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SLOVENIA: SPRING REPORT 2002
Economic Developments in 2001 and Analytical Explication of Spring Economic Forecast for 2002 and 2003

Institute of Macroeconomic Analysis and Development
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Spring Report 2002

Economic Developments in 2001 and Analylical Explication of Spring Economic Forecast for 2002 and 2003

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Spring Report 2002 is an analytical explication of Spring Economic Forecast (April 2002). The Report is based on data available up to and including April 12, 2002.

Acronyms in the text have the following meanings:

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

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Main Findings of the Spring Report 2002

Economic developments in 2001 were characterised by the slowing down of economic activity; economic growth was below the average level of the last few years but still substantially higher than in EU members. The slowdown was the result of external and internal factors: lower growth in foreign demand and the slowly rising domestic consumption, particularly investment. These factors continued to affect developments in 2002, which is why this year's growth should be only slightly higher than in 2001. With economic growth decelerating in 2001, positive trends were nevertheless seen in employment, business results of export-oriented companies, diversification of export markets, and integration into the international direct investment flows. In addition, positive shifts were also seen in domestic savings and lower external borrowing. Although the slowdown in domestic private and investment consumption was partly the result of dampened expectations of economic developments in the international environment, the declining investment and the persistent inflation in particular were primarily the consequence of pending structural reforms and an undermined macroeconomic equilibrium in wages and general government finances, areas where the impact of internal long-term and structural problems became more evident. It is therefore necessary to accelerate structural reforms and tighten fiscal and incomes policies in order to achieve higher economic growth rates and ensure a balanced macroeconomic environment, allowing a relatively smooth integration into the EU internal market and its exchange rate mechanism. Over the last few months, some important steps have already been taken in this direction: the adoption of the Public Sector Wages Act and the Employment Act, partial privatisation of the largest state-owned bank and adoption of the Privatisation of Insurance Companies Act, and the introduction of measures to cut budgetary expenditure. It is also important to pursue further the Programme of Lifting Administrative Barriers in order to strengthen private investment.

The **impact of the slowing foreign demand** on Slovenia's economic growth was expected and taken into account in the 2001 Autumn Report forecasts, so the spring forecasts of export growth for 2002 have remained roughly the same. The negative trends from the international economic environment, especially in the main trading partners, affected domestic economic activity through weakening foreign demand with the usual six-month delay. These trends will continue to be felt in the first half of 2002, while the ensuing period should see an accelerated revival of export activity, according to the latest forecasts for the international economic environment, and stronger value-added growth in tradable sectors. Foreign demand was the main lever of gross domestic product growth in 2001 despite the less favourable conditions in the international environment: Slovenian enterprises managed to maintain a relatively high level of export activity by increasing market shares in advanced economies and developing various forms of business co-operation with countries of former Yugoslavia and Russia.

The economic growth structure in 2002 should be more balanced than the year before as regards the contribution of foreign and domestic demand to economic growth: with export growth being lower (despite the flexibility of exporters), domestic demand is set to strengthen, albeit less than anticipated in autumn. **Internal factors causing downward corrections to economic growth forecasts** mainly involve the slow revival of domestic consumption. There were some shifts in the structure and dynamics of domestic consumption growth: last year, the share of investment in gross domestic product fell and household available income was increasingly allocated to savings. The modest domestic consumption led to low rates of import growth, which in turn helped restore the external equilibrium. This kind of closing of the investment-savings gap, i.e. the current account balance, is not beneficial to development because it is the result of declining investment activity. An external balance is particularly less appropriate in conditions where the structure of inflows in the capital and financial account is improving and is expected to be maintained in the oncoming years (increased foreign direct investment and relatively lower borrowing abroad, both of which help to improve the potential sustainability of the current account deficit). Further, the financial system and its current mechanisms failed to ensure an efficient transfer of savings into productive investment despite the high liquidity and high net capital inflows seen in 2001. The relatively high returns on government bonds coupled with indexation mechanisms are also hampering the entry of other financial service providers, allowing banks to make profitable investment, and offering little incentive to earmark funds for investment projects.

Last year's positive development that needs to be pointed out was further employment growth and falls in unemployment. The number of employees in manufacturing rose for the first time after 1987. Employment trends were less favourable in activities affected by the slowdown in investment (construction) and tougher economic conditions abroad (the textile industry). The trends of rising employment and falling unemployment should continue in 2002, but their dynamics should be moderate as a result of subdued economic activity. However, next year, economic activity is expected to revive and help accelerate positive trends in the labour market.

The most striking negative trend was the persistently high inflation rate both compared to EU member-states and EU candidate-countries. Current price rises, with the inflation rate ranging at around 8% annually, are about three times higher than the Maastricht criterion of price stability, and the core inflation[1] rate remains equally high, ranging between 6% and 7%. These price indicators suggest that high inflation is the result of not only one-off effects (e.g. higher tax rates early in the year and the rising oil prices) but also internal factors and insufficiently active economic policy. The second group mainly comprises administrative factors and factors reflecting the processes of catching up with the level of economic development of advanced countries; both are largely the outcome of structural imbalances in Slovenia and relative to the EU.

Another macroeconomic disequilibrium was caused by high wage growth in the public sector, which was more than double total labour productivity growth, while the overall rise in Slovenia's gross wage per employee exceeded labour productivity growth by over 0.5 of a percentage point. The high growth in labour costs reduced the economy's competitiveness and funding earmarked for investment, and accentuated the need to restructure general government expenditure. Even though

[1] The core inflation measures price changes that exclude one-off (e.g. chages in tax rates), external (changes in oil prices) and cyclical effects (e.g. changes in the prices of fresh fruit).

expenditure relative to gross domestic product increased, growth in the total wage bill prevented other budget expenditure items from increasing, so that the relative share of budget expenditure on investment shrank. The effects of unbalanced wage and productivity movements will continue to be felt in 2002 because of the spillover effect of last year's high wage growth. The gross wage per employee is not expected to rise significantly below the rate of labour productivity growth, while the gross wage per employee in the public sector will still rise slightly faster than wages in the private sector.

The disturbed macroeconomic equilibrium in the areas of prices and wages and the fiscal deficit maintained at unchanged levels in 2001 point to the persistence of some structural imbalances between the tradable and non-tradable sectors. The tradable sector had to be restructured faster than the non-tradable sector and had to ensure higher labour productivity growth and maintain cost competitiveness because of its exposure to international competition, which resulted in better adaptability to changes in business conditions and allowed the sector to maintain a good position in international markets despite the lower demand. The non-tradable sector dedicated less effort to increasing productivity due to a lack of competition and compensated lower productivity growth through higher prices of services and labour, which was reflected in inflation, wages and general government expenditure (the latter puts upward pressure on the tax burden, thus additionally fuelling inflation). Therefore, some of the reasons for changes in the growth structure of consumption aggregates in 2001 were stronger cost pressures resulting from higher prices and labour costs of the non-tradable sector, where wages rose faster than productivity, and the inadequate structure of general government expenditure in terms of stimulating investment activity.

The analysis of factors causing the persistence of inflation at high levels shows that Slovenia will have to eliminate the structural and institutional reasons for this trend before integrating into the EU and ERM2. So, after accession, price rises above the EU average would solely be the result of faster productivity growth in Slovenia relative to the EU (so-called real convergence), which could at first be partly offset by nominal depreciation within the allowed range of exchange rate changes. This suggests that internal factors will have to contribute more to bringing inflation down to levels comparable to the EU, especially the conclusion of structural reforms in the labour market, the financial sector and economic infrastructure. This will allow slower price rises in the non-tradable sector and slower rises in administered prices (their contribution to inflation should become equal to their share in the price index before the exchange rate is fixed) and more balanced wage growth in the public and private sectors. Upward pressures on prices coming from higher service prices and household consumption will therefore subside, the same as pressures on general government expenditure. Under these assumptions, inflation should fall gradually over the next three years, but it is likely to exceed the level determined in the Maastricht criteria on the date of anticipated accession to the ERM2. This forecast took into account the estimated effect of different rates of productivity growth (the Balassa-Samuelson effect), which is why the level of Slovenia's inflation will continue to be higher than that of the EU. In addition to structural reforms necessary to eliminate differences in relative price levels and reduce the gaps in goods and services price rises, the key role in bringing inflation down to levels comparable to

Slovenia's main trading partners should be played by restrictive monetary and exchange rate policies and their greater co-ordination with fiscal and incomes policies.

Reasons leading to lower spring forecasts of economic growth and the persistence of macroeconomic imbalances in prices, wages and public finances call attention to long-term and structural internal imbalances, whose elimination will require more active macroeconomic policies. The difference between autumn and spring forecasts, with the projections of domestic consumption aggregates being lower due to the factors mentioned above, led to the suspension of budget implementation for 2002. The budget is planned to be revised, so as to bring budget expenditure into line with financial resources estimated on the basis of realistic projections of general government revenue. The current budget for 2002 was drawn up on the basis of the 2001 autumn forecasts, which already anticipated lower economic growth compared to the preceding forecast. The initial draft budget for 2002 was already amended in autumn before going to the National Assembly for approval because of the changed macroeconomic trends and the resulting downward corrections to forecasts (based on expectations of lower domestic consumption). At that time, general government expenditure was planned to remain at the same level, but it was to be restructured to the benefit of investment, while the general government revenue side saw the raising of value-added tax rates and a higher deficit was envisaged if the collected revenue was lower than planned (the so-called automatic fiscal stabiliser). The Autumn Report drew attention to the risk of actual economic growth being lower than forecast (this is in fact becoming true), which would make the steps described above insufficient and call for additional restrictive measures in both wages and fiscal policies.

Part I

Economic Developments in 2001 and Spring Economic Forecasts for 2001–2007

Economic Developments in 2001 - Economic growth slowed down and its structure changed in 2001

Real gross domestic product growth in 2001 was 3% after recording high rates in 1999 and 2000 (5.2% and 4.6%, respectively). The slowdown was the result of internal and external factors: the **shrinking investment activity** and **worsened economic conditions in the international environment**. The real fall in investment consumption (down 1.9% in 2001 compared to a rise of 0.2% in 2000) and lower stock levels reduced gross domestic product growth by 1.1 percentage points. Even though import growth remained low, the gradual deceleration of export growth led to the lower net contribution of international trade to economic growth (2.5 percentage points compared to 3.4 percentage points in 2000). However, net exports added more to gross domestic product growth than the year before because of the low contribution of domestic demand. The negative impact of lower demand in Slovenia's trading partners from the EU[2], which affected export trends with a six-month delay, was offset by increased exports to the markets of former Yugoslavia and Russia (exports to these markets are estimated to have contributed about 0.2 of a percentage point to economic growth). Real final consumption growth climbed from 1.4% in 2000 to 2.1% in 2001: private consumption rose from 0.8% to 1.7%, while government consumption from 3.1% to 3.2%.

Economic growth in 2001 was subdued and its structure changed compared to the year before, which had been **largely expected** and taken into account in the IMAD's autumn economic growth forecasts (3.7%). Large downward discrepancies relative to the autumn forecasts mainly relate to the contribution of changes in inventories and valuables to economic growth, as the SORS' figures revealed that the fall in inventories reduced economic growth by 0.6 of a percentage point, which was not foreseen in the autumn forecasts. Gross fixed capital formation fell by 0.5 of a percentage point more than anticipated in autumn, which was due to modest residential building construction, lower investment in infrastructure and higher outward foreign direct investment. Government consumption growth was also lower than projected primarily because of some discrepancies in the methodology applied to calculating real rates. According to the SORS, gross domestic product expressed in current prices was SIT 25.7 billion higher than projected in autumn, but the real growth rate was lower because the GDP deflator was higher than the consumer price index (9.9% compared to 8.4%), which served to compute the autumn forecasts. This difference was due to not only the volatility of export and import prices, but also methodological differences: the deflator used by the SORS took into account the impact of high growth in public sector wages (labour prices) and higher excise duties (tax prices), which the autumn forecasts did not consider.

Value added rose by 3.1% in real terms in 2001. **Value-added growth** was 2 percentage points lower than the year before and decelerated most in industry and

[2] In 2001, economic growth in the EU slowed down from 3.3% in 2000 to 1.7% in 2001; more pronounced deceleration in gross domestic product growth started in the second quarter of 2001.

construction (down from 7% to 2.9%). After rising significantly in 2000 (up 8.6%), value added in manufacturing almost halved in 2001 (up 4.4%) as a result of dampened export activity. Construction saw a slowdown as early as in 2000 after enjoying favourable trends for several years, but it shrank in 2001 primarily due to the slow dynamics of road construction. In mining, real falls in economic activity continued in 2001. Value-added growth in **service sectors** was also slightly lower than 2000, decelerating from 4.2% to 3.6% in 2001. Growth slowed down in all service sectors, except business services (K), however, growth was still relatively robust in public administration, defence and compulsory social security (up 5.2%), financial intermediation (up 5.1%), hotels and restaurants (up 5%), and transport, storage and communications (up 4.5%).

Consumer prices climbed by 7.0% in 2001[3], 1.9 percentage points less than the year before. The average inflation rate was also lower and came in at 8.4% (8.9% in 2000). External factors – the rising world prices of petroleum products and other primary commodities, the relative strengthening of the US dollar, and the rising inflation in the EU – had a delayed impact on prices in the first half of 2001, but **price trends were under the growing influence of internal factors** which pushed up the prices of food and local utility services, as well as transport and heating fuels, because of higher excise duty rates[4]. Relatively high growth was also seen in other administered prices (chiefly local utility and telecommunications prices), that contributed 20% to inflation together with petrol. Services prices held a 25.9% share in the price index, but they accounted for 34.8% of the total consumer price increase. In the period after 2000, the gap between rises in goods and services prices narrowed substantially primarily owing to high rises in petrol and food prices (by 0.4 of a percentage point), but the gap widened again and stood at 3.4 percentage points at the end of 2001, the same as at the end of 1999. A short-term factor leading to uneven price rises is the pace at which goods and services prices adjust to price shocks, while the main long-term factors are: the pending structural reforms in areas where prices are still regulated and differences in factor productivity growth rates between sectors exposed to international competition and sectors mainly operating in the domestic market.

Total trade in goods and services climbed by 4.2% in 2001 over the year before: total exports were up 6.2% in real terms, while total imports climbed by 2.1%. The **trade deficit** was significantly **lower than in 2000** (totalling USD 621.7 million as against USD 1,138.9 million) as a result of the higher trade surplus with the countries of former Yugoslavia and the lower trade deficit with the EU. It was primarily the lower trade deficit that helped the **current account of the balance of payments** to be **significantly lower than the year before** (USD 66.9 million or 0.4% of GDP in 2001 compared to 3.4% in 2000), along with the surplus from services trade, which widened from USD 436.4 million in 2000 to USD 501.2 million in 2001. About **one-third** of the **high net financial flow** in the capital and financial account (USD 1,647 million or 8.7% of GDP) was represented by the foreign cash held by individuals who exchanged the twelve EU currencies for euros particularly in the

[3] December 2001/December 2000.

[4] Higher prices of food and petroleum products (resulting from both higher world oil prices and higher excise duties on petrol) accounted for 29.8% of the total rise in consumer prices.

last quarter of 2001. Both inflows and outflows of foreign direct investment capital rose substantially, with net inflows amounting to USD 337 million as against USD 109 million in 2000. Most financial inflows were not debt-inducing and last year's borrowing abroad was lower than in the preceding two years. External debt rose by USD 500 million to USD 6,717 million at the end of 2001, representing 35.7% of gross domestic product (34.3% in 2000), which put Slovenia in the group of countries with medium-level indebtedness, according to the World Bank methodology. Foreign exchange reserves totalled USD 5,738 million at the end of the year and rose by USD 1,362 million over 2000. As external debt rose more slowly than foreign exchange reserves, the coverage ratio of external debt by foreign exchange reserves improved from 70.4% at the end of 2000 to 85% at the end of 2001, and since imports rose modestly, the import coverage indicator also improved and equalled 6 months (4.6 months in 2000).

The net supply of foreign exchange was typical of 2001: in the first half of the year it was mainly fuelled by inflows from selling equity shares to foreign investors, and in the last quarter by the exchange of foreign cash in exchange offices as a result of the introduction of the euro. The **average M3 money supply growth** was 23.9% year-on-year in the last quarter, **6.9 percentage points above the upper end of the Bank of Slovenia's target band**. The favourable bank liquidity, resulting from the monetisation of foreign exchange, helped bring interbank interest rates down in the second half of the year. Other money supply aggregates also recorded high growth, especially M2 (up 23.3%), which points to the changed maturity structure of bank deposits. **High real growth in household savings in banks** was characteristic of 2001 and savings mainly involved short-term time deposits with increasing maturity and long-term tolar deposits. The fastest rises among foreign currency deposits were seen in savings and sight deposits. Total savings increased by 28.1% in real terms and growth was underpinned by the high tolar indexation clause in the first half of the year and the exchange of foreign currencies for euros mainly in the last quarter. The real rates of savings growth were higher than in 2000 even if the effect of exchanging currencies for euros is eliminated. Modest private consumption growth was also reflected in the slowing real increase in banks' household loans (up 1.2% as against 3.6% in 2000); the volume of long-term loans fell, while **household indebtedness measured by the ratio of loans to deposits** was on a **decrease** throughout the year and fell to 0.31 at the end of the year from 0.37 in January. The stronger real increase in tolar loans, going up from 5.8% in 2000 to 8.5% in 2001, was due to increased borrowing of enterprises and the government, with long-term corporate loans recording particularly strong growth. As far as lending interest rates are concerned, short-term rates fell significantly (down from 6.2% to 5.7%), while long-term rates rose slightly. Deposit interest rates climbed slightly in March and April as a result of the abolition of the interbank agreement on the maximum deposit interest rate.

The **over-supply of foreign exchange in the foreign exchange market** caused a slowdown in the **tolar's nominal depreciation** against the basket of seven OECD currencies from 8.1% in 2000 to 5.8% in 2001, and the Bank of Slovenia buffered the impact of net foreign exchange supply on exchange rate movements and held back the tolar's faster real appreciation after mid-September by setting the lowest rates of exchange. The tolar's real effective exchange rate depreciated by an average of 0.3% in 2001 on the basis of relative consumer prices mainly because of the strong US dollar, but appreciated by 1.3% if measured by relative industrial producer prices. The **fall in Slovenia's price competitiveness compared to the advanced trading partners** was due to the tolar's real appreciation against the basket of OECD currencies: the tolar climbed by 1.3% if measured by industrial producer prices and 0.6% if measured by relative export prices of goods. **Manufacturing's cost competitiveness stagnated at the level of 2000** as the tolar's nominal depreciation was weak and labour productivity growth slowed down, while the cost competitiveness of the whole economy fell. This fall was due to the slowing nominal depreciation of the tolar against the basket of OECD currencies, the relatively slow or accelerated rises in relative price levels and compensation of employees (particularly in the non-tradable sector) on one hand, and the subdued labour productivity growth on the other. Slovenia's aggregate **market share in the 15 main trading partners** increased in 2001 after having fallen for two years. The reversal was primarily due to the resumed rise in Slovenia's market share in Germany, the ongoing rapid rise in Russia, and further steady increases in French, Austrian and Croatian markets.

Employment growth continued in 2001, according to the SORS' monthly figures. The average number of persons in employment climbed by 1.4%, while the number of employees was up by 1.7%. In spite of the higher number of employees in manufacturing (up 0.9%) – employment rose year on year for the first time after 1987 – **employment restructuring** to the benefit of service activities continued in 2001. Employment growth revealed by the **labour force survey** was robust for the second year running and climbed by 1.7% in 2001. The **number of registered unemployed** fell by an average of 4.5% over 2000, while the registered unemployment rate dropped to 11.6% from 12.2% in 2000. Registered unemployment was on an increase in the second half of the year, with the exception of August, when unemployment fell compared to the preceding month. In the second half of the year, unemployment growth was primarily fuelled by seasonal factors (inflows of school leavers), the same as in previous years. The survey unemployment rate also climbed in the last quarter, recording a rate higher than in previous years, but the average annual rate of 6.4% was the lowest so far.

