU, in %	-31	-12	-16	-11
Light fuel oil				
Slovenia	47.6 [2]	48.4 [2]	68.3	86.1 [2]
EU	65.1	54.8	84.5	98.7
SLO / EU, in %	-27	-12	-19	-13
Taxes on selected oil products				
Lead-free 95-octane automotive petrol				
Slovenia	51.4	72.4	74.7	94.8
EU	113.9	113.2	125.8	136.2
SLO / EU, in %	-55	-36	-41	-30
Gas oil				
Slovenia	47.2	70.0	77.3	84.3
EU	81.4	80.0	91.8	101.4
SLO / EU, in %	-42	-13	-16	-17
Light fuel oil				
Slovenia	10.3 [2]	20.4 [2]	23.7	29.0 [2]
EU	29.8	28.4	34.3	37.3
SLO / EU, in %	-66	-28	-31	-22

Source of data: EC, Oil Bulletin nos. 899, 948, 997, 1040; Ur. List RS 75/97, 82/98, information and prices from Petrol.
Notes: [1] EU average excluding Portugal, which subsidises oil companies, [2] Domestic prices without quantity discount because Petrol charges transport costs separately (50%) .

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