The overall **gross wage per employee** rose by 3.2% in **real terms** in 2001 against the preceding year. This rise exceeded labour productivity growth (up 2.5%), a trend that has not been seen since 1996. Such a high macroeconomic imbalance was primarily due to the significant real gross wage growth in public services (up 5.1%). The private sector's gross wage per employee started to rise fast only towards the end of the year, a trend typical of the last few years, and recorded an overall rise of 2.3% in real terms in 2001.

According to consolidated general government revenue and expenditure (using the methodology of the Ministry of Finance), general government revenue rose by 5.1% in real terms in 2001 and represented 43.1% of gross domestic product, 0.3 of a percentage point more than in 2000. The trend of a falling share of compulsory levies in gross domestic product has been recorded for three years and the share of non-tax and capital revenues has increased, taking into account the rising share of general government expenditure in gross domestic product and the guidelines of fiscal policy regarding the level of the deficit. The level of collected value-added tax was lower than anticipated chiefly due to less favourable macroeconomic developments than envisaged in the budget adopted in spring, while the collected excise duties were higher because the rates were raised more frequently and strongly than planned in the adopted budget. Total **general government expenditure** amounted to SIT 2,031 billion according to consolidated revenue and expenditure; that was a real rise of 5.2% from the year before and represented 44.5% of GDP, 0.3 of a percentage point more than in 2000. The consolidated general government revenue and expenditure revealed a **general government deficit** of 1.4% of GDP in 2001, the same as the year before (according to estimates of the Ministry of Finance).

Spring Economic Forecasts - Economic growth to achieve 3.3% in 2002 and 4.3% in 2003

1. Assumptions behind the spring forecasts

The **estimates and forecasts of economic developments in the international environment** have changed considerably since the autumn projections of 2001 because of the growing uncertainty in the aftermath of the events of 11 September. The Autumn Report's forecasts for 2002 were made on the basis of international environment projections made by international institutions in September and October 2001. The ensuing international institutions' forecasts published in November (after the Autumn Report had been prepared) displayed a great deal of pessimism resulting from the developments in Afghanistan, the poor effectiveness of economic policy measures in advanced countries, and the response of market players. Even though these pessimistic forecasts could not be taken into account in the Autumn Report, the IMAD's projections of export growth for 2002 took into consideration the first reactions from the international environment anticipating a delay in export market revival, which should start in the second half of 2002. The latest forecasts of global economic developments support assumptions that a turnaround will take place in the middle of this year in most trading partners. At the same time, developments in the Middle East helped reduce uncertainty to a large extent, while the USA's economic growth will strengthen much more than projected in the pessimistic scenario and should achieve the level forecast by the IMF in September last year. The forecasts (Consensus) available for the four main export markets in the EU – Germany, Italy, Austria and France – show that the average economic growth rates in 2002 will be about the same as in 2001. The European Commission's quarterly model indicates a gradual revival in the second quarter of 2002 and further strengthening is expected towards the end of the year. Forecasts for Croatia and other countries of former Yugoslavia and Russia predict slightly lower economic growth than in 2001, but the rates will continue to be markedly higher than in the EU. In 2003, economic growth should stabilise in all main trading partners at the level of the medium-term period prior to 2001.

Oil prices fell markedly in late 2001 and were kept at relatively low levels in the first two months of 2002. The spring forecasts of average oil prices in 2002 (USD 24 per barrel on average) predict higher price levels than in late 2001 because of economic revival in the biggest oil importing countries and they also took into account the oil price leaps in March caused by the aggravated conditions in the Middle East and the cuts in the supply of oil from Iraq. According to the European Commission, the average oil price of up to USD 25 per barrel should not reduce purchasing power or undermine the anticipated economic revival in the EU. The prices of other primary commodities are estimated to have reached their lowest level in early 2002, according to international institutions, and should gradually rise throughout the year in step with the strengthening of economic activity.

In the first quarter of this year, the downward trend in prices was interrupted by the relatively fast rises in administered prices and one-off effects (the raising of VAT and excise-duty rates and the introduction of local utility service taxes). While world commodity prices experienced a trough in the last few months, which should be beneficial to domestic price trends in the next few months, the resumed rises in oil prices began to be reflected in price rises at the end of the first quarter. The relatively fast price rises in the first quarter of 2002 (3.2%) led to the upward correction of the **average inflation rate** forecast from 6.4% to 6.9%. The new forecast is based on the assumption of relatively favourable price trends abroad in the oncoming months. Internal factors that should hold back price rises in the next few months include the Public Sector Wages Act, which has already been passed, the elimination of indexation mechanisms for operations of up to one year, and amending the Decree on the Mandatory Registration of Changes in Local Utility Service Price. External factors, on the other hand, chiefly include further slow rises in prices abroad and the consolidation of oil prices at lower levels[5]. If oil prices start climbing again (above USD 25 per barrel) or become more volatile, both the direct impact on inflation and the spillover effect of oil prices onto other prices would strengthen, thereby hampering any further deceleration in prices.

Internal factors will have to contribute more than before to bringing inflation down to levels comparable to the EU, especially the conclusion of structural reforms in the labour market, the financial sector and economic infrastructure. This will allow slower rises in administered prices (their contribution to inflation should become equal to their share in the price index before the exchange rate is fixed) and a more balanced wage growth in the public and private sectors, which will reduce upward pressures on prices through household spending and upward pressures on national budget expenditure. Monetary policy's measures, which play a key role in maintaining moderate price rises, will continue to be limited to managing exchange rate changes, as the current levels of foreign capital inflows are expected to remain unchanged. Hence, inflation should fall gradually in the next three years, but the rate is expected to exceed the level set by the Maastricht criterion on the anticipated date of accession to the EU (1.5 percentage points above the average level of the three member-states with the lowest inflation).

In 2002-2004, the **euro's exchange rate** will **rise** more slowly than consumer prices, but the real appreciation of the tolar should nevertheless be moderate despite the expected over-supply of foreign exchange fuelled by high foreign exchange inflows (interventions by the Bank of Slovenia). Entry into the ERM2 is envisaged to take place by the end of 2004 and this mechanism allows exchange rate fluctuations around the central parity by $\pm$ 15%. Since there is great uncertainty about the US dollar's exchange rate movements in international money markets, we have opted for the so-called technical assumption of unchanged euro/dollar exchange rates for the entire period covered by forecasts instead of projecting the dollar's exchange rate. The same procedure is used by most international institutions. The estimated

[5] April's 1.4% price increase was above the level anticipated in spring forecasts. We expect that assumptions behind these forecasts will be reflected in the next quarter's price trends. But even if these assumptions are realised, April's inflation rate remains a serious threat to the spring inflation forecast (up to 0.5 of a percentage point above the anticipated 6.2% annual and 6.9% average inflation rates).

movements in the tolar's real effective exchange rate (the value of 1 tolar against the basket of currencies of the main trading partners) will therefore depend on the USD/EUR exchange rate (the assumed rate is USD 0.88 for EUR 1): if the dollar strengthens, the tolar will appreciate less or even depreciate, and vice versa.

2. Economic growth and forecasts of macroeconomic aggregates for 2002-2004

The **economic growth forecast for 2002** is 3.3%, 0.3 of a percentage point lower than projected in autumn (the autumn forecast served as a basis for drafting the 2002 budget). Large downward corrections were made to the forecasts of domestic demand growth (from 3.5% to 2.7%) and, consequently, imports (from 4.7% to 3.8%), while corrections to real export growth were small (from 4.8% to 4.7%). The autumn forecasts already took into account the strong deceleration in economic activity in the main trading partners seen in late 2001 and early 2002, as well as the gradual pick-up in the second half of 2002, which is also reflected in the latest international forecasts. The economic growth structure should nevertheless be more balanced than in 2001 as regards the contribution of foreign and domestic demand: domestic demand is set to strengthen, while exports should rise more slowly than in 2001. Despite the lower economic growth forecast, gross domestic product expressed in current prices should be SIT 40 billion higher than projected in autumn, which is mainly the result of the higher nominal gross domestic product in 2001.

Forecasts of export growth (4.7% in 2002) anticipate relatively low year-on-year rates in the first half of the year and the gradual strengthening in the third and last quarters in line with the anticipated economic revival in EU countries (the delay from the moment export markets start to grow to the rise in Slovenia's exports is estimated to be about 3 months, about half shorter than in the case of economic slowdown). Exports to the markets of former Yugoslavia and Russia should continue to rise faster than exports to the EU, however, it will be impossible to achieve the high growth rates seen in 2001 because of the already high levels (in 2001, exports to former Yugoslavia and Russia climbed by 16% and 46% in real terms, while this year's increases should be around 10% and 20%, respectively). The slowing export growth will lead to a deceleration in domestic production activity, particularly manufacturing, where value-added growth should slow down from 4.4% in 2001 to 3.7% in 2002.

Domestic demand should strengthen gradually in 2002, but more slowly than projected in the autumn forecasts. Investment activity began to show signs of revival in the last quarter of 2001 after four quarters of decline. Private sector investment was very likely influenced by increased uncertainty and low business expectations, which held back corporate investment and this sentiment may continue to influence this year's investment. The available figures show that other factors causing the fall in investment in 2001 continue to influence investment in 2002 more than anticipated in autumn (lower investment in residential building construction, a marked transfer of corporate funds to financial investment), which led to a downward correction of the forecast of capital formation growth from 4.6% to 2.9% in real terms. The projected level of budget funding for investment remains unchanged: investment in government services and transport infrastructure should rise faster than in 2001. Quarterly figures on real private consumption growth for 2001 show that growth indeed strengthened less than anticipated. Given the relatively high wage growth in 2001, the composition of spending households' available income revealed a marked shift towards savings. It is also very likely that households preferred to turn income no longer burdened by the repayment of loans taken out in 1999 into savings than new loans. This was also due to the fact that households are relatively well equipped with durable goods, the purchase of which is usually financed by loans. Hence, due to this structural shift the forecast of private consumption growth for 2002 has been corrected from 3% to 2.3%, as the expectations of wage movements and employment remain roughly the same. Real private consumption growth is expected to rise only a solid half of a percentage point faster than in 2001. The latest forecast of general government consumption growth is lower than autumn's (2.9% as against 3.7%) because of the higher inflation expected in 2002 and the harmonisation of the methodology for computing real rates with the SORS.

The lower forecast of domestic consumption growth led to downward corrections to real import growth; figures show that imports were very low in the first two months of 2002. Given that export growth forecasts remained practically unchanged and import growth forecasts have been corrected downwards, and the terms of trade are expected to improve slightly, the projections of the current account of the balance of payments have improved significantly: the current account should be roughly balanced, the same as in 2001 (the autumn forecast anticipated -1.2% of GDP).

As far as the labour market is concerned, the trends of employment growth and unemployment falls should continue, however, the dynamics should be moderate primarily due to developments in the labour market in early 2002 (the average unemployment rate was 11.9% in the first two months as against 11.6% on average in 2001). This led to an upward correction of 0.1 of a percentage point in the registered unemployment rate (11.3%) and 0.3 of a percentage point in the survey unemployment rate (6.4%) compared to the autumn forecast. Growth in economic activity in the next two years should help employment rise and unemployment fall more strongly than now. The **real gross wage per employee** is forecast to rise by about 2.5% in 2002 (2.6% in the public and 2.4% in the private sector). The forecast took into account a restrictive wages policy in the public sector and the maintaining of growth rates from 2001 in the private sector.

In **2003 and 2004**, Slovenia's gross domestic product should again grow at the average rate seen in the previous medium-term period (4.4%) after deceleration in 2001 and 2002, assuming that growth stabilises in the international economic environment. Export growth, which should start accelerating as early as in the second half of 2002, is forecast to maintain levels above 6% in both years, while growth in all domestic demand components should continue to strengthen, then fuelling import growth together with stronger exports. A marked rise in private consumption is mainly expected in 2004, when a new cycle of purchasing durable goods should begin, as the cycle lasts about five years according to some empirical estimates. Strong purchases will be additionally underpinned by funds released from the first national housing savings scheme, which should also help bring to an end the construction of dwellings related to this scheme. Investment activity should gradually

Box 1: The alternative economic growth forecast for 2002 made under the assumption of higher average oil prices (USD 28 per barrel) – should world oil prices leap and level off at the average of USD 28 per barrel, this year's economic growth would only achieve 3% because of lower purchasing power. The influence of a higher inflation rate, which would increase by around 0.5 of a percentage point, and worse terms of trade, which would fall by around 0.5 of a percentage point against the spring forecast, would be reflected in lower growth rates of domestic consumption aggregates, high growth in intermediate consumption and, consequently, lower value added growth and higher deficit in the current account of the balance of payments.

increase and record about 5%-6% growth in each of these years. The growing domestic consumption will lead to higher imports in 2004, when they are expected to rise faster than exports.

3. Scenario for the period after 2004

The economic slowdown of 2001 and 2002, especially some changes recorded in the structure of gross domestic product growth (lower shares of investment in gross domestic product, changes in the structure of disposable income spending), as well as the pending and slow structural reforms in some areas, which have been pointed out in the Development Report (IMAD, 2002), will affect the implementation and feasibility of the medium-term macroeconomic scenario set out in the Strategy for the Economic Development of Slovenia (IMAD, 2001). According to this scenario, real gross domestic product growth should range between 5.3% and 5.7% in 2005 and 2006. The two main sets of development weaknesses are: (a) a low level of co-operation between the scientific, research and education spheres on one hand and the economy on the other, as reflected in gaps as regards the quality of human resources, technological development, development of the information society, and export competitiveness; and (b) slow reforms in the labour and financial markets, infrastructure and the public sector, including the government sector, as reflected in poor national competitiveness and structural pressures on inflation and general government expenditure. The calculations of potential growth capacity show that growth may slow down substantially to around 2% in the next few years unless more is invested in technological development and education and if investment continues to fall.

Economic trends envisaged by the Strategy should continue in the next few years, however, these development shortcomings and qualitative changes in the economic growth structure will result in a slightly delayed raising of economic growth to a higher level in the next medium-term period. The current medium-term forecast is not at odds with the underlying macroeconomic orientation of the Strategy – a moderate acceleration of economic growth which should ensure a long-term reduction of the development gap behind the EU – it only puts this orientation off slightly and also points out the main reason for this delay, which is the pending reforms. Exports should continue to be an important lever of economic growth, but the average export growth rates expected after 2004 should be slightly lower than those projected in the Strategy. This will mainly be due to the slow strengthening of competitiveness caused by the structural problems mentioned above and the relatively lower commercial investment, one of the key factors stimulating competitiveness. The closing of the investment-savings gap (provided that the terms of trade remain unchanged) should be facilitated by factors such as slightly lower average rates of domestic consumption growth, further rises in domestic private savings, and the gradual reduction of the fiscal deficit. This should be further supported by higher net inflows of transfers from the EU after 2004.

Main macroeconomic indicators

	2001		2002		2003	2004	2005	2006	2007
			AR 2001	SR 2002	SR 2002	SR 2002	SR 2002	SR 2002	SR 2002
	AR 2001	SORS	Forecast						
GROSS DOMESTIC PRODUCT - real growth rate, %	3.7	3.0	3.6	3.3	4.3	4.4	4.6	4.9	5.0
GDP SIT million (current prices)	4,540,500	4,566,191	5,005,000	5,045,000	5,515,000	6,020,000	6,584,000	7,152,000	7,762,000
INFLATION (I - XII / I - XII average)	8.5	8.4	6.4	6.9	5.1	4.6	4.6	3.6	3.4
USD exchange rate - average (BS)	241.0	242.7	245.2	257.1	263.1	268.6	270.4	271.5	271.5
EUR exchange rate - average (BS)	217.2	217.2	225.6	225.7	231.3	236.1	237.6	238.6	238.6
EUR/USD *	0.90	0.89	0.92	0.88	0.88	0.88	0.88	0.88	0.88
EMPLOYMENT (according to SNA)	0.7	0.6	0.6	0.6	1.1	1.2	1.4	1.3	1.4
REGISTERED UNEMPLOYMENT RATE	11.5	11.6	11.2	11.3	10.9	10.4	9.8	9.0	8.1
UNEMPLOYMENT RATE by ILO	6.3	6.4	6.1	6.4	6.2	5.9	5.5	5.1	4.5
PRODUCTIVITY (value added per employee)	2.9	2.5	2.8	2.8	3.2	3.3	3.3	3.6	3.6
GROSS WAGE PER EMPLOYEE	2.5	3.2	2.5	2.5	2.0	2.5	2.5	2.5	3.0
EXPORTS OF GOODS AND SERVICES - real growth rate, %	7.2	6.2	4.8	4.7	6.5	6.3	6.6	7.0	7.2
- exports of goods - real growth rate, %	8.0	6.6	5.1	4.8	6.9	6.5	6.8	7.2	7.4
- exports of services - real growth rate, %	3.5	4.1	3.3	4.2	4.5	5.4	5.6	5.7	5.9
IMPORTS OF GOODS AND SERVICES - real growth rate, %	3.3	2.1	4.7	3.8	5.2	6.8	6.6	7.1	7.3
- imports of goods - real growth rate, %	3.2	2.2	4.8	3.9	5.3	6.9	6.6	7.1	7.3
- imports of services - real growth rate, %	4.1	1.1	4.3	3.5	4.7	6.2	6.5	6.8	6.9
CURRENT ACCOUNT BALANCE, in USD million	-215.0	-67.0	-253.0	-14.0	5.0	-2.0	59.0	127.0	181.0
- as a % of GDP	-1.1	-0.4	-1.2	-0.1	0.0	0.0	0.2	0.5	0.6
BALANCE OF GOODS AND SERVICES, in USD million	-225.0	-121.0	-253.0	-24.0	20.0	-41.0	-42.0	-59.0	-77.0
- as a % of GDP	-1.2	-0.6	-1.2	-0.1	0.1	-0.2	-0.2	-0.2	-0.3
GROSS FIXED CAPITAL FORMATION - real growth rate, %	-1.4	-1.9	4.6	2.9	4.8	6.3	6.3	6.5	6.5
- as a % of GDP	25.1	24.9	25.1	24.7	24.9	25.2	25.4	25.8	26.1
PRIVATE CONSUMPTION - real growth rate, %	1.9	1.7	3.0	2.3	3.0	4.1	4.1	4.1	4.1
- as a % of GDP	53.9	53.6	53.7	53.3	53.0	52.9	52.6	52.2	51.9
GOVERNMENT CONSUMPTION - real growth rate, %	3.7	3.2	3.7	2.9	3.3	3.1	3.2	3.5	3.5
- as a % of GDP	21.0	21.3	21.3	21.5	21.5	21.4	21.3	21.2	21.1

Source of data: SORS, forecast IMAD.
Notes: AR = Autumn Report 2001, SR = Spring Report 2002, SORS = Statistical Office of Republic of Slovenia, * technical assumption, unchanged EUR/USD rate (as per 3 April 2002).

Part II

1. Economic Developments in 2001 and Analytical Explication of Spring Economic Forecasts for 2002 and 2003

2. Medium-term Forecasts for 2004–2006 and Implementation of the Strategy for the Economic Development of Slovenia (SEDS)

1. Economic Developments in 2001 and Analytical Explication of Spring Economic Forecast for 2002 and 2003

1.1 International Economic Environment - Economic growth in the main trading partners forecast to strengthen gradually in the second half of 2002

The economic recession which hit the United States of America and most advanced countries in the second half of 2000 reached its peak, according to the available figures and forecasts of international institutions, towards the end of 2001 or the first half of 2001. To a great extent, the slowdown in the global economy was expected as a result of national economies increasingly taking part in international trade and capital flows. Some of the primary reasons for the slowdown were the overheating of the American economy, increasing global imbalances as well as the price rises of oil and other raw materials in world markets in 2000, which affected gross domestic product in real terms in all importing countries. Uncertainty about the pace of the global economic growth rate was further fuelled by the September 11 terror attack and the subsequent military operation in Afghanistan. As a result, autumn forecasts made by international institutions in November and December 2001 anticipated a global economic upturn as late as the middle of 2002 rather than the previously anticipated last quarter of 2001. Available figures and the outlook for economic trends for the first four months of 2002 have confirmed these forecasts. Moreover, the US economy began to recover even faster, primarily due to some monetary (interest rate cuts) and fiscal policy measures (a tax cut in the middle of 2001, increased public spending on reconstruction works, security and on arms, the effect of automatic stabilisers). The global economic growth rate is thus anticipated to increase from last year's 2.5% to 2.8% (IMF 2002), chiefly because of stronger growth in the US and a gradual upturn in economic activity in most Asian countries (ASEAN) and Brazil. The Chinese and Indian economies are expected to grow at high rates of 7% and 5.5% (IMF 2002) while, provided that oil prices do not increase dramatically, the economies of oil-exporting Arab countries and the Russian economy are expected to grow slower than last year (at 3.7% to 4.4% after 5% in 2001; EC 2002a, IMF 2002). Due to the expected low economic growth rates in the first half of 2002, EU member-states and countries in transition are expected, on average, to post lower growth in gross domestic product in 2002 than in 2001. However, this year is to see a major plunge in economic growth in Argentina (a 10% to 15% fall in GDP in real terms, IMF 2002) and Japan (-1%, IMF 2002). The global economy can be expected to grow at a faster pace in 2003, according to the forecasts of international institutions, when the world's gross domestic product should increase by around 4% in real terms (EC 2002a, IMF 2002). Economic growth in the majority of advanced[6] and transition countries is expected to stabilise next year at

[6] Japan is an important exception, with its gross domestic product expected to grow at just 0.8%

approximately the medium-term rates achieved before 2002.

Oil prices dropped substantially at the end of 2001 (below USD 20 per barrel), and also remained relatively low in the first couple of months in 2002. However, the middle of March saw them go up again due to increased tensions in the Middle East, and they are also expected to stay higher on average than at the beginning of the year because of revived economic activity in the largest oil importers. The IMF and the European Commission estimate the oil price will average out at USD 23 to USD 24 per barrel in 2002[7], which is just below the average oil price for 2001 (Brent oil USD 25 per barrel; the average of Brent, Dubai and West Texas International Oil USD 24.3 per barrel). According to the estimates of international institutions, the prices of other raw materials also reached their lowest point at the beginning of 2002, and are bound to rise gradually in the course of 2002, following the trend of stronger economic activity. The crises in the Middle East and Central Asia have made the price of oil one of the main risk factors in world markets this year, with escalating tensions and potential fighting having the potential to push oil prices up considerably in the second half of this year. However, the European Commission has estimated that an average oil price of USD 25 per barrel in 2002 should not affect the purchasing power or put in jeopardy the anticipated economic upturn in the EU.

Table 1.1.1: Economic growth, volume of world trade, prices of oil and raw materials, and interest rate

	2000	2001	2002	2003
Economic growth - world (in %, real terms)	4.7	2.5	2.8	4.0
Volume of world trade	12.4	-0.2	2.5	6.6
World oil prices	57.0	-14.0	-5.3	-4.4
World prices of raw materials*	1.8	-5.5	-0.1	7.2
6-month LIBOR** interest rate on dollar deposits	6.6	3.7	2.8	4.5
6-month LIBOR** interest rate on euro deposits	4.6	4.1	3.7	4.5

Source of data: IMF World Economic Outlook, April 2002.
Notes: * Weighed average taking into account to the share in world exports. ** LIBOR - London interbank offered rate.

Cuts in key interest rates were one of the main monetary policy incentives for economic growth in 2001 in the majority of advanced countries, but most notably in the USA. The key interest rate in the USA stood at 1.75% in December 2001, while it was 6.5% at the beginning of 2001. The Euro-zone's key interest rate in December 2001 was 3.25% (4.75%) and in Great Britain 4% (6.0%). Given that an economic upturn is expected in 2002, a more restrictive monetary policy and a gradual rise in interest rates can be expected to take place as well.

Figures on **US** economic growth rates for the last quarter of 2001 and the first one in 2002 (the annual rates extrapolated from the quarterly growth rates were 1.7% and 5.8%, respectively) suggest that this year's growth in gross domestic product in

in 2003 (IMF 2002).

[7] The IMAD based its forecast of the average oil price in 2002 being USD 24 per barrel.

Table 1.1.2: Economic growth, inflation and real increase in the import of goods and services in Slovenia's major trade partners (%)

	Share of exports as of %	GDP growth rates in real terms					Inflation (average)					Real growth in imported goods [5]				
	2001	2001	2002		2003		2001	2002		2003		2001	2002		2003	
			Cons	EC	Cons	EC		Cons	EC	Cons	EC		Cons	EC	Cons	EC
EU[1]	62.2	1.6	1.3	1.5	2.7	2.9	2.3	1.8	2.1	1.9	1.9	0.5	n.a.	1.8	n.a.	6.8
Germany	26.2	0.6	0.8	0.8	2.5	2.7	2.4	1.5	1.8	1.6	1.7	-0.3	n.a.	-0.5	n.a.	7.7
Italy	12.5	1.8	1.3	1.4	2.8	2.7	2.3	2.0	2.2	2.0	2.0	-0.2	n.a.	4.9	n.a.	7.0
Croatia [2]	8.6	4.1	3.0	3.5	4.0	4.5	4.9	4.0	3.0	3.0	3.0	9.6	n.a.	1.2	n.a.	5.8
Austria	7.5	1.0	1.2	1.2	2.7	2.5	2.3	1.6	1.6	1.7	1.7	3.8	n.a.	3.5	n.a.	7.5
France	6.8	1.9	1.4	1.6	2.8	2.8	1.8	1.5	1.7	1.5	1.6	-0.8	n.a.	0.6	n.a.	7.1
BIH [2, 3, 4]	4.3	5.6	2.0	5.1	n.a.	6.0	1.7	1.0	1.8	n.a.	n.a.	n.a.	n.a.	n.d.	n.a.	n.d.
Russia	3.0	5.0	3.5	3.7	3.8	4.5	18.6	15.9	n.a.	13.1	n.a.	15.1	n.a.	7.6	n.a.	9.3
Great Britain	2.8	2.2	2.0	2.0	2.9	3.0	1.2	2.1	1.6	2.3	1.8	3.3	n.a.	2.6	n.a.	6.4
USA	2.6	1.2	2.1	2.7	3.5	3.1	2.8	1.4	1.4	2.4	2.4	-2.8	n.a.	4.3	n.a.	8.0
Poland [6]	2.6	1.1	0.0	1.4	2.0	3.2	5.5	5.0	4.0	5.0	4.5	-0.1	n.a.	6.5	n.a.	10.5

Source of data: Consensus Economics Inc. (March 2002), European Commission (April 2002), IMF World Economic Outlook, April 2002, WIIW Research Reports, February 2002.
Notes: [1] - HICP for inflation in 2001 and for the European Commission forecast, [2] - IMF forecast instead of the European Commission's and WIIW's forecast instead of Consensus's, [3] - inflation in Federation of Bosnia-Herzegovina (average inflation rate in the Republic Srpska in 2001 8%, 2% in 2002 according to the IMF forecast, 4% according to the WIIW forecast, [4] - IMF's optimistic scenario praided reforms are introduced, [5] - Croatia: real growth in the import of goods and services, [6] - WIIW's forecast instead of the Consensus's one, n.a. - not available.

the USA will better last year's pessimistic expectations; subsequently the latest economic growth forecasts in the USA have been considerably upgraded, approximately to the rates achieved before September 11. For instance, Consensus, which publishes monthly economic growth forecasts for over 20 advanced economies, upgraded its forecast for the USA from 0.9% to 2.6% in the period from January to April 2002. Similar to the Consensus' forecast are those made by the IMF (2.3%), the OECD (2.5%) and the European Commission (2.7%).

The economic upturn in the **European Union** has been slower than in the USA, as the US economic recession was not the only reason affecting GDP growth rates in the EU in 2001. The drop in GDP growth rates in the 15-nation bloc was also fuelled by falling stock market indices, a fall in investment and weak purchasing power resulting from high oil prices and animal diseases, which in turn made public spending rise and revenues in agriculture, tourism and trade fall. Many analysts have also pointed to the rather rigid monetary policy pursued by the European Central Bank, which has laid too much importance on keeping inflation low, thus responding to economic recession by cutting interest rates too late and by too little. A slowdown in domestic demand resulting from shrinking purchasing power, together with reduced export demand, speeded up the fall in the economic growth rate which was negative in the last quarter of 2001 for the first time after 1993.While economic growth seemed to strengthen faster in EU member-states than in the USA after September 11, the dynamics of the January-to-April period in the EU as well as the latest forecasts of international institutions reveal a different trend. According to a

European Commission quarter model, a gradual upturn can be noted in the second quarter of 2002, followed by a more pronounced one only towards the end of the year. The upturn is expected to be fuelled by fiscal measures (the effects of automatic stabilisers, tax cuts) in addition to a gradual revival of exports, which is expected to add to the gradual increase of goods in stock (these fell considerably in the euro-zone in 2001, thus affecting the economic growth rate[8]. As a result of low growth rates seen in the first half of 2002, the average growth rate of the EU gross domestic product will be somewhat lower this year than in 2001 even according to the forecast of the European Commission (1.6% in 2001 and 1.5% in 2002).

Most analysts maintain that the economic slowdown which affected **Germany** in 2001 when its economy grew at a mere 0.6% continued in the first few months of 2002, with the lowest point being reached in the second quarter of this year. Reduced foreign demand and a fall in investment (a recession in the construction industry) primarily fueled the slowdown. While the IFO institute forecast a 0.6% growth rate for 2002, the German government expects 0.75% growth, with similarly optimistic forecasts also being made by the European Commission (0.8%) and the IMF (0.9%). **Italy**, on the other hand, recorded an economic growth rate of 1.8% in 2001, an exceptionally high rate within the EU, which was chiefly propelled by domestic demand. The exporting of goods and services that remained below 1% significantly affected the manufacturing sector, as a result of which industrial output dropped by 1.2%. 2002 is to see gross domestic product grow at 1.3% to 1.5%, and is to be fuelled mainly by investment demand. Similarly to Germany, **Austria** experienced difficulties in its construction industry, which suffered a lack of investment. Austria's 1% increase in gross domestic product was chiefly stimulated by greater exports. The economic growth rate in 2002 is expected to increase by a mere 0.2 to 0.3 of a percentage point from 2001, to be fuelled notably by domestic demand.

After **Croatia** posted a 4.1% growth rate in 2001 - underpinned chiefly by strong private demand and investment demand in the first half of the year, analysts have forecast a slowdown in 2002 to 3% (WIIW) and 2.1% (the Croatian bank Zagrebačka banka), with the growth rate expected most likely not achieving the three-year macro-economic goal set by the Croatian government when it entered into a stand-by agreement with the IMF[9] (instead of 4.2%, only some 3.5%). This three-year programme deals with the fiscal deficit**,** which should gradually fall from 5.7% of GDP in 2000 to 2.0% in 2003, inflation, which fell as early as 2001 below the figure set in the programme (2.6% in December 2001, 4.5% set in the programme), and the encouragement of privatisation and employment. The IMF has forecast that in 2002 private consumption and investment demand will slow down, together with general government consumption, which will affect this year's imports (1.2% in 2002, 9.6% in 2001).

Forecasts for **the other countries that have emerged from former Yugoslavia** also anticipate lower economic growth rates than in 2001, yet still considerably

[8] A drop in goods in stock "added" -0.5 of a percentage point to the 1.6% economic growth rate in the Euro-zone in 2001.

[9] In March 2001 Croatia and the IMF reached a stand-by agreement worth USD 250 million. The deal enabled Croatia to draw on some USD 50 million immediately, with the rest to be drawn as necessary.

Table 1.1.3: Economic growth, inflation and external imbalance in EU candidate countries (%)

	GDP growth rates in real terms					Inflation					Current account of the balance of payments as of % of GDP				
	2001	2002		2003		2001	2002		2003		2001	2002		2003	
		IMF	EC	IMF	EC		IMF	EC	IMF	EC		IMF	EC	IMF	EC
Slovenia	3.0	2.6	3.1	3.6	4.0	8.4	6.5	7.5	5.5	6.7	-0.4	-0.3	-0.2	-0.4	-0.2
Bulgaria	4.3	4.0	4.0	5.0	5.0	7.5	4.5	7.5	3.5	5.0	-6.9	-5.9	-6.0	-5.8	-5.5
Czech Rep.	3.6	3.3	3.4	3.7	3.9	4.7	4.0	3.9	3.7	3.5	-4.7	-4.8	-4.5	-5.0	-4.1
Hungary	3.8	3.5	3.5	4.0	4.5	9.2	5.4	5.2	4.0	4.2	-2.2	-2.9	-2.3	-3.5	-3.6
Poland	1.1	1.4	1.4	3.2	3.2	5.5	3.2	4.0	3.2	4.5	-4.0	-4.2	-4.3	-4.5	-5.1
Romania	5.3	4.5	4.2	5.0	4.9	34.5	25.2	26.0	17.5	18.1	-5.9	-5.3	-5.5	-5.1	-5.4
Slovakia	3.3	3.7	3.6	3.9	4.2	7.3	4.3	4.1	7.0	6.8	-8.8	-8.8	-8.1	-7.9	-7.1
Estonia	5.4	3.7	4.0	5.5	5.3	5.9	3.5	4.1	3.5	4.4	-6.5	-6.8	-6.8	-6.5	-6.5
Latvia	7.6	4.5	5.0	6.0	6.0	2.5	3.0	3.0	3.0	3.0	-10.2	-7.0	-9.4	-6.4	-8.7
Lithuania	5.9	4.0	4.0	4.8	5.0	1.3	2.8	2.7	3.0	2.5	-4.9	-5.8	-3.7	-5.5	-3.5
Cyprus	3.7	3.0	2.5	4.2	4.0	2.0	1.8	3.1	2.2	3.5	-4.4	-3.9	-4.8	-3.7	-4.7
Malta	-1.0	4.4	3.9	4.9	4.0	2.9	2.0	2.6	2.0	2.7	-4.8	-5.7	-6.0	-4.4	-5.7
Turkey	-7.4	3.6	2.5	4.7	3.7	54.4	49.1	51.0	26.9	33.0	2.3	-1.2	0.9	-1.2	-0.4

Source of data: European Commission, Economic Forecasts for the candidate countries, April 2002; IMF, World Economic Outlook, April 2002.

higher than in advanced European countries. After a 9.9% growth rate in 1998 and 1999, **Bosnia-Herzegovina** posted economic growth rates of 5.9% and 5.6% in 2000 and 2001, respectively, which means - according to the IMF - that the fast post-war recovery has peaked. Moreover, the inflow of foreign capital into the country has slowed down, as foreign direct investments fail to make up for dwindling donations. The IMF has drawn up two mid-term scenarios for Bosnia-Herzegovina for the period from 2002 to 2006, whose realisation depends on the implementation of reforms. The first scenario anticipates 5-6% growth in the next four years provided that the reforms encouraging the private sector continue and the state makes up for the fall in donations by allocating part of current expenditure for infrastructure investment. According to the "status-quo" scenario, however, which anticipates an economic growth rate of 3.5% to 4% for the same period, private and public investment would grow slowly due to the failure to carry out the reforms. The **FR Yugoslavia**'s gross domestic product increased by 5.5% in real terms in 2001, with agricultural production going up most (23%) and industrial output stagnating. 2001 and the beginning of 2002 were marked by a series of reforms (restructuring of small business and the banking sector, with four large banks becoming bankrupt; privatisation, tax-system streamlining; the adoption of an anti-corruption strategy) and intensive co-operation with international financial institutions (agreement with the Paris Club to write off 66% of the FRY's debt; conclusion of talks with the IMF on the memorandum on economic and fiscal policies for the 2002-2005 period[10]. No major revival of the Yugoslav economy can be expected in 2002 (the government's forecast is around 4%), chiefly because of severe internal macro-economic

[10] The IMF granted the FRY a three-year loan in the amount of USD 829 million in mid-May 2002.

imbalances and the lack of funds to finance any fast economic reconstruction.

The average economic growth rate of the **ten frontrunners for EU membership** (excluding Cyprus, Malta and Turkey) was above the EU average by 1.5 percentage points, with domestic demand fuelling economic growth in most candidates, except in Slovenia and Poland. While the EU experienced a deterioration of business climate and falling corporate profits in 2001 and consequently had less investment, the investment figures of five EU candidate-countries, namely Bulgaria, Estonia, Latvia, Lithuania and Slovakia soared to two digits. Investment shrank only in Slovenia and Poland, where a reversed trend is expected this year. The European Commission has forecast a somewhat lower average GDP growth rate in the transition candidate-countries in 2002 (a drop from 3.1% in 2001 to 2.9%), yet private consumption and investment are expected to rise, supporting economic growth, which has been forecast at 3% and 4.3% on average, respectively.

1.2. Economic Growth

1.2.1. Gross Domestic Product - Domestic demand set to rise faster in 2002

1.2.1.1. Expenditure structure of gross domestic product

According to the first annual estimates of the gross domestic product for 2001 published by the SORS at the end of March this year, last year's gross domestic product was 3% higher in real terms compared to the year before. In contrast to 2000, last year's economic growth slowed down by one-third or 1.6 percentage point, thus reaching its lowest level in the last eight years. The slowing down of economic growth in 2001 resulted mainly from the drop in real terms seen in gross investment (by 3.7%) for the first time after 1992. The slowdown in the investment cycle in market activities was influenced by the downward trend in export demand and worse business expectations.

Within investment activity, which is directly or indirectly financed by public finance sources, (mostly due to public finance revenues being lower than originally planned) approximately SIT 10 billion worth of planned investments remained unrealised by the end of 2001. Apart from the real decrease in gross fixed capital formation (by 1.9%), changes inventories were negative (following three consecutive years of relatively high growth), which affected last year's economic growth fall by 0.6 of a percentage point. Gross domestic product growth in real terms was mainly based on the increase in exports and not on domestic consumption growth. Exports of goods and services grew by 6.2% in real terms last year, whilst total domestic demand rose by just 2.2%. Growth in imports of goods and services again decelerated last year (from 6.1% in 2000 to 2.1% in 2001), so that the relative contribution of international trade (foreign trade balance) to economic growth was even more pronounced (see Chapter 1.2.2.1). Within the main domestic consumption categories, only the contribution of private consumption to gross domestic product growth gained strength (from 0.4 of a percentage point in 2000 to 1 percentage point in 2001).

Table 1.2.1.1.1: Growth in demand components

	Real growth in %			
	2000	2001	2002	2003
			Forecast	
Total aggregate demand	5.2	3.0	3.4	4.6
of which:				
Foreign demand (export)	12.7	6.2	4.7	6.5
Domestic demand	3.2	2.2	3.0	4.0
- intermediate consumption	5.1	3.1	3.4	4.4
- private consumption	0.8	1.7	2.3	3.0
- government consumption	3.1	3.2	2.9	3.3
- gross fixed capital formation	0.2	-1.9	2.9	4.8

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

The latest estimates of economic trends for 2002 confirm the autumn forecast's supposition that in the middle of 2002 the expected revival of economic activity will take place in most of Slovenia's main international trading partners, and continue in 2003. This will bring about a turnaround in economic activity in Slovenia in the second half of 2002, namely the gradual strengthening of economic growth in this period and renewed stabilisation at the approximately medium-term level achieved prior to 2001. The forecast of economic growth in 2002 is 3.3%, whilst in 2003 it is expected to rise to 4.3%.

Due to the subdued growth of imports of goods and services in Slovenia's main trading partners (Germany, Italy, and Austria), the forecast annual growth in foreign demand for 2002 (4.7%) is lower than the year before (6.2%). Domestic demand growth is expected to gain strength (from 2.2% to 3.0%), stimulated mainly by the

Table 1.2.1.1.2: Expenditure structure of gross domestic product

	Contribution to GDP growth in percentage points			
	2000	2001	2002	2003
			Forecast	
GROSS DOMESTIC PRODUCT	4.6	3.0	3.3	4.3
Foreign goods and services balance (export-import)	3.4	2.5	0.5	0.8
Total domestic consumption	1.2	0.5	2.8	3.5
- Private consumption	0.4	1.0	1.3	1.6
- Government consumption	0.6	0.6	0.6	0.7
- Gross fixed capital formation	0.1	-0.5	0.8	1.2
- Changes in inventories and valuables	0.1	-0.6	0.1	0.0

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

faster growth of intermediate and private consumption. Investment activity already showed the first signs of recovery in the last quarter of 2001. Given the significantly improved business expectations this year, we anticipate a further recovery of investment in market activities and economic infrastructure, which brings a positive effect to the economy's competitive power. In addition, rationalisation of stocks in 2001 will have a positive effect on economic growth through lower financing costs. In accordance with the adopted budget for 2002, more budgetary funds have been earmarked for investment compared to 2001. Following the modest growth of the past two years, the growth in private consumption will become stronger in 2002 (by a good half of a percentage point compared to 2001). In 2003, growth of exports, which should start gaining strength already in the second half of 2002 based on the assumption of growth stabilising in the international environment, will be around 6.5%; the strengthening of growth in all components of domestic consumption is likewise anticipated to continue.

In 2001, the relatively modest household consumption and subdued growth of investment narrowed the domestic investment-savings gap (which corresponds to the deficit in the current account of balance of payments and is covered by net imports of foreign savings) down to only 0.1% of gross domestic product. A further drop in the share of private consumption in gross domestic product (by 0.3 percentage point annually) is also expected in 2002 and 2003, owing to a greater shift in favour of savings in the consumption structure of household disposable income (see Chapter 1.2.2.2). Mainly due to this structural shift we anticipate that also in 2002 and 2003 the share of gross savings in gross domestic product will remain at approximately the 2001 level. The gradual pick-up in investment activity will affect the resumed growth of the share of gross fixed capital formation in gross domestic product in 2003 (it is anticipated to fall by 0.2 of a percentage point in 2002). Given the expected

Table 1.2.1.1.3: Main national accounts aggregates

	Structure in %, current prices			
	2000	2001	2002	2003
			Forecast	
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0
Net primary income from the rest of the world	-0.4	-0.4	-0.6	-0.7
GROSS NATIONAL INCOME	99.6	99.6	99.4	99.3
Net current transfers from the rest of the world	0.7	0.7	0.7	0.6
GROSS NATIONAL DISPOSABLE INCOME	100.3	100.3	100.1	99.9
Final consumption	75.7	74.9	74.9	74.4
GROSS NATIONAL SAVINGS	24.6	25.4	25.2	25.5
Surplus of the nation on current transactions	-3.2	-0.1	-0.1	0.0
GROSS CAPITAL FORMATION	27.8	25.4	25.3	25.5
of which: gross fixed capital formation	26.7	24.9	24.7	24.9
NET CAPITAL FORMATION	10.3	8.2	8.4	8.3

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

movements of shares of gross national savings and gross fixed capital formation in gross domestic product in 2002 and 2003, the investment-savings gap will stay at a very low level (an approximately balanced current account of the balance of payments).

1.2.1.2. Production structure of gross domestic product

In 2001, value added increased by 3.1% in real terms, namely two percentage points lower than 2000. The greatest slowdown was recorded **in industry and construction** (activities from C to F; see Table). Following the exceptionally high growth in 2000, value added growth in *manufacturing* (4.4%) almost halved due to the slowing down of export activities. *Construction activities*, following some years' favourable trends and the slowing down in 2000, also recorded a slump, mainly related to the dynamics of the construction of road infrastructure, while residential construction growth also saw a similar fall. As a result of unfavourable weather conditions for plant production in the first half of 2001 (frost, hail) and negative influences of animal diseases in animal husbandry at the end of the year, value added **in agriculture** continued to drop for the third consecutive year.

Somewhat lower than in 2000 was value added growth **in service activities** in 2001 (from G to O; see Table). With the exception of *real estate, renting and business services* (K), growth slowed down in all services, yet despite the slowdown it remained relatively high in the sector of public administration, defence and social insurance (5.2%), in financial intermediation (5.1%), in hotels and restaurants (5%) and in the transport, storage and communications sector (4.5%). In the case of *financial intermediation* and telecommunications (within *the transport sector*), we are talking about activities in which, due to the relatively low level of development or fast technological progress, above-average growth rates are expected. The exceptionally high growth of value added in the *public administration, defence and social insurance sector* resulted from the continuing growth in employment, which is as in previous years related to the establishing of new institutions and preparations for accession to the EU. The continuing positive trends in *hotels and restaurants*

Table 1.2.1.2: Growth and structure of value added

	Real growth in %, constant prices 1995				Structure in %, current prices			
	2000	2001	2002	2003	2000	2001	2002	2003
			Forecast				Forecast	
TOTAL VALUE ADDED	5.1	3.1	3.4	4.4	100.0	100.0	100.0	100.0
1. Agriculture, forestry, fishing (A+B)	-1.0	-2.1	3.0	2.1	3.3	3.1	3.1	3.1
2. Industry and construction (C+D+E+F)	7.0	2.9	3.1	4.9	38.3	37.6	37.1	37.0
- industry (C+D+E)	7.8	4.1	3.3	4.9	32.1	31.6	31.2	31.2
- construction F	2.8	-3.5	2.0	4.5	6.2	6.0	5.8	5.8
3. Services (G…O)	4.2	3.6	3.6	4.1	60.6	61.3	61.8	61.9
FISIM	1.9	2.6	2.0	2.0	-2.2	-2.0	-2.0	-1.9

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

were, as in 2000, a consequence of very good tourist results. Within service activities, the lowest growth (2%) was recorded in *retail and wholesale trade.* Trends in this sector, following the exceptionally high growth experienced in 1999, were for the second consecutive year below the average of the last few years before the tax reform and reflected moderate growth of private consumption.

According to the estimates, **value-added growth in 2002** will **slightly rise** (**to 3.4% in real terms**). In 2002, both industry with construction and service activities will maintain approximately the growth dynamics of 2001. Although the slowing down of production volume growth in *manufacturing* had already reached the bottom of the cycle and data for the first few months of 2002 show resumed growth, export dynamics and accordingly production activity should in line with the revival of activities in foreign markets gain strength only in the second half of 2002. Value-added growth in real terms in manufacturing in 2002 is thus estimated to reach 3.7%, slightly less than the 2001 growth level. Given the renewed strengthening of the construction of Slovenian motorway infrastructure, we anticipate that negative trends in *construction* will come to a halt. The forecast of real value-added growth in 2002 is nevertheless modest, a mere 2%, since according to the data on building permits, the subdued growth of residential buildings is estimated to continue in 2002. This can be attributed to the slowdown in demand in the housing market before the expiration of the first five-year period of the national housing savings scheme in 2004. Taking into account the approximately unchanged dynamics of production activity growth, in most market service activities in 2002 more or less similar trends as in 2001 should continue (see Table). Among public services activities (predominantly non-market services), considerable deceleration of value-added growth is expected in public administration activities, defence and compulsory social security insurance, which is related to the announced reduction of employment in public administration (in ministries, government agencies and administrative bodies) and the public sector's more subdued wage growth following the high growth rates witnessed in the last two years (from 5.2% in 2001 to 3.5% in 2002).

In 2003, higher real value-added growth is expected (**4.4%**), mainly due to trends in **industry and construction** (stronger growth from 3.1% in 2002 to 4.9% in 2003), but also in the sector of services (3.6% in 2002 and 4.1% in 2003). Production activity in *manufacturing* will on one hand be stimulated by the anticipated favourable trends in the international economic environment while, on the other, domestic consumption is expected to strengthen considerably in 2002. The strengthening of value-added growth will continue in *construction*, influenced not only by the construction of motorways but also by the renewed pick-up in residential building construction. Strengthening of activities in manufacturing and construction will positively affect the growth dynamics in most market service activities (especially business and transport services). Apart from further development of the banking sector, which should be stimulated by the part privatisation of the largest state bank, growth of financial intermediation will also be influenced by accelerated development in other segments of this activity (insurance, trade in securities). Given the increased competition and technological development, we likewise anticipate a continuation of the development of new telecommunications services and an increase in the number of their users, which will continue to allow accelerated growth in telecommunications. In 2003, the demand for durable goods is expected to strengthen gradually and, accordingly, the acceleration of growth dynamics in retail and wholesale trade activities. In contrast to market services, relatively subdued growth is anticipated in public services, influenced by the slowdown in the public sector's employment and wage growth.

1.2.1.3 Cost structure of gross domestic product

In 2001, real growth in the compensation of employees (4.6%) was higher than real growth in gross domestic product (3.0%); the share of total labour costs (compensation of employees) in gross domestic product increased by 0.1 of a percentage point (to 52.7%). High growth of the wage per employee and also employment in 2001 was mainly realised in the public sector. Compensation for employees is also expected to increase faster in real terms (by 3.9%) than gross domestic product (3.3%) in 2002, the share of total costs in gross domestic product is thus anticipated to rise by a further 0.3 of a percentage point. In 2003, when the real growth of compensation for employees is expected to amount to 3.1%, gross wage growth per employee in the private sector (2.5%) should exceed wage growth in the public sector (1.4%). In line with the anticipated lagging of labour costs' growth behind gross domestic product growth, their share in gross domestic product in 2003 will account for 52.6%.

Taxes on production and imports in 2001 amounted to 16.9% of gross domestic product. Given the expected slower import growth and anticipated strengthening of private consumption growth, it is estimated that, taking into account the rise of VAT levels at the beginning of the year and the forecast increase in excise duties for 2002, taxes on production and imports will account for 17.2% of gross domestic product. A similar share of taxes on production and imports in gross domestic product is expected to remain in 2003. The share of subsidies in 2002 and 2003 should remain at approximately the same level as in 2001 (about 1.8% of gross domestic product).

Table 1.2.1.3: Cost structure of gross domestic product

	Structure in %, current prices			
	2000	2001	2002	2003
			Forecast	
1. COMPENSATION OF EMPLOYEES	52.6	52.7	53.0	52.6
2. TAXES ON PRODUCTION AND IMPORTS	17.3	16.9	17.2	17.3
3. SUBSIDIES	1.9	1.8	1.8	1.8
4. GROSS OPERATING SURPLUS AND GROSS MIXED INCOME (4=5+6)	32.0	32.2	31.5	31.9
5. Consumption of fixed capital	17.5	17.3	16.9	17.1
6. Net operating surplus and net mixed income	14.5	14.9	14.6	14.8
7. GROSS DOMESTIC PRODUCT (7 = 1+2-3+4)	100.0	100.0	100.0	100.0

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

1.2.2. Consumption Aggregates - Private and investment consumption forecast to strengthen gradually in 2002, the contribution of external trade to economic growth lower

1.2.2.1. Export-import flows

Although the **contribution of net exports** to economic growth in 2001 (2.5 percentage points) was lower compared to 2000 (3.4 percentage points), it contributed **relatively more** to the real growth of gross domestic product **than in 2000** (83%; in 2000, 74%) due to the low contribution of domestic consumption. Despite slower growth compared to 2000, exports remained the main lever of economic growth in Slovenia in 2001. According to the data on national accounts for 2001, **real growth in exports of goods and services in 2001** (6.2%) compared to 2000 (12.7%) **slowed down by approximately one-half**, mostly as a **consequence of the slowdown in economic growth in the European Union** (see Chapter 1.1), whose share in Slovenian goods exports accounts for approximately two-thirds. The slowing down of economic activity in Slovenia's main trading partners is reflected in the growth of Slovenian exports through falling export orders[11] with a six-month lag, and slower growth in exports of goods and services therefore being pronounced especially in the last quarter of the year. However, the **increased volume of exports of goods to countries of former Yugoslavia and Russia** prevented any faster fall in export growth rates during the year.

The regional structure of trade flows shows the continuation of considerable growth of the share of these countries in Slovenian exports of goods, starting as early as 2000, which was a consequence of their favourable economic conditions and a more aggressive attitude of Slovenian companies in positioning in these markets, especially in the form of outward direct investment (see Chapter 1.3.3). Within exports to the markets of former Yugoslavia, exports of electrical machinery and equipment, paper and paper products, and pharmaceuticals prevailed; within exports to Russia, the largest share belonged to telecommunications devices and pharmaceuticals. In these markets, Slovenia has increased its market share (see Chapter 1.3.1) and recorded a trade surplus. Exports to the countries of former Yugoslavia and Russia, which grew by 16% and 46% in real terms respectively, have thus in comparison with EU countries contributed relatively more to the real growth of exports of goods (6.6%)

Table 1.2.2.1: Regional structure of exports

	1999	2000	2001
EU	66.1	63.9	62.2
Russia	1.5	2.2	3.0
countries of former Yugoslavia	15.2	15.6	16.9
other	17.2	18.3	17.9

Source of data: BS.

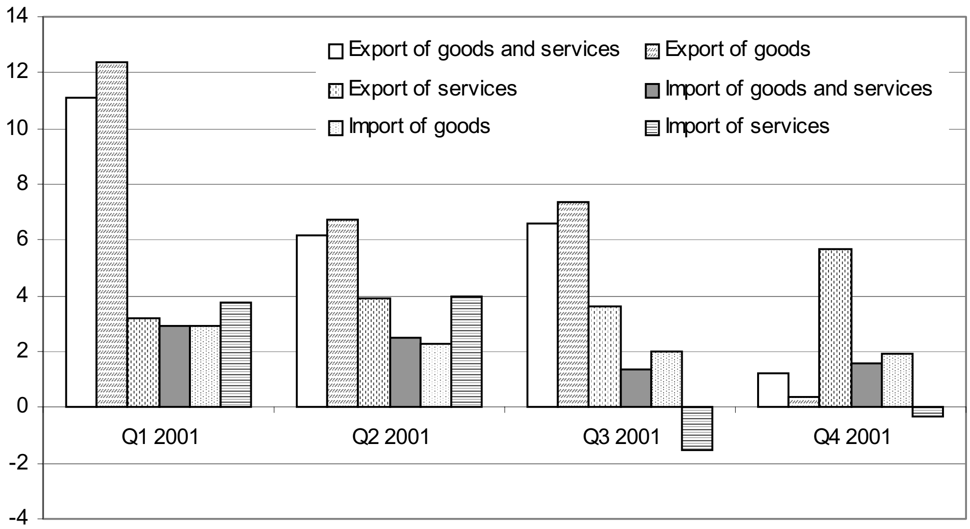
[11] Within exports to the EU, the largest share belongs to road vehicles, electrical machinery and equipment, clothes and non-ferrous metals.

in 2001, their total contribution amounting to 4 percentage points (3.8 percentage points to the 12.8% real growth of goods exports in 2000). The contribution of the real growth rate of exports to EU countries to the real growth of total exports of goods amounted to 2.4 percentage points (6.1 percentage points in 2000). Compared to 2000, **real growth of exports of services slowed down considerably** in 2001 (from 11.8% to 4.1%), with the trend of a decreasing share of exports of services in total exports of goods and services thus continuing, as evident from as early as 1996 (see Chapter 1.3.2).

The volume of import flows in 2001 was mainly influenced by the subdued growth of domestic consumption, particularly by a fall in investment activity (see Chapter 1.2.1), and additionally, mainly in the second half of the year, the slowdown in production growth in manufacturing (see Chapter 1.2.3). The real growth of exports of goods and services was 2.1% (real growth of imports of goods 2.2%), on average amounting to 2.7% year-on-year in the first half of the year and to 1.5% in the second half of the year. Despite the somewhat faster growth of domestic consumption and the revival of investment demand in the last quarter, subdued imports of intermediate goods, accounting for nearly 60% of total imports of goods, contributed to the slowing down of growth of imports in this period. As was the case with imports of goods, the second half of 2001 saw a considerable slowdown in **imports of services**, which in **both of the last quarters year-on-year even recorded a fall in real terms**.

The balance of payments data on import-export trade flows in the first two months of 2002 show a continuation of last year's trends. The influences of the decelerated economic growth in the EU, which was negative in the last quarter of 2001 (see Chapter 1.1), and the gradual falling of real growth rates of exports to the countries

Picture 1: **Quarterly growth rates of exports and imports of goods and services in 2001 (compared to the same quarter in 2000)**



Source of data: SORS.

of former Yugoslavia and Russia have been reflected in the volume of export orders in the first months of 2002. Slovenian exports of goods went up by just 1.9% in real terms[12] year-on-year in the first two months of 2002. Likewise, imports of goods have not yet started to grow, as they even recorded a slight fall (-0.3%) in the same period year-on-year. Thus in the first two months of 2002, the structural share of intermediate goods dropped further both on the exports and imports sides, while the share of consumer goods, and to a lesser extent the share of investment goods in imports, was on the increase. The growth in imports of consumer goods is also influenced by appreciation in real terms of the tolar against the basket of currencies, which was 1.1%[13] year-on-year. In the first two months, trends in the trade of services were more favourable since exports of services grew by 6.3% in real terms compared to the respective period of 2001 and imports of services by 3.9%.

The forecast for exports of goods and services in 2002 (4.7%) anticipates relatively low year-on-year growth rates up to around the middle of the year, but they are expected to gradually strengthen in the third and fourth quarters in accordance with the projected pick-up in economic growth in EU countries (the lag of growth of Slovenian exports in the event of strengthened growth of export markets is estimated to about three months, approximately half less than in the case of decreasing growth). Exports to the markets of former Yugoslavia and Russia are expected to grow relatively faster than exports to EU markets yet, due to the achieved higher level in 2001, it will be impossible to achieve the high growth rates of the year before (in 2002, the estimated growth is 10% and 20%, respectively). The real growth of imports of goods and services, which remained at a very low level in the first two months, is estimated to strengthen[14] gradually in accordance with the expected revival of private and investment demand and general economic activity, which will particularly in the second half of the year once again accelerate the growth of imports of intermediate goods. **The forecast for the real growth of total imports in 2002 is** thus **3.8%**, which is less than the expected growth of exports and at the same time more than in 2001. This year's **falling of the real growth rate of exports and the strengthened growth of imports** compared to the year before will **considerably lower the contribution of net exports to economic growth**, which is estimated at no more than **0.5 of a percentage point**.

Based on the anticipated economic trends in the international environment, **a more pronounced strengthening of the real growth of exports of goods and services** can be expected **in 2003**. Given the projected relatively high growth of foreign import demand (7.2%)[15] and further growth of exports to the countries of former Yugoslavia and Russia, exports will increase by **6.5%** in real terms (exports of goods by 6.9%, exports of services by 4.5%). Along with the anticipated further increase in domestic demand growth, **the real growth of imports** will be **approximately 5.2%** (imports of goods will grow by 5.3%, imports of services by

[12] The IMAD's calculations are based on the balance of payments data and international trade price indices.

[13] Imports of consumer goods are the most affected by changes in the real effective exchange rate.

[14] According to previous data, March 2002 already saw the strengthening of year-on-year growth in imports of goods, which is in accordance with the trends projected in the spring forecast.

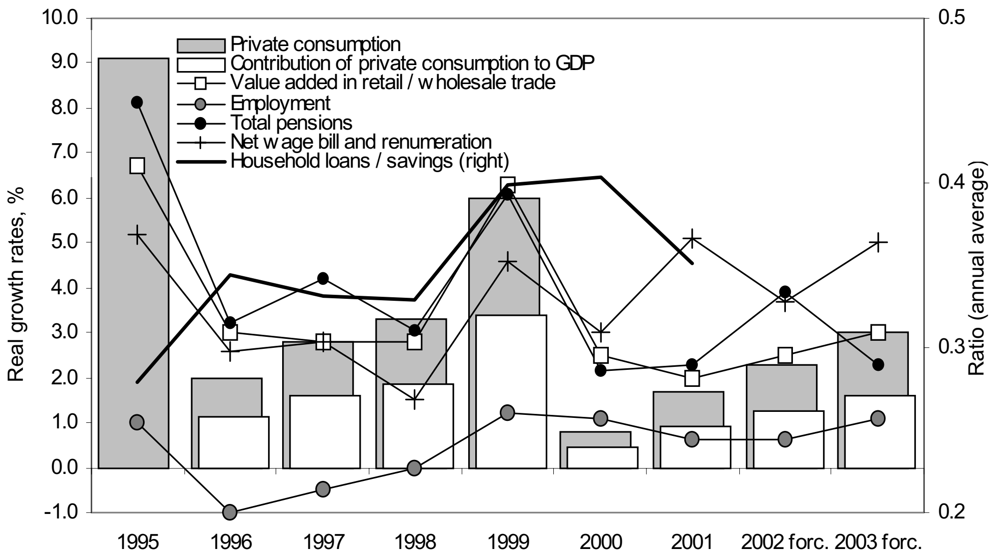
[15] Taken into account are the European part of the OECD and CEFTA.

4.5%). The contribution of net exports to gross domestic product growth will slightly increase (to 0.8 of a percentage point), due to the strengthening of exports and imports, yet their contribution to economic growth will in relative terms be even lower than in 2002.

1.2.2.2. Private consumption

In 2001, private consumption rose by 1.7% in real terms compared to the previous year, which represents the second lowest growth rate in the past nine years. Dynamics by quarters reveal that, compared to the respective period of 2000, household consumption was at its highest in the second and last quarters, which is to a large extent attributed to the movement of total wages and social transfers to households[16]. Judging by the structure of the consumer price index in 2002, which reflects the pattern of household spending in 2001, 2001 saw an increase in the share of household expenditures on communications, health and furniture, and a downturn in spending on transport, housing and clothes. The share of durable goods fell again in 2001, mainly at the expense of the increased share of services, which recorded the fastest

Picture 2: **Private consumption and some related aggregates**



Source of data: SORS, BS, forecast by the IMAD

[16] In the second quarter of the year, households were encouraged to consume (2.6% real growth) mainly by the high growth of total net wages (4.5% in real terms), which was only higher in the first quarter, but also by growth of transfers (2.2% in real terms) as pensions were then higher due to the June payment of pensioners' recreation grants. In the third quarter, the total net income of households reached the lowest year-on-year growth (1.0%), which affected year-on-year growth of private consumption of the same percentage, while consumption in the last quarter, in accordance with the faster growth of wages (3.9% in real terms) and transfers (1.4% in real terms), strengthened again (to 2.6%).

growth rates within household consumption expenditure after 1995.

The subdued private consumption growth rates in the past two years point to a changed structure of household income spending. Although the low level of consumption in 2000 is mainly linked to the high base in 1999 and relatively low wage growth, the data on the spending of household disposable income, last year's strengthened wage growth taken into account (the gross wage per employee achieved 3.2% growth in real terms and just 1.6% in 2000), point to a great shift in the structure of spending towards saving. We assume that the increase in saving is connected to higher deposit interest rates, a high level of the tolar indexation clause, the changing of the social security system (additional pension insurance) and the introduction of the national housing savings schemes. Long-term savings recorded the highest growth rates among household deposits (see Chapter 1.7.2). In relation to this, it is very likely that despite the gradual disburdening of household income through the repayment of loans taken out in 1999, households will increase their savings rather than take out new loans.

Also contributing to the lower growth of household consumption in the past two years is the fact that households are relatively well equipped with durable goods, whose purchase is normally financed by loans. Household consumption of durable goods, whose duration by definition exceeds one year and their value is relatively high, namely recorded very high growth rates until 1995 and also in 1999 due to expectations prior to the introduction of VAT, but it later slowed down.

In accordance with the high rise in household savings and the lower demand for bank loans, household net indebtedness with banks was again on a decrease last year (the ratio of loans to deposits – from 0.37 at the beginning of the year to 0.31 at the end of the year). The burdening of households with loans (the ratio of the average stock of bank loans to average registered monthly income) was last year, owing to the changes in the maturity of loans, decreasing at a slightly slower pace (from 3.0 in the first quarter to 2.8 in the last) and remains at a relatively high level (in 1998, prior to the introduction of VAT and the ensuing household indebtedness, it on average amounted to 2.1).

Table 1.2.2.2: Ratio of loans to registered monthly income of households

Period	Average monthly level of commercial banks' loans to households (in SIT billion)	Average registered monthly household income (in SIT billion)	Loans/Income
1995	123.9	88.9	1.39
1996	192.9	106.4	1.81
1997	224.6	119.8	1.87
1998	272.7	131.8	2.07
1999	390.2	146.5	2.66
2000	472.1	164.3	2.87
2001	516.8	181.6	2.85

Source of data: BS.

Box 2: Household disposable income

According to our estimates, household disposable income increased by 3.7% in real terms in 2001, its growth to the largest extent being influenced by movements of the largest aggregates in the structure of household income, particularly the high growth of total wages, the increase in social transfers to households and the more moderate growth in outflows. The gross wage per employee rose by 3.2% in real terms last year, which, together with the 1.7% increase in the number of persons in employment, raised the compensation of employees by 4.9%. The total of pensions rose by 2.3% in 2001, which is a result of the 1.2% increase in the number of pensioners and the year-on-year adjustment of pensions. Due to the higher savings, household income in 2001 increased on account of interest by as much as 30%, income received from non-life insurance by 13% and miscellaneous current transfers abroad by 15%. As far as use is concerned, income tax went up by 3.2% in real terms last year; interest remained at nearly the same level, while miscellaneous current transfers and non-life insurance premiums increased by 6.7%.

We anticipate slightly slower (3.2%) growth in household disposable income this year and at the same time a more pronounced tendency towards saving (which amounted to 16.8% last year). The total of employees' compensation is expected to rise at a slower pace this year, since growth of the gross wage per employee and the number of wage recipients will be lower than in 2000. The total of pensions should, on the contrary, this year increase by 3.4% in real terms, to a large extent due to the increased number of pensioners (2.7%), particularly those entitled to state pensions. In 2003, household disposable income is expected to additionally gain strength, by 0.2 of a percentage point compared to 2002, mainly on account of the resumed faster rise in employment and a decrease in income tax, which should affect the increase of total net wages.

In 2002, we anticipate moderate growth in private consumption (2.3%), which compared to 2001, should strengthen only by a good half of a percentage point. While real growth in the gross wage per employee (2.5%) is expected to be lower than in 2001, the trend of employment likewise slowing down, transfers to households, in particular pensions, will this year record considerably higher growth rates. In accordance with the dynamics of wage movements and pensions, it is estimated that this year household consumption will be the highest in the second and third quarters, and at the same time it is anticipated that the trend of increased saving characteristic of the past two years will continue in 2002 and 2003.

In 2003, the real growth of private consumption is not expected to exceed 3%, this projection being based on the assumption that both wages and social policies are properly implemented and that household saving will remain at its relatively high level (17.2% of disposable income). If the projected amendments to the Personal Income Tax Act are carried out next year, this would – given the 5% increase in real terms of total net wages and the lower burdening of wages by taxes, especially of households in lower income brackets (whose marginal propensity to consume is higher than in households in higher income brackets) – encourage their higher consumption.

1.2.2.3. Investment

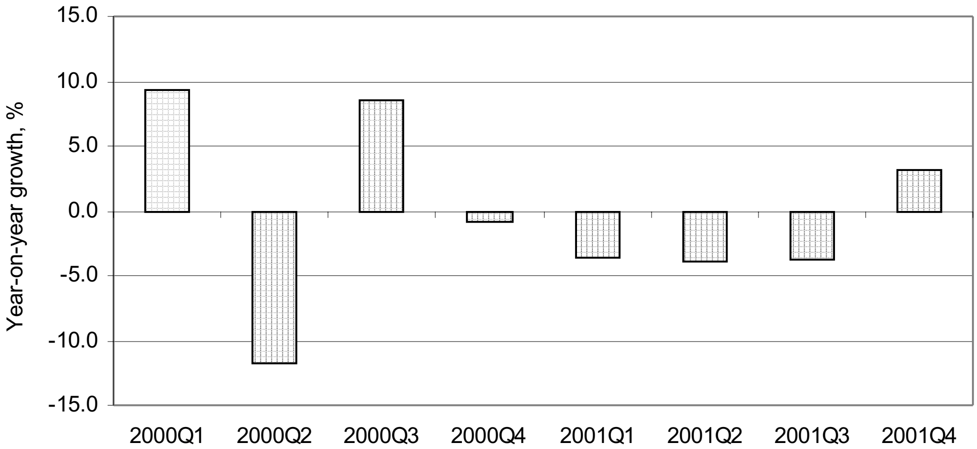
Following modest real growth in 2000 (0.2%), gross fixed capital formation in 2001 for the first time after 1992 decreased in real terms (by 1.9%) compared to the previous year[17]. Despite problems caused by the falling export demand and worsened business expectations, which have resulted in a slowdown of the investment cycle (according to the SORS' data, the confidence indicator in manufacturing reached its bottom in October), we estimate that investment growth in market activities (excluding infrastructure) remained positive last year. Compared to the previous year, investment in economic infrastructure (the sector of energy, motorway construction) decreased in real terms last year, the same being true for investment in residential dwellings. Within investment activity which is directly or indirectly financed by public finance sources, unrealised investment totalled SIT 10 billion (due to the lower public finance income), and given the high indebtedness of certain public companies as far as loan repayment capacity is concerned, the financing of the public sector through loans dropped considerably last year.

According to the available data on the technical structure of investments, investment activity recorded a slowdown in all segments already in 2000, the least in investments in equipment and machinery. Following an 8.5% average real growth rate in 1995 to 1999, investments in residential buildings (their share in total fixed capital formation accounts for approximately 15%) decreased by 2.7% in real terms in 2000. Based on the lower number of issued building permits for residential buildings and the reduction of floor area in these buildings, the slowdown as estimated also continued in 2001. Investments in non-residential and other constructions, which in 1995 to 1999 recorded an even more intensive increase than investments in residential buildings (their average annual growth rate was 15.7%), fell by 1% in real terms in 2000, partly as a result of the curbing of public finance spending. Investments in non-residential and other constructions likewise fell in real terms in 2001, mainly due to the slowdown in the motorway construction and lower investments in the railway infrastructure. Following a period of considerable growth in 1997 to 1999 (15.8%) related to the restructuring of privatised companies, investments in equipment and machinery recorded 3.5% growth in 2000. Taking into account movements in the imports of investment goods, we estimate that the growth of investments in equipment and machinery also remained positive in 2001 or that it started to gain strength in the second half of 2001.

In the last quarter of 2001, investment activity began to show the first signs of recovery after four consecutive quarters, thanks to the low comparative base (the

[17] In analysing the reasons for stagnation in 2000 and the slowdown in 2001, one should not overlook the high level of investment of previous years. The average annual growth of gross fixed capital formation in 1995 to 1999 (13.5%) considerably exceeded the average annual real growth of gross domestic product (4.2%). Investment activity was extremely lively especially in 1999, since gross fixed capital formation increased by as much as 19.1% in real terms, its structural share in gross domestic product increasing by as much as 2.8 percentage points (to 27.4%).

Picture 3: **Gross fixed capital formation (year-on-year growth)**



Source of data: SORS.

level of investments the year before) and the moderate growth of investment goods prices in this period (according to the SORS' estimates, the implicit deflator of gross fixed capital formation year-on-year amounted to approximately 108.4 in the first three quarters, while in the last quarter it stood at 105.9).

In 2002, investment activity is estimated to continue its gradual growth, both in market activities and economic infrastructure, which will exert a positive influence on the competitive power of the economy. The revival of investment growth will this year somewhat lag behind the expectations of the autumn forecast (4.6%) – the influence of increased uncertainty and the dampened business outlook from 2001 are to a certain extent still present – which put a brake on companies' investment plans. The available data show that some other reasons, which affected the fall in investment activity in 2001, remain in 2002 (lower investment in residential building, a more pronounced shift of directing companies' funds into financial investments). The downward trend in interest rates and compared to 2001 a higher volume of budgetary funds for investment financing in accordance with the adopted budget are indicative of the positive shifts aimed at stimulating investment.

In 2002, real **growth in gross fixed capital formation** is estimated to amount to **approximately 2.9%**. According to the areas of investing, 2002 is to see faster growth than 2001 in investment in telecommunications (compensation for the shortfalls seen in 2001, further liberalisation of the market), investment in public services (paediatric clinic, oncology institute, numerous other hospitals, students' halls of residence) and energy (a very heavy fall in 2001). Investment in transport infrastructure[18] excluding telecommunications is also expected to be higher than in 2001. The public finance sources, representing around 16% of total investments, will increase by 2.9% in real terms in 2002 (4.7% real growth is expected in 2003). The share of public finance sources in the financing of investments is estimated to

[18] Due to the changed conditions and dynamics of motorway construction, a second supplementary budget of the national motorway construction programme is envisaged, which should be examined

amount to 4.3% of gross domestic product in 2002.

Given the improved business outlook, we anticipate that investment in equipment and machinery will also grow in 2002. Investment activity will be in addition favourably influenced by the low growth of investment goods prices - following their low growth in the last quarter of 2001, investment goods prices in the first two months of 2002 increased by just 1.6% compared to the respective period last year.

The strengthening of residential construction is not yet expected in 2002. The number of building permits issued for residential buildings and their projected useful floor space were the lowest seen in past years[19]. On the other hand, we anticipate that favourable trends in non-residential construction will continue this year and that the decrease in civil engineering works will slow down.

Further strengthening of investment activity is also expected **in 2003**, **when growth in gross fixed capital formation is estimated to amount to 4.8%**. The public finance sources should increase by 4.7% in real terms in 2003, and growth of investments in residential construction is likewise anticipated, while investments in non-residential and other constructions will be favourably influenced by the enforcement of two new acts (the Construction Act and the Spatial Planning Act). These new laws, which are supposed to enter into force next year, simplify procedures for obtaining the permit, which should shorten the construction time. Further growth of investments in equipment and machinery is likewise expected, their volume to a large extent affected by integration processes and take-overs of companies by both foreign and domestic companies.

1.2.2.4. General government consumption

In 2001, **general government consumption grew** by 3.2% in real terms, its share in gross domestic product accounting for 21.3%. **Collective general government consumption** on administrative, defence, economic, research and development and other common non-market services of the state rose somewhat faster (by 3.9% in real terms), while **individual general government consumption** on non-market services in the fields of education, health, social security, culture, sport, and market-oriented products and services such as pharmaceutical products, orthopaedic accessories, concession rights to the private sector, health resort services and the like, increased somewhat slower compared to total general government consumption (by 2.6% in real terms).

The forecast growth of general government consumption in 2002 is 2.9%. Growth of general government consumption is projected on the basis of the estimated

by the Government in June and by the National Assembly in July. The new budget should ensure the 'petrol tolar' until the end of financing the national programme, but in smaller amounts than envisaged by the original law, and should enable the repayment of loans in the period after the end of construction.

[19] Figures on building permits are available from 1998 onwards. According to the provisional data, the construction of 5,051 dwellings with a total useful floor space of 597,409 m² was anticipated based on the number of building permits issued last year, which is 6% less than the year before or 19% less than in 1998 and 1999.

Table 1.2.2.4: General government consumption (individual and collective)

	1997	1998	1999	2000	2001	2002	2003
						Forecast	
Real annual growth (in %)							
Total general government consumption	4.3	5.8	4.6	3.1	3.2	2.9	3.3
Individual consumption	3.6	6.1	3.9	2.2	2.6	2.6	3.2
Collective consumption	5.3	5.4	5.5	4.3	3.9	3.3	3.5
Share in GDP (in %)							
Total general government consumption	20.4	20.3	20.2	20.8	21.3	21.5	21.5
Individual consumption	11.5	11.4	11.5	11.8	12.2	12.3	12.2
Collective consumption	8.9	8.8	8.8	9.0	9.1	9.2	9.3

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

realisation of national budget expenditure for 2002, financial plans of the Health Insurance Institute and the Pension and Disability Insurance Institute, and local government budgets[20]. In 2003, the growth of general government consumption, estimated to be 3.3% in real terms, will still lag behind gross domestic product growth. This gap will be conditioned on the one hand by the public finance revenues and by public finance expenditure on the other, particularly by transfers to households (social allowances, pensions) and investments from public finance sources.

1.2.3. Real Sector - Value added expected to grow more slowly in manufacturing and public administration and more strongly in agriculture and construction

1.2.3.1. Analysis of economic trends and projections by activities

Broken down by sectors, most value added is generated in the service sectors (in 2001, 61.3% of value added was recorded in activities G to O), their share in total value added having increased again last year, as was also the case in recent years (see Table), at the expense of the reduced share of industrial activities (from C to E) and due to the shrinking economic importance of agriculture, hunting and forestry

[20] The (recommended) SORS' methodology is used to estimate general government consumption in constant prices. Calculation into constant prices does not only use the consumer price index as a deflator, but also the general government consumption deflator, which consists of various deflators for individual categories within the economic structure of government expenditure. In estimating general government consumption, the projected growth in the consumer price index is taken into account as the deflator for intermediate consumption, while the gross wage index (average labour cost) is used for the part related to wages. This means that the anticipated growth of wages in the public sector, wages representing an important share in the price structure of government services, pushes the government consumption deflator up and decreases the real growth of general government consumption.

Table 1.2.3.1: Growth and structure of value added by activities

		Real growth rate in %, constant prices 1995				Structure in %, current prices 1995			
		2000	2001	2002	2003	2000	2001	2002	2003
			Forecast				Forecast		
A	Agriculture, hunting, forestry	-1.0	-2.1	3.0	2.0	2.9	2.7	2.7	2.7
B	Fishing	-3.5	1.2	3.0	3.0	0.0	0.0	0.0	0.0
C	Miming and quarrying	-1.4	-7.1	3.0	-1.0	0.9	0.8	0.8	0.7
D	Manufacturing	8.6	4.4	3.7	5.5	24.0	23.7	23.5	23.6
E	Electricity, gas and water supply	2.9	6.1	-0.5	0.5	2.8	2.9	2.8	2.7
F	Construction	2.8	-3.5	2.0	4.5	5.3	5.2	5.0	5.0
G	Wholesale, retail, trade, repair	2.5	2.0	2.3	3.5	10.0	10.1	10.1	10.0
H	Hotels and restaurants	9.8	5.0	5.0	5.0	2.8	2.9	2.9	2.9
I	Transport, storage, communications	4.7	4.5	4.5	5.0	7.0	6.9	7.0	7.0
J	Financial intermediation	5.9	5.1	5.5	6.5	3.9	3.9	4.0	4.1
K	Real estate, renting and business activities	3.0	3.4	3.5	4.0	10.5	10.7	10.8	10.8
L	Public administration and com. soc. sec.	5.7	5.2	3.5	3.5	5.0	5.2	5.2	5.2
M	Education	3.7	2.5	2.5	2.5	5.1	5.3	5.2	5.1
N	Health and social work	4.2	3.7	3.8	3.5	4.8	5.0	5.0	5.0
O	Other community and personal activities	4.5	3.8	4.5	5.1	3.3	3.4	3.4	3.4
	FISIM	1.9	2.6	2.0	2.0	-1.9	-1.7	-1.7	-1.7
1.	VALUE ADDED (A … O + FISIM) in basic prices	5.1	3.1	3.4	4.4	86.4	86.8	86.6	86.7
2.	NET CORRECTIONS (taxes on goods and services - subsidies)	1.9	2.0	2.6	3.8	13.6	13.2	13.4	13.3
3.	GROSS DOMESTIC PRODUCT (3 = 1+2)	4.6	3.0	3.3	4.3	100.0	100.0	100.0	100.0

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

(from A to B). The abovementioned structural changes are estimated to continue in 2002 and 2003, with the share of service activities in value added expected to account for 62% and the share of industrial sectors to decrease slightly, whilst the share of agricultural activities in value added is expected to remain approximately 3% until 2003. A detailed analysis of economic trends by individual sectors in 2001 and a projection of value-added growth for the current and next year are indicated below.

2001 was once again distinctively unfavourable for activities in the sector of **agriculture**, **hunting and forestry (A)**. Value-added growth was negative for the third year running (see Table) largely due to unfavourable weather conditions. According to the first estimates, last year's harvest of most cultures in plant production was lower owing not only to drought but also to frost and hail. The largest crop shortfall was recorded with fodder crops (-17%), corn (-9%) and sugar beet (-47%)[21]. There was good harvest of wheat (+11%) and other winter cereals, which had been reaped prior to the main summer drought. Fruit-growing and wine-

[21] Compared to the previous year, more agricultural area was under fodder crops (+12%) while the agricultural area under corn remained nearly the same size (-1%). The poor harvest of sugar beet is a result of less sown agricultural areas (-40%).

growing recorded a great reduction in yield (fruit - 40% and grapes – 16%). 2001 saw the continuation of the trend of increased stocking of mainly pork and poultry in *animal husbandry*. The animal register dating to the end of the year revealed that the number of beef cattle was 3% lower compared to the respective period last year, whilst the great difficulties cattle breeders are faced with following the BSE outbreak in Slovenia[22] last November are not yet visible in these figures. The quantity of purchased milk was still on the increase[23] largely due to greater specialisation and intensification of production. It is estimated that following a relatively unfavourable three-year period, the volume of plant production will increase, while the total volume of animal husbandry, burdened with problems caused by animal diseases, will remain at approximately the same level as the previous year. Agricultural trends will be favourably influenced by substantial state aid, as compared to the previous year a quarter more financial means are foreseen for implementation of the measures of agricultural policy and rural development. Value added of this activity should thus **this year** increase **by 3%** in **real terms** and **by** further **2% in the following year**.

Fishing, although contributing only a small share[24] to total value added, following a reduction of value added in 2000 again recorded positive growth in 2001. It is estimated that **about 3% real growth** will also continue **in 2002 and 2003**, when owing to the population's greater food awareness and animal diseases we can expect increased demand for fish and fish products. The possibilities for further growth of this activity lie primarily in freshwater fisheries.

Following a slight increase in the 1995-1999 period, value added in **mining (C) in 2001** experienced a decrease for the second consecutive year, by 7.1% in real terms. Last year's decrease of value added went beyond our forecast since the production of lignite dropped more than was foreseen in the energy balance of the Republic of Slovenia. Although the extraction of lignite dropped by 7.8% in 2001, the production of electrical energy in the Šoštanj thermal power plant, which is practically the sole user of the lignite in question, was the highest in the last few years. Increased consumption of lignite was not a consequence of increased production but, moreover, of stock reductions[25]. The extraction of *brown coal* dropped by 3.6% in 2001. The achieved extraction quantity (710,000 tons) was thus exactly the same as established by the law on the gradual closing of the Trbovlje-Hrastnik brown coal mine. According to the SORS' data, production in *non-energy mining sector* went down by 9.6%. It is estimated that the production of lignite will record 14.8% growth in 2002, while in accordance with the law on the closing of the Trbovlje-Hrastnik mine the production of brown coal will fall to 600,000 tons, which represents a 15.5% decrease. Following a simultaneously continuous decrease in the share of activities in the non-energy-mining sector, **an approximate 3% increase** in value

[22] Purchase prices of meat have decreased, breeders carry part of the costs for animal testing for BSE and the slaughtering of cattle on farm holdings' premises is banned, which likewise hinders production and raises production costs.

[23] In 2001, the purchase value of milk increased by 3% compared to 2000 and by 20% compared to 1991.

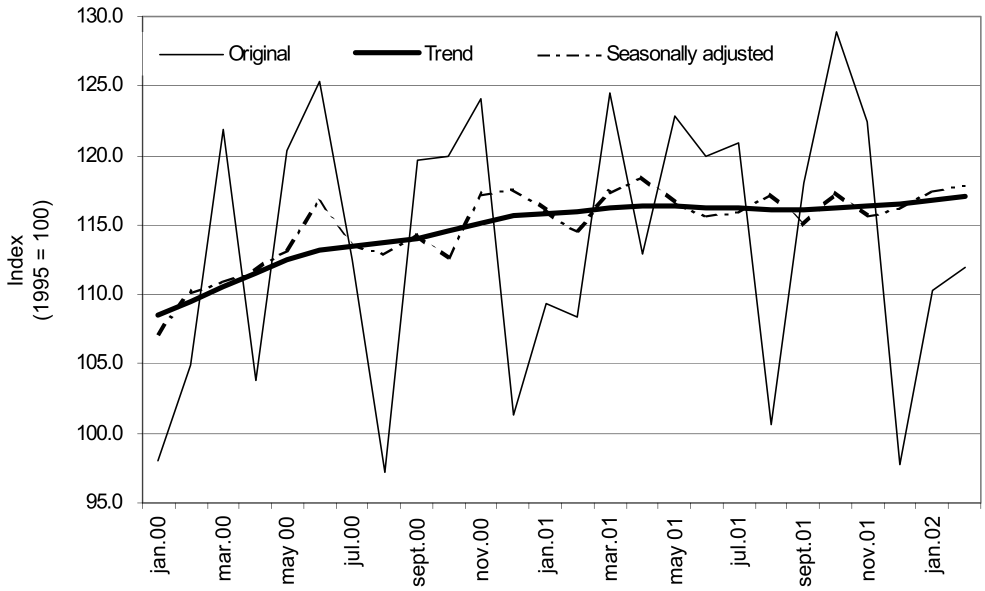
[24] Around 0.01 percent, the share in recent years experiencing a constant decrease.

[25] According to the ELES' data, lignite stocks reached 763,000 tons at the beginning of 2001, which was 11.4% more than planned, while at the end of the year the stock stood at 257,000 tons.

added in mining is forecast **in 2002**. **In 2003**, with no major changes foreseen in the extraction activity, value added in mining is estimated to **fall by approximately 1%**.

Production activity in **manufacturing (D)**, the most export-oriented sector of the Slovenian economy[26], is closely associated with developments in the international economic environment. Following the highly favourable business outlook in Slovenia's main international trading partners, international economic activity began to decelerate last year, which was evident in modest value-added growth in Slovenian manufacturing in the last year (4.4% in real terms). Compared with the year before (8.6%), value added so to speak halved, yet nevertheless decreased by only one-half of a percentage point with regard to the average of the past five years. Quarterly growth rates in 2001 reflected this following dynamic growth in the first quarter of the year (+6.5%), the second quarter was characterised by decelerated growth (+3.5%) and the third quarter once again by increased growth (+5.0%), while in the final quarter of the year value-added growth stabilised at 2.5%. In manufacturing, similar dynamics in 2001 were also recorded in the volume of production, which likewise pointed to the slowdown of growth towards the end of the year (see Chart). Characteristic of last year is also an increased level of stocks, which from December 2000 to December 2001 went up by 2.3% per unit of production, thus reflecting the

Picture 4: **Volume of production in manufacturing**



Source of data: SORS, calculations by the IMAD, according to the TRAMO-SEATS method.

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

fact that realised sales could not keep up with the achieved production level. Despite the slowdown in the growth of production volume and value added, employment in manufacturing[27] last year experienced its smallest fall in the last five years (-0.6%). Given a 2.8% increase in production volume, the level of productivity growth was thus 3.4%.

Due to a slowdown in foreign demand**,** growth of the production volume of predominant exporters in manufacturing[28] more than halved (from 9.4% in 2000 to 4.3% in 2001), but they nevertheless achieved much more favourable results than manufacturers mainly oriented to the domestic market, which last year saw a 1.4% decrease of production volume (2.1% growth in 2000). In 2001, the highest growth rates in production volumes within the group of predominant exporters were recorded in the following industries – in the manufacture of machinery and equipment (15.4%), in the manufacture of chemicals and chemical products (8.1%), and in the manufacture of electrical and optical equipment (6.4%). The worst results are still recorded by those sectors, which, in spite of being export-oriented, remain labour-intensive sectors, and are as such not competitive in foreign markets. The most pronounced drops in production volume were recorded in the manufacture of textiles and textile products and wood-processing and the manufacture of wood products, which showed a nearly 10% decrease in production volume, while the production of coke, oil products and nuclear, mainly oriented to the domestic market, has been experiencing a sharp drop in production volumes in the last few years (in 2001 a 67.4% decrease). Based on the abovementioned trends, it can be concluded that 2001 saw the intensive continuation of the process of restructuring the Slovenian manufacturing sector towards the strengthening of more profitable and productive sectors.

The figures on production volumes for the first two months of the current year show that the slowing down of the volume of production reached the bottom of the cycle already at the end of 2001, since this trend turned upwards in January. The volume of production in the first two months of 2002 exceeded last year's production volume by 2.1% (the average year-on-year growth in 2001 was 2.8%). In spite of the abovementioned shift in the trend, business expectations of companies in manufacturing at the beginning of the year remained quite uncertain, which was evidenced by high variability of the confidence indicator[29]. The information that in March, for the fourth consecutive month, companies' expectations of increased foreign demand in ensuing months have heightened is relatively encouraging.

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[27] The data refer to companies employing 10 or more people.

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

[29] According to the survey on business trends in manufacturing, the composite confidence indicator improved in January and February, yet was negative again in March and April.

Taking into consideration the international institutions' forecasts of the expected revival of European economies, which will be more pronounced especially in the second half of 2002, it is estimated that in the first half of the year subdued growth of production volume will continue, thus affecting the average real value-added growth **in 2002**, which will be slightly lower than in the previous year, namely **3.7%**. Production activity growth rate is expected to increase already in the second half of this year and, due to favourable international trends, is estimated to continue at an accelerated pace also **in 2003**, value-added growth according to the estimates thus exceeding the last five years' average (**around 5.5%** in real terms).

Following a moderate drop in 1999, value added in **electricity, gas and water supply (E)** in 2000 increased by 2.9% and by an amazing 6.1% **in 2001**, which can be mostly attributed to dynamic growth in electricity supply, electricity suppliers with their three-quarter share being the greatest contributors to value added. The production of electricity (measured in GWh) increased by 6.1% last year (the production of thermal power plants and the nuclear power plant increased by 7.8% and 10.8%, respectively, while hydro-electric power plants recorded a 2.1% production decrease compared to the year before). Contributing to the increased production of the nuclear power plant was the realised replacement of the steam generators in 2000, with thermal power plants having increased their production in the last quarter in order to offset the shortfalls in hydro-electric power plant production brought about by the low water levels of Slovenian rivers. Net exports of electricity increased by one-third and accounted for 14.2% of domestic electricity production. Although data on movements in the volume of activity *in water, gas and heat supply* are not available, it is very probable that the assumption for 2001 will come true, namely that the volume of consumption of natural gas and water supply will remain nearly the same, while the use of heat distribution will record a substantial increase (according to the energy balance of the Republic of Slovenia, a 13.2% increase). The energy balance of the Republic of Slovenia for the 2002-2006 period foresees a 0.9% decrease in the volume of total production of electricity in 2002 (the production of hydro-electric power plants and thermal power plants is expected to fall by 2.1% and 6.0%, respectively, while the nuclear power plant's production should rise by 4.4%). Assuming there will be a 1% increase in natural gas and water supply and heat distribution, we anticipate that **in 2002** value added in electricity, gas and water supply will decrease **by 0.5%**, while **in 2003,** notwithstanding the unchanged volume of total production of electricity, value added will **increase by 0.5%**.

Following the substantial growth of value added in real terms **in construction (F)** in 1999 and the slowdown in 2000, last year's value added was 3.5% lower, while even lower was the value of construction put in place[30] (by 7.7% in real terms). The negative trends are a result of the fall in activities in *civil engineering works* (the value of construction put in place was 20.5% lower in real terms), this fall in activities being mainly linked with the slowdown of motorway network construction. Activities in civil engineering works reached their bottom in the middle of last year: in the second and third quarters the value of construction put in place fell by more than

[30] Data on the value of construction put in place include companies and organisations employing 10 or more people.

one-quarter, and by 12.5% in the last quarter. *Residential construction* was likewise very modest since the demand in the housing market, three years prior to the expiration of the first five-year period of the national housing savings scheme, was low. The value of construction put in place in housing construction last year thus increased by just 1.3% in real terms. The relatively favourable trends in 2001 were only characteristic of *non-residential construction* (7.3% growth in real terms). The January 2002 data on the value of construction put in place do not show any improvements in trends in civil engineering works as the value of the construction put in place year-on-year has again decreased (by 23% in real terms). In line with the draft annual for the development and maintenance of motorways, which envisages renewed growth of funds earmarked for this purpose in 2002, we can nevertheless anticipate that the reduction of activities in civil engineering construction will this year slow down. Favourable trends are also expected to continue in non-residential construction. Given last year's decrease in the number of building permits issued for housing, we do not expect to detect any substantial shifts in residential construction **in the current year**. It is estimated that value added in construction will thus only increase by **2.0%**. In 2003, the strengthening of motorway construction[31] is set to continue, and at the same time a more substantial increase in residential building construction can be expected (due to the expected increase in demand related to the expiration of the first national housing savings scheme). Construction activity will be favourably influenced by new spatial planning legislation, which will presumably come into effect in 2003. Real value-added growth **in 2003** is forecast to increase by **4.5%**.

After the exceptional growth in 1999 (6.3%) linked with increased consumption following the introduction of value-added tax, value-added growth **in wholesale and retail trade and motor vehicle repairs (G)** calmed down for the second consecutive year in 2001 (to 2.0%, see Chart). According to the quarterly TRG-ČL[32] survey, modest results in 2001 were recorded mainly in retail trade, while wholesale trade performed better. Compared to the year before, turnover in retail trade in 2001 grew by a mere 8.4% in nominal terms or 0.1% in real terms (deflated by the consumer price index). The increase in turnover was largely a consequence of increased sales in retail trade of food, beverages and tobacco[33], while turnover generated by retail trade in non-food and retail trade in motor vehicles[34] was in real terms even lower than previous years. Turnover in wholesale trade in 2001 grew by 12.0% in nominal terms or by 3.3% in real terms compared to 2000. Within wholesale trade, turnover increased in non-food trade (by 16.5% in nominal terms) and trade in food, beverages and tobacco (by 14.9% in nominal terms), while turnover in trade in motor vehicles and fuels fell by 2.0% in nominal terms. Wholesale stores in

[31] According to the draft annual plan on the development and maintenance of motorways, the funds earmarked for motorway construction in 2003 should, compared to 2002, increase by 13.5% in nominal terms.

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

[33] Retail trade services of food, beverages and tobacco generated more than one-third of total turnover in retail trade in 2001.

[34] In comparison with 2000, the number of new cars and motor vehicles registrations in 2001 decreased by 12.9% and 18.0%, respectively.

2001 once again sold most of their merchandise[35] to retail stores (37.1% of merchandise), yet this represented only a 6.6% increase in nominal terms compared to 2000, which is indicative of the modest activity seen in retail trade in 2001. The value (turnover including VAT) of wholesale trade sales to production organisations (reproduction, farmers, craftsmen, hotels and restaurants) in 2001 increased by a substantial 27.1% in nominal terms.

The data on the number of new motor vehicle registrations in the first two months of 2002 (compared to the same period last year, this number decreased by one-third) indicate that business results of companies selling motor vehicles will probably not improve considerably. On the basis of the March estimate of the future financial situation with regard to the consumer confidence indicator, we do not anticipate any substantially higher sales of other durable goods. In line with such trends, real value-added growth in trade will this year experience only a slight pick-up (**to 2.3%**), while much more favourable trends can be expected already **next year** (**around 3.5% real growth**), with the projected gradual increase in demand for durable goods (mainly in trade in motor vehicles).

Hotels and restaurants (H) recorded 5% growth in value added in real terms in 2001, which was nearly half of the record growth in 2000 (9.8%) yet still high above last year's average. Relatively high growth of value added was favourably influenced by a successful tourist season as the number of overnight stays in 2001 exceeded the 7 million[36] for the first time since the independence of Slovenia. The increased number of overnight stays contributed to higher turnover in hotels and restaurants (by 6.4% in real terms), mainly in companies specialised in providing accommodation and related services (by 13.6% in real terms), and catering service companies (by 5.7% in real terms); turnover in companies predominantly involved in beverage serving was lower by 10.9% in real terms. The first figures on the number of tourists and their overnight stays[37] indicate that the 2002 tourist season will be successful. Simultaneous with the growth in overnight tourist stays (above all foreign ones) and given the anticipated improved and more attractive services, guests' spending is likewise expected to rise. It is estimated that **value-added growth in real terms** will in 2002 and 2003 remain at the relatively high level of **around 5%**.

The **transport, storage and communications sector (I) in 2001** recorded 4.5% growth of value added in real terms, which is approximately the average of the last few years. According to the SORS'[38] data, volume indexes in *passenger transport* are for the most part lower. The decrease in the volume of passenger transport in

[35] Turnover including VAT.

[36] The number of overnight stays increased by 6.1% in 2001. The increase in the number of overnight stays is entirely a consequence of the rise in foreign guests' overnight stays (by 24.2%), while the number of domestic guests' overnight stays remained at the 2000 level.

[37] In the first quarter of 2002, the number of tourists in Slovenia increased by 1.7% compared to the same 2001 period; their overnight stays likewise recorded an increase of 2.3%. The number of foreign guests and their overnight stays rose (by 7.9% and 6.3% respectively), while the number of domestic tourists recorded a decrease.

[38] The SORS' data for 2001 on railway and road transport are not yet final.

both urban and suburban public transport continued, which compared to 2000 fell by 18.8% and 12.9% respectively, this being particularly unfavourable when it comes to the substitution of public transport by cars. Following several years' high growth, negative trends in air transport and airport passenger traffic began last year (drops in the volume of business by 8.8% and 10.5% respectively), influenced not only by international recessive trends in this sector but also by the introduction of competitive flights from nearby foreign airports; the downward trends were only further strengthened by the September 11 terror attack on the USA. Passenger transport recorded a slight increase only in passenger transport via railways, but which failed to achieve the high 2000 growth rate. Compared to trends in passenger transport, trends in *freight transport* were more favourable, the volume of freight road transport[39] and transhipment in all fields of the transport sector recording a substantial increase (a 13.5% increase in net tonne-kilometres and a 10.7% increase in manipulated tonnes), while freight transport via railway slightly dropped (by 1.2%). In *postal activities,* the volume of letters and parcels received and mailed was 10.7% higher, and the dynamic growth of *telecommunications activity* continued. According to Telekom Slovenia's data, the number of main telephone lines sold recorded modest growth in 2001 (to over 940,000 by the end of the year), the fastest growing being basic ISDN subscriber's cables (30% growth), so the share of telephone line holders in fixed telephony now accounts for over 47%. Yet the volume of use of fixed telephony is falling[40] due to the highly competitive mobile telephony. The number of users in mobile telephony has likewise increased by almost 30%[41] and the dynamic growth of the number of users of the Internet has continued. We anticipate further development of telecommunications services in the years to come (especially in the field of mobile telephony), which will positively influence expansion of the activity. Assuming that the cost of access to the Internet will fall gradually, the dynamic growth of the number of Internet users is bound to continue. In freight transport, similar trends as last year are expected to continue (according to estimates, this year's production activity and exports will not exceed last year's growth dynamics), while passenger transport should experience a slight improvement (in particular in air transport and airport passenger traffic). Taking into account such trends, **in 2002 4.5%** growth (about the same as last year) in value added is expected in transport, storage and communications, while **for 2003**, with the anticipated strengthening of production activity and exports, growth in value added is estimated to reach **5.0%**.

In 2001, value added in **financial intermediation (J)** was **5.1%** higher in real terms, which is somewhat below the respective figure for 2000 (5.9%) but still ranked it among the relatively high growth rates seen in the past few years. High growth in the volume of business of banks (see Chapter 1.7.2) was stimulated mainly by increased household savings following introduction of the euro. The realised income before taxes of banks in 2001 was lower compared to 2000 due to high losses of one of the major banks. Taking into account movements of the tolar indexation clause (TOM) and the structure of bank assets and liabilities, revaluation income also recorded a drop, which among other things influenced the gradual

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[39] Individual entrepreneurs and transport on own account is not included.

[40] According to the SORS' data, the number of telephone impulses in fixed telephony fell by 15.1% last year.

[41] At the end of 2001, there were already 1.5 million users of mobile telephones.

falling of year-on-year value-added growth rates. Of the factors, which restrictively affected value-added growth, the increase in deposit rates carried a lot of weight. Favourable trends continued last year in the *insurance sector* and some positive trends were also detected on the *stock exchange* (see Chapter 1.7.2). Several factors point to the maintaining of value-added growth in financial intermediation at a relatively high level, among others a wider range of bank services, the transfer of corporate accounts from the APP (the Agency of the Republic of Slovenia for Payment Transactions) to banks and the further development of the capital market. In 2002 and 2003, **real value-added growth** is estimated to slightly increase, namely to **5.5% this year** and **6.5% in 2003**.

In 2001, value added in the activity of **real estate, renting and business services (K)** rose by 3.4%[42] in real terms, while the number persons in employment climbed by 6.1%. Trends accelerated compared to 2000, when value-added and employment growth slowed down (up 3% and 3.1%, respectively). A substantial contribution to last year's faster growth was the marked increase in employment in *legal, tax and business consultancy* (up 10.6%), which had a 22% share in the employment structure of sector K (from 1997 to 2000 the number of people employed in these consulting activities fell on average by 1% a year). 2001 saw a considerable strengthening of the *real estate services*, growth of employment (16.1%) exceeding the 2000 increase more than twofold. For the fourth consecutive year, above-average growth of employment in *computer activities* (in 2001 16.3%) was recorded, which is expected to increase in the next few years in view of fast technological development in this activity and the anticipated expanding information technologies in the public administration. Stimulated by the realisation of the national housing savings scheme, favourable trends are expected to continue in real estate, and given the increased growth in construction we can expect slightly faster growth in planning and technical consulting activities. It is estimated that the real **growth of value added in 2002** should stay at about 3.5%, and **in 2003 at 4%**.

In **public services (activities L-O)**[43], value added rose by 3.9% in real terms in 2001 (for trends by activities see Table) and thus exceeded the value-added growth of the entire economy, the same as in the past few years (with the exception of 2000). The above-average growth of value added in public services in 2001 was a consequence of the fast growth of employment and wages in the state_sector, especially in the *public administration, defence and social insurance sector*. The average growth rate in employment in this sector was as much as 3.8%, the highest in the last four years. As was the case in past years, such trends were mainly a result of establishing new institutions and preparations for accession to the EU. The average growth of employment (2%) in *education* (M) in 2001 likewise exceeded the average growth rate of the last four years (1.5%). Dynamic growth continued in particular in higher and university education (3.3%), within which the number of students

[42] Housing activity or estimated gross rent account for a large share in the structure of total value added of sector K (46.5% in 2000). Characteristic of the estimated gross rent is very low and constant growth dynamics (around 1.5% annually). Assuming there was 1.5% growth in the housing activity, other activities (a 53.3% share in 2000) achieved 5.1% real growth of value added (4.3% in 2000).

[43] According to the Eurostat methodology, the group of public services comprises SCA activities from L to O.

continued to increase. The highest growth rate in employment (7.9%) was for the third consecutive year recorded in the predominantly market services of adult and other education. Employment in *health services and social work* (N) in 2001 increased by 2.8%, which was less than in previous years; a slightly faster increase in employment was recorded last year in health services (1.1%; in 2000, only 0.6%), while employment in social work increased at a slower pace (6.6%; in 2000, 8.2%). Over the last few years, the share of value added generated by market-oriented services[44] in total value added of the health sector has increased as a result of falling employment in public health services, the expansion of private health services and the public health service networks based on public-private financing[45]). The main lever of value-added growth in social work over the last few years has been the dynamic growth of sheltered workshops (in 2001, employment in sheltered workshops rose by 10.3%). In the past few years, a major contribution to the fast growth of value added in the public services sector was the above-average growth of *other public, community and personal services* (O), which in 2001 for the second year running slowed down somewhat (see Table). Growth of employment in 2001 was very low in public hygiene services (1.8%; in 2000, 6.7%), while it shrank in the sector of organisations and trade unions (-1.6%; in 2000, 3.1%). The largest share of value added of the entire sector is generated by market services[46], mainly those pertaining to recreation, cultural and sports activities, which last year recorded slight growth of employment (3.5%; in 2000, 2.8%). Given the expected pick-up in private consumption in the current year, the trend of value-added growth in sector O is expected to rise again.

In 2002 and 2003 we anticipate a slowdown of value-added growth in real terms in the public administration, defence and compulsory social security, based on the adopted National Recruitment Plan for 2002 and 2003, which limits employment growth in the state administration[47], and on the predicted lower wage growth (see Chapter 1.5.2). In education, last year's 2.5% value-added growth in real terms is expected to remain at the same level. The 2002/2003 school year anticipates higher enrolment in tertiary education; therefore the achieved dynamics of employment growth can be expected to continue. High growth of employment in adult education is likewise expected to continue given the expected adoption of the National Programme for Adult Education. We anticipate that in health services the trend of decreasing growth of employment in public health services will come to a halt, whilst the public health service network based on public-private financing will continue to expand. Considering the abovementioned trends, value-added growth in real terms in public services **in 2002 and 2003** is expected to slow down to **3.5%**. According to these estimates, real growth of public services in 2002 should maintain approximately the same rate as the average real growth of value added of the entire economy, while in 2003 its lagging behind is anticipated.

[44] In 1999, market services pertaining to sector N generated as much as 20% of value added or five structural points more than in 1995.

[45] The share of private persons in health services (doctors and dentists), with or without a concession, increased last year from 22.2% to 23.9% (148 new private persons).

[46] The share of value added, generated by market services in sector O, was 66.8% in 1999.

[47] 600 new job-openings are anticipated in 2002 and 600 in 2003 (each year 300 new employees in the Ministry of Defence and 300 in the Ministry of the Interior).

1.2.3.2. Business operations of companies in 2001

37,210 business entities – legal persons[48], of which 36,889 were corporations and private companies and 321 co-operative societies, altogether employing 473,447 people, submitted statistical data from their balance sheets and profit and loss statements for 2001 to the Agency of the Republic of Slovenia for Payments (AP). Companies have this year, for the eighth consecutive year and for the last time, submitted statistical data from their balance sheets and profit and loss statements for the past calendar year pursuant to provisions of the Companies Act[49] and Slovenian accounting standards from 1993[50] to the Agency of the Republic of Slovenia for Payments (AP). Starting from January 1, 2002, companies have to keep their accounting records in accordance with the Act Amending the Companies Act[51] and new Slovenian Accounting Standards[52]. Correspondingly, new unified forms for statistical purposes will be prepared which will be in accordance with the annual National Statistical Research Programme[53] collected and processed by the Agency of the Republic of Slovenia for Public Records and Related Services (AJPES)[54].

Following three years of successful operations (with the highest positive difference between net profit and net loss posted in 1999), **companies concluded their operations in 2001 with the so far highest negative difference between net profit and net loss in the amount of SIT 299,443 million**. Such a substantial negative difference between net profit and net loss can be explained by the revaluation of tangible fixed assets (real estate, machinery and equipment) in the 15 companies pertaining to the electricity industry and mining in majority state ownership, which was carried out on the basis of the Republic of Slovenia's government's decision[55]. The result of the revaluation was a considerable reduction in the depreciated value of tangible fixed assets, which resulted in increased depreciation costs. Companies, which kept records of carrying amount of unusable tangible fixed assets, had to transfer this value to extraordinary expenses. Thus, at the end of 2001 these 15 companies posted 39.0% lower value of tangible fixed assets compared to the respective period last year. The abovementioned expenses have only increased their negative difference between net profit and net loss from 2000, so that the difference

[48] Excluded are data on banks and insurance companies, certain funds (Slovenian Restitution Fund, Environmental Protection Development Fund, Fund for Small Business Development of the Republic of Slovenia etc.), authorised investment companies which operate according to a chart of accounts for banks, and companies in bankruptcy or winding-up proceedings.

[49] Ur. l. RS (Official Journal of the Republic of Slovenia), 30/93, 29/94, 82/94, 20/98, 32/98, 37/98, 84/98, 6/99, 54/99 and 36/00.

[50] Association of Accountants, Financiers and Auditors of Slovenia, July 1993.

[51] Ur. l. RS (Official Journal of the Republic of Slovenia), 45/01.

[52] Ur. l. RS (Official Journal of the Republic of Slovenia), 107/01.

[53] Ur. l. RS (Official Journal of the Republic of Slovenia), 105/01.

[54] Payment Transactions Act (Ur. l. RS (Official Journal of the Republic of Slovenia), 30/02).

[55] Pursuant to the resolution dated May 14, 2001, the evaluation of tangible fixed assets in these companies was carried out and unusable assets were eliminated by December 31, 2001, with the aim of establishing justifiable operating costs and ensuring the highest possible efficiency of activities.

Table 1.2.3.2: Net profit or loss of companies (SIT million)

	1995	1996	1997	1998	1999	2000	2001	*2001
NET PROFIT / LOSS								
- from operating	-15,673	-8,463	50,517	66,321	97,727	133,305	-213,665	165,150
- from financing	-54,150	-81,676	-102,099	-79,456	-40,115	-103,956	-123,286	-123,135
- extraordinary	59,892	48,003	69,443	74,097	93,247	127,046	81,055	116,626
- total	-9,931	-42,136	17,861	60,962	150,859	156,395	-255,896	158,641
Corporate income tax	15,006	18,281	21,729	24,426	31,339	38,875	43,547	43,547
DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	-24,937	-60,417	-3,868	36,536	119,520	117,520	-299,443	115,094

Source of data: Agency of the Republic of Slovenia for Payments - Statistical data from profit and loss statement of commercial companies for 1995, 1996, 1997, 1998, 1999, 2000 and 2001.
Note: *2001 - Excluded are the data of 15 companies from the mining sector and electricity industry.

between net profit and net loss of these companies in 2001 amounting to SIT 414,537 million was almost 25 times higher than in 2000. All other companies (37,195) concluded 2001 operations with a positive net difference between net profit and net loss in the amount of SIT 115,094 million.

Statistical data from the 2001 profit and loss statements reveal that companies recorded a net loss on all three levels (on the first level a negative difference between operating profit and operating loss in the amount of SIT 213,665 million, on the second level a negative difference between profit and loss from ordinary activities in the amount of SIT 336,951 million, and on the third level a negative difference between total profit and total loss in the amount of SIT 255,896 million). After corporate income tax is calculated, the negative difference between net profit and net loss stood at SIT 299,443 million.

For 2001, 23,596 or 63.4% of all companies posted **a net profit** in the total amount of SIT 337,564 million. Compared to the year before, the net profit was 11.3% higher while its share in total revenues accounted for 3.3% in both years. 11,531 or 31.0% of all companies posted **a net loss** in the amount of SIT 637,007 million. In comparison to the year before, the net loss was nearly 2.5 times higher; its share in total revenues increasing by 4.3 structural points to 6.3%. **A negative difference between net profit and net loss** was shown by companies in five sectors: the most substantial in the sector of electricity, gas and water distribution (SIT 398,132 million or nearly 27 times more compared to 2000), followed by companies in the mining and quarrying sector (SIT 50,147 million or 15 times more compared to 2000), the hotels and restaurants sector (SIT 211 million or 13 times less compared to 2000), the public administration, defence and social insurance sector (SIT 44 million or five times less compared to 2000) and the fishing sector (SIT 13 million, while in 2000 a positive net difference between net profit and net loss in the amount of SIT 11 million). Companies in the remaining 10 sectors posted **a positive difference between net profit and net loss**: the largest in manufacturing (SIT 65,812 million or 8.7% less compared to 2000), followed by companies in the sector of wholesale and retail trade, motor vehicle repairs and consumer goods (SIT 48,050 million or 16.9% more compared to 2000), in the real estate, renting and business services sector (SIT 10,110 million, while in 2000 a negative net difference between net profit and net loss in the amount of SIT 4,697 million), in the transport, storage and communications sector (SIT 8,437 million or 46.9% less compared to 2000), in the financial intermediation sector (SIT 5,492 million or 31.0% less compared to 2000), in the construction sector (SIT 4,615 million or 9.5% less compared to 2000), in the sector of other social and personal services (SIT 3,502 million, while in 2000 a negative net difference between net profit and net loss of SIT 2,485 million), in the agriculture, hunting and forestry sector (SIT 1,785 million or 1.6 times more compared to 2000), in the sector of health and social work (SIT 1,292 million or one-half less compared to 2000) and in the education sector (SIT 9 million, while in 2000 a negative difference between net profit and net loss of SIT 12 million).

If we exclude from the statistical data from the profit and loss statements for 2001 data on the already mentioned 15 companies from the electrical industry and mining, the remaining companies' data show completely different results. Their operating revenues were higher than operating expenses and on the first level they showed a positive difference between operating profit and operating loss (SIT 165,150 million), which exceeded by 23 % the positive difference in 2000. Due to the negative difference between financial revenues and financial expenses (18.4% higher than the positive difference between profit and loss from ordinary activities in 2000), on the second level it stood at SIT 42,015 million (43.2% higher than in 2000). The positive difference between extraordinary revenues and extraordinary expenses (8.2% lower than in 2000) improved the business result on the third level and **companies** thus **posted** a positive difference between total profit and total loss in the amount of SIT 158,641 million (1.4% higher than in 2000). **A positive difference between net profit and net loss** (after the deduction of calculated corporate income tax) amounted to **SIT 115,094 million**, **which is 2.1% less than the positive difference between net profit and net loss in 2000.**

According to **the statistical data from balance sheet totals**, at year-end 2001 companies recorded a total of SIT 12,172,919 million of assets/liabilities and capital. With regard to the balance reported by 37,695 companies at the end of 2000, value was 12.3% higher in nominal terms and 5.0% higher in real terms (excluding the data of the abovementioned 15 companies from the fields of mining and electricity industry), assets/liabilities and capital of the remaining companies increased by 5.7% in nominal terms and decreased by 1.2% in real terms).

Tangible fixed assets, which account for the highest share in fixed assets, were 1.5% lower in real terms (mainly due to the decrease in the 15 companies from the fields of mining and electricity industry), while their share in fixed assets likewise fell by 5.1 structural points. Given the simultaneous increase in certain other kinds of fixed assets (in particular long-term investments), the share of fixed assets in the structure of assets remained almost unchanged (64%). On the current assets side structure, the inventory recorded a 0.4% decrease in real terms, while its share in current assets fell by 1.1 structural points (to 22.8%). Short-term operating receivables (48.1%) represented the largest share in current assets also at the end of 2001.

On the liabilities and capital side structure, the share of capital, whose value increased by 1.7% in real terms, dropped by 1.5 structural points to 47.1%. Basic capital (42.2%), which rose by 1.5% in real terms[56], represented the largest share of capital. The share of capital revaluation adjustment was 41.6%, its value increased by 2.6% in real terms. Reserves (8.8% of capital) recorded a 10.1% increase in real terms[57]. The value of capital increased also owing to paid-in surplus, which was last year as much as 1.7 times higher in real terms (above all due to an increase in electricity distribution), its share in capital rising by 3.4 structural points to 5.7%. The value of capital is higher also due to undistributed net profit and retained net profit from previous periods being brought forward. Together they were 11.5% higher in real terms in 2001 and increased the value of capital by 16.3%. An even higher increase was recorded last year in total net loss and retained net loss from previous periods brought forward, namely 70.3% in real terms, and thus the value of capital fell by 14.6%. The share of **short-term liabilities**, whose value rose by 2.9% in real terms last year, **likewise decreased** by 0.6 of a structural point to 28.9%. The share of long-term provisions (a 2.6% real increase in value) remained unchanged (2.4%). A **great increase in long-term liabilities** was recorded **last year**, namely 17.3% in real terms, their share in liabilities and capital by 2.1 structural points higher (20.3%). All these changes resulted in increased company **indebtedness**, which was **at its highest in the entire eight-year period** - at the end of 2001, 49.2% of companies' assets was financed by long- and short-term liabilities (47.7% at the end of 2000).

1.3. International Economic Relations

1.3.1. Competitiveness - A slight fall in price and cost competitiveness expected in 2002

After having improved in 2000, Slovenia's price competitiveness fell slightly in 2001 compared to its advanced trading partners. The cost competitiveness of Slovenian manufacturing stagnated at the level of 2000, while that of the economy as a whole worsened. This fall was due to the slow nominal depreciation of the tolar against the basket of OECD currencies, the disproportionately subdued or even accelerated rises in relative price levels and compensation of employees (particularly in the non-tradable sector) on one hand, and the subdued labour productivity growth on the other. Slovenia's prices and costs generally rose fast compared to the Czech Republic, Hungary and Poland (CEFTA-3), but the price and cost competitiveness of Slovenian manufacturing and the economy improved on account of the accelerated nominal fall of the tolar against the CEFTA-3 currencies. Slovenia's market shares increased again in 2001 after having shrunk for two years.

The tolar's nominal depreciation against the basket of OECD currencies (the German mark, the US dollar, the Austrian schilling, the Italian lira, the French franc, the

[56] Pursuant to the Companies Act, companies had to increase their share capital by the end of 2001, joint-stock companies to SIT 4,1 million and limited liability companies to SIT 2,1 million.

[57] In the formation of reserves, joint-stock companies already had to take into account the Act Amending the Companies Act from 2001.

pound sterling, and the Swiss franc) slowed down to 5.8% in 2001 as a result of the over-supply of foreign exchange in the foreign exchange market. After mid-September, the Bank of Slovenia buffered the impact of net foreign exchange supply on exchange rate movements by setting the lowest rates of exchange (see Chapter 1.7.1.). The tolar depreciated by 5.4% in nominal terms against the main EMU currencies, and by 8% against the US dollar; the dollar kept strengthening in international money markets for the sixth year running. The tolar's nominal depreciation against the average of CEFTA-3 currencies (the Czech koruna, the Hungarian forint and the Polish zloty) was as high as 9.6%, and depreciation against the Croatian kuna was 7.3%.

The fall in Slovenia's price competitiveness compared to its advanced trading partners was due to the tolar's real appreciation against the basket of OECD currencies: the tolar climbed by 1.3% if measured by industrial producer prices and 0.6% if measured by relative export prices of goods. On the basis of the deflator of relative consumer prices, the tolar's real effective exchange rate depreciated by 0.3% in real terms, which was almost exclusively due to the strong US dollar. The tolar, on the other hand, strengthened slightly in real terms against the main EMU currencies (up 0.2%). The tolar's real depreciation against the average of CEFTA-3 currencies and the Croatian kuna continued at an accelerated pace (down 8.2% and 4.6%, respectively). The price competitiveness of Slovenia's industrial products and exported goods compared to CEFTA-3 was better than in 2000 (up 4.8% and 0.3%[58]).

Slovenian manufacturing's cost competitiveness relative to the advanced trading partners remained at the level of 2000. Relative unit labour costs measured in the basket of OECD currencies rose by mere 0.1%, with one of the reasons being the marked rise in nominal unit labour costs in OECD countries (up 2.1% after a 1.7% fall in 2000). The nominal rise in Slovenian manufacturing's unit labour costs was fast (up 8.5%) as a result of the slowing labour productivity growth (up 1.7%)[59]. The rise in nominal compensation of employees slowed down (up 10.4%), but its real rise (1.8% deflated by consumer prices) was still slightly higher than labour productivity growth. Compared to foreign competitors, the compensation of employees rose fast because exchange rates increased more slowly than domestic inflation (by 2.2 percentage points). The crucial factor helping the real compensation of employees to decelerate was the fall in other remuneration (down 3.4%), while net wages rose moderately (up 2.2%). Even though the contribution rates remained unchanged, the tax burden on wages increased by 0.6% because of the progressive scale of payroll tax set in nominal terms. The cost competitiveness of the Slovenian economy worsened compared to advanced trading partners (down 1.7%) as a result of the accelerated rise in the compensation of employees (up 12.7% in nominal terms) and the slowing labour productivity growth (up 2.4%). The trend of improving cost competitiveness against CEFTA-3 was maintained in 2001 as a result of the accelerated nominal depreciation of the tolar compared to CEFTA-3 currencies. The relative fall in Slovenian manufacturing's unit labour costs was 7.3%[60], while

[58] Figure for the first nine months

[59] Production growth slowed down because of a fall in foreign demand (down from 7% to 2.8%), while employment rose at the same time (up 1%).

[60] Figures for the first nine months.

the fall in total economy's unit labour costs was 8.1% despite the slightly lower productivity growth compared to the average of CEFTA-3 and a higher nominal rise in Slovenia's wages.

The relationship between prices and costs of exported goods recorded by Slovenian manufacturing compared to foreign competitors revealed a trend of the slowly improving profitability of Slovenia's exports compared to the advanced trading partners (a 0.5% fall in labour costs in the value of exported goods) and a trend of accelerated improvement compared to CEFTA-3 (a 7% fall). The one-year falling trend of relative profitability of the Slovenian economy, as shown by the share of labour costs in gross domestic product, compared to advanced trading partners came to a halt in 2001, but the trend improved compared to CEFTA-3.

The aggregate share of Slovenia's goods exports in the imports of the main trading partners (15) climbed from 0.489% in 2000 to 0.512% in 2001 after having shrunk for two years. The main factor causing the reversal of the trend in advanced markets was the resumed rise in Slovenia's market share in Germany, its most important trading partner, while shares in the French and Austrian markets continued to increase. Slovenia's market share in Italy fell slightly (for the fourth year running), as it did in the USA (for the seventh year running). In Central and Eastern Europe, market shares increased fast in Russia and moderately in Croatia, Poland and Slovakia. Slovenia's market share growth in the EU was not as strong as that in Hungary, Poland and the Czech Republic, a trend seen over the last few years.

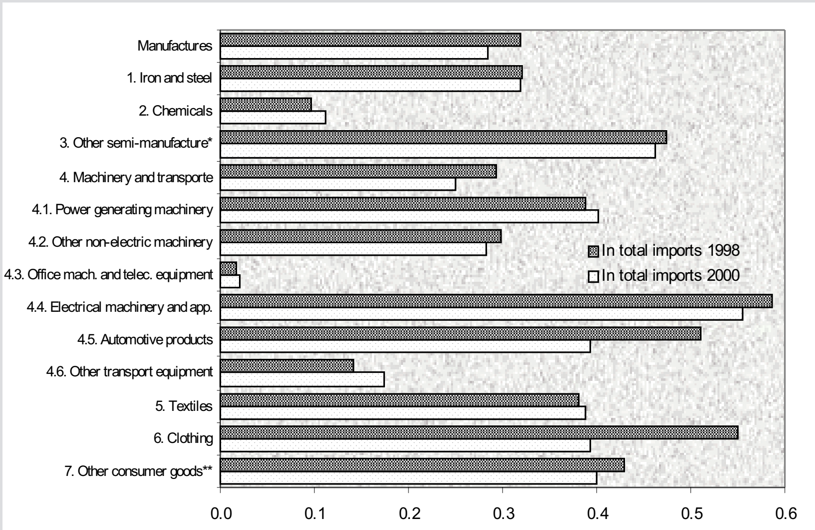
In early 2002, a further rise in the value of the US dollar was accompanied by a slightly stronger nominal depreciation of the tolar against the euro, while the trend of decelerating year-on-year depreciation was maintained. The Bank of Slovenia continued to set the lowest exchange rates in the foreign exchange market, and excess demand for foreign exchange was recorded in the prompt foreign exchange market and exchange offices and the over-supply in the futures foreign exchange market. The tolar depreciated by 1.4% in nominal terms, but climbed by 0.7% in real terms against the basket of OECD currencies (the euro, the US dollar, the Swiss franc and the pound sterling) in March over December because of the accelerated rise in relative consumer prices, but the tolar fell 0.9% in real terms on the basis of relative producer prices. In the first three months, the tolar lost 4.7% of its nominal value against the basket of OECD currencies compared to the year before (down 3.8% against the euro), while in real terms it climbed by 1.1 % and 1.3%, respectively. The tolar's real depreciation against the CEFTA-3 currencies continued in the first two months of 2002 (1.6% on the basis of relative inflation), but the tolar gained some strength against the Croatian kuna (up 2.3%). In the first two months, price competitiveness was better than in the same period of 2001 compared to both CEFTA-3 and Croatia (by 8.7% and 2.1%, respectively).

The fall in relative unit labour costs measured in the basket of OECD currencies in the first two months of 2002 (down 3.9% according to seasonally adjusted figures) shows that Slovenian manufacturing's cost competitiveness is improving. This fall was due to the resumed labour productivity growth (up 4.2%) underpinned by revived production. Rising by 1.4% in nominal terms, the compensation of employees fell by 0.7% in real terms. A substantially weaker fall was seen in relative unit labour

Box 3: Market shares in 1998-2000

After the record year of 1998, market shares in the EU started to shrink in most **groups of industrial products** (see picture 5). The exception was other transport equipment, which recorded a market share increase in both the EU and world markets in 1999 and 2000. The market share growth of chemicals, office machines, telecommunication equipment, and textiles in the EU was the result of re-orientation to the EU markets. As far as industrial products are concerned, which have recorded above-average market shares in the EU, the fall in competitiveness was most evident in the groups of clothing and automotive products (the latter suffered after the considerable market share increase in 1998, when car exports surged), while the competitiveness of other semi-manufactures, electrical machinery and apparatus, and other consumer goods fell less than average competitiveness (see notes of the picture 5).

Picture 5: **Slovenia's market shares in the EU-15, %**



Source of data: SORS, WTO, calculations by the IMAD.

* Leather, furskins and manufactures; rubber manufactures; wood and cork manufactures; paper, paperboard and other articles; non-metallic mineral manufactures; manufactures of metal.

** Prefabricated buildings, sanitary, plumbing and heating devices, lamps; furniture and parts; suitcases, handbags, etc.; scientific and controlling instruments; photographic equipment, optical goods and clocks; miscellaneous manufactured articles.

costs (down 0.4% year on year). As a result of last year's dynamics (stronger growth recorded early in the year), labour productivity growth was 2.2% stronger than in 2001 and the nominal rise in compensation of employees was 8% higher. Real compensation of employees fell slightly (down 0.2%), but its rise against foreign competitors was accelerated by the wider gap of exchange rate rises behind the domestic inflation rate (3.1 percentage points). The year-on-year real fall in (net) wages was 0.7% in the first two months, with other remuneration rising slightly in real terms (up 0.2%) and tax burden on wages increasing (up 0.5%) as a result of higher contribution rates for health insurance (up 0.2%) and despite the changed payroll taxation scale.

Despite the relatively positive developments in early 2002, the price and cost competitiveness of Slovenian manufacturing and the economy as a whole is likely to worsen on average in 2002. The tolar's nominal depreciation should gradually slow down to 3.8%. Given the projected trends in relative consumer prices (a rise of 5.5%), the tolar should appreciate by 1.3% in real terms. Labour productivity will rise to 3.2% as a result of a revival in production, especially in the second half of the year, but the real compensation of employees will increase at the same time (up 2.1% deflated by the consumer price index). With exchange rates rising more slowly than domestic inflation (by 3.1 percentage points), relative unit labour costs will climb by about 1.5% in Slovenian manufacturing and 2.4% in the total economy.

1.3.2. Balance of Payments - The current account of the balance of payments roughly balanced, the structure of inflows in the capital and financial account changed

The current account of the balance of payments recorded a deficit of USD 67 million in 2001, considerably less than in 2000 when the deficit was USD 611.5 million. The **improvement of the current account of the balance of payment**s was **primarily due to the lower trade deficit**, which dropped from USD 1,138.9 million in 2000 to USD 621.7 million in 2001. The improved trade balance was largely due to the fact that import growth rates were kept low, noting that export growth gradually decreased over the year (see also Chapter 1.2.2.1). Another factor contributing to the improvement was the slightly better external terms of trade in 2001. Compared to the year before, the export-import coverage ratio also saw a strong improvement (from 88.5% to 93.8%). The regional structure of export-import flows reveals a lower trade deficit with the countries of the EU, EFTA, CEFTA and with Russia, as well as a growing trade surplus with the countries of former Yugoslavia.

The **higher surplus in the balance of services**, which rose from USD 436.4 million in 2000 to USD 501.2 in 2001, contributed to the significant shrinking of the deficit in the current account of the balance of payments. Relatively speaking, the biggest contribution to the growing surplus came from higher surpluses in the trade of transport services and travel. The first was the result of lower imports, while the latter was largely due to higher exports (a favourable tourist season). Exports of communication, computer, and information services also increased in 2001, a quite encouraging development in view of the fact that in the 1994-2001 period the share of other services (total services excluding travel and transport services) in overall exports of services saw a considerably lower increase than registered in developed countries, or even in countries in transition. Last year's rise in imports of services primarily occurred in communication services, licences, patents, copyright payments and other business services.

Table 1.3.2.1: Slovenia's balance of trade - regional structure (USD million)

	2000			2001		
	Export	Import	Balance	Export	Import	Balance
EU	5,580	6,856	-1,276	5,758	6,863	-1,105
EFTA	125	213	-88	120	172	-52
EX-Yu	1,364	594	770	1,564	540	1,024
CEFTA	692	920	-228	741	967	-226
Russia	191	231	-40	281	281	0
USA	270	299	-29	244	297	-53
Other	510	1,003	-493	544	1,025	-481

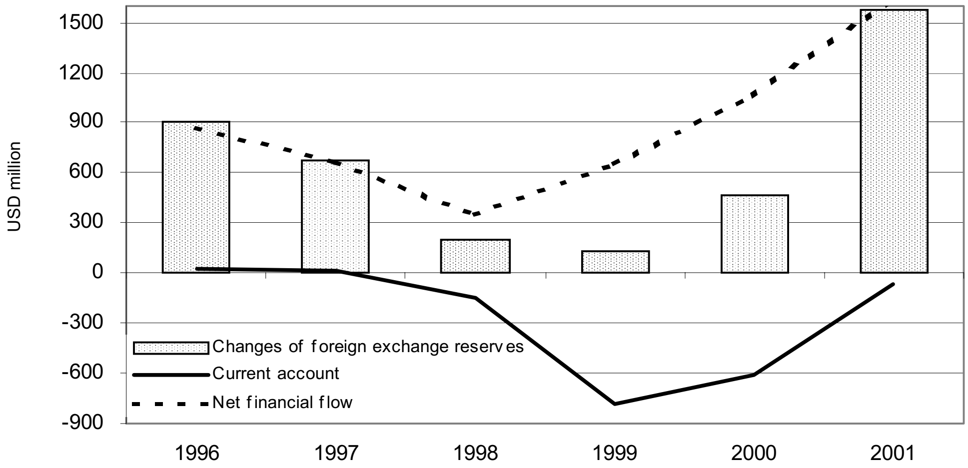
Source of data: BS.

The deficit on the income side of the current account of the balance of payments increased by USD 50 million, and totalled USD 74.5 million. This rise was primarily the result of higher payments of interest abroad, as the net value of reinvested earnings, which the methodology registers as capital revenue or expenditure in December, remained at the 2000 level according to a preliminary estimate. The surplus in the sub-balance of external transfers increased from USD 115.5 million in 2000 to USD 128.2 in 2001, a result of the higher surplus of transfers in other sectors (the government sector's transfer deficit even saw a slight increase).

In the capital and financial account of the balance of payments the **net financial flow in 2001** (excluding the foreign exchange reserves of banks and the BS) reached USD 1,647 million, or **8.7% of gross domestic product** (2000: 5.9% of GDP). The main **sources of the capital inflow** in 2001 were the transfer of households' foreign currency to banks, the inflow of foreign direct investment to Slovenia, and the loans taken out abroad. The transfer of households' foreign currency and deposits to the domestic banking system was primarily the result of households adjusting their cash portfolios during the transition to the euro, and its share in the total net financial flow was 42%. Although the government reopened the Eurobonds issue from 2001 in February, and launched a new issue of ten-year Eurobonds totalling USD 450 million, in April, the net inflow from investment portfolios in 2001 (USD 89.5 million) was lower than in 2000 (USD 188.7 million); the reason for this drop being the USD 325 million repayments of Eurobonds denominated in USD and issued in 1996. The capital inflow in the form of direct foreign investment amounted to USD 441.8 million (USD 175.5 million in 2000), while borrowing abroad was lower in 2001 than the year before (USD 597.5 million compared to USD 948.1 million in 2000). Compared to 2000, banks and companies borrowed less (see Chapter 1.3.4). The main sources **of capital outflow** in 2001 were the repayment of mature Eurobonds of the Republic of Slovenia, an increase in outward direct and portfolio investment, and an increase in net trade loans granted to foreign buyers. The improved economic conditions in the countries of former Yugoslavia increased the direct investments made abroad by Slovenian companies to USD 104.2 million[61]. Further

[61] A good three-quarters of outward direct investment in 2001 went to those markets.

Picture 6: **Financing of the current account of the balance of payments**



Source of data: BS.

increases were registered for the outflow of portfolio investments, mainly debt securities bought by banks and companies (USD 107.5 million compared to USD 60.6 million in 2000). The increased volume of Slovenia's trade in the markets of the countries of former Yugoslavia and Russia pushed the outward short-term commercial loans upwards, which totalled USD 240.4 million (USD 163.1 million in 2000). Together with the low deficit in the current account of the balance of payments, the strong capital inflows in 2001 led to an increase of total foreign exchange reserves, which reached USD 5,740.4 million (end of 2000: USD 4,376.2 million; see Chapter 1.3.4)

In spite of the modest increase in exports (see also Chapter 1.2.2.1), and the slight worsening of the terms of trade abroad (index 99.6)[62], the slowdown of goods imports **in the first two months of 2002** contributed most to the positive balance of the current account. The current account of the balance of payments showed a surplus of USD 84.6 million in the first two months of 2002 (in the same period of last year the surplus was USD 56.4 million). The increased surplus in the current account was caused by the lower trade deficit (USD 51.7 million, compared to USD 82 million in the same period of 2001), and by the slightly higher surplus in services (an increase from USD 76.4 million to USD 80.1 million), when compared with the same period of 2001. The surplus in the factor income balance dropped slightly compared to the same period last year (from USD 44.5 million to USD 40.8 million), as a result of the higher net interest payments abroad. The surplus in current transfers also fell slightly (from USD 17.5 million to USD 14.9 million) due to lower net inflows from other sectors.

The net financial flow was negative in the first two months of 2002 and totalled USD 42 million (in the same period of 2001 the net inflow was USD 202 million:

[62] Primarily a result of the strong US dollar, which increased against the euro by 6.2% year-on-year.

the difference lies in last year's higher direct foreign investments and lower outward net commercial loans). Among major capital inflows in the first two months, direct foreign investments totalled USD 97.3 million, while the deposits of non-residents in domestic banks grew by USD 116.9 million[63]. Another important factor for the capital inflows were the lower deposits of domestic banks abroad, which dropped USD 184.3 million. The net inflow of foreign loans in the first two months was at the same level as in the equivalent period last year (around USD 45 million), of which the borrowing of companies abroad continued to slow down. The capital outflow seen in the first two months was caused by the conversion of bank deposits into cash, totalling USD 77.6 million, and by direct investments of Slovenian companies abroad, which reached USD 15 million; the volume of net commercial loans also increased (USD 98 million, compared to USD 63 million in the same period last year). Taking into account the surplus in the current account of the balance of payments, and the lower deposits of domestic banks abroad, total foreign exchange reserves increased in the first two months by USD 42 million and reached USD 5,688 million at the end of February. In spite of the negative financial flow experienced in the first two months of 2002, the expected capital inflows in the coming months, connected with the privatisation of Nova Ljubljanska banka, and other expected direct foreign investments (see Chapter 1.3.3), indicate that it is reasonable to expect a positive and high net financial flow in 2002.

The dynamics of **export-import flows in 2002** will be influenced by the gradual strengthening of components related to domestic consumption, and by the revival of economic activities in the international environment. A gradual rise in imports and a slightly stronger increase in exports are therefore expected, in particular in the second half of the year (see also Chapter 1.2.2.1). Taking into account the figures from the two-month balance of payments, and the expected slight improvement in the terms of trade by the end of the year, the result will be a shrinking of the trade deficit to USD 537 million. A slight increase in the surplus in the balance of services, totalling some 513 USD million, is also expected this year. The deficit on the factor income of the sub-balance will be higher this year than last year, and will total around USD 125 million. Taking into account the expected inflow of pre-accession aid, the balance of current transfers will be slightly higher this year than last year, and will total some USD 135 million. Given the expected trends in the balances of all sub-balances, and better terms of trade, the **current account of the balance of payments is estimated to be approximately balanced** (- USD 14 million) this year.

Provided that the terms of trade remain unchanged, the expected faster growth of exports over imports in 2003 (see Chapter 1.2.2.1) will lead to a slight fall in the trade balance's deficit (from around USD 537 million in 2002 to USD 501 million in 2003). The surplus in services is estimated to see a slight increase, and the surplus of current transfers is also expected to be slightly higher. Taking into account the expected higher net labour and capital expenditure, movements in goods and services trade, and in particular the fact that exports will grow faster than domestic consumption, **the current account of the balance of payments is estimated to be roughly balanced in 2003.**

[63] The latter largely involves short-term time deposits of foreign banks, deriving from the purchase value of direct investments in the banking system in February.

1.3.3. Foreign Direct Investment - Higher inflows of foreign direct investment

After achieving record levels in 2000, **global foreign direct investment (FDI) flows** dropped significantly in 2001. According to UNCTAD, FDI flows fell by 40%, down from over USD 1,300 billion in 2000 to USD 760 billion in 2001. Almost the entire fall (from over USD 1,000 billion to about USD 500 billion) was due to lower inflows in advanced industrialised countries, while FDI inflows in developing countries dropped by USD 15 billion. This fall was underpinned by a lower level of cross-border mergers and acquisitions, which have represented the majority of FDI flows over the last few years. Reasons underlying the falls in mergers and acquisitions were mainly related to negative developments in the global economy, i.e. the significant economic growth slowdown in 2001[64]. Countries in transition recorded relatively weaker falls in FDI flows: inflows went down by about USD 1 billion from USD 28,990 million in 2000 to USD 27,900 million in 2001. As a result, the share of transition countries in global FDI inflows increased from 2.2% in 2000 to 3.7% in 2002 (Hunya, Stankovsky 2002). FDI inflows in the five most-developed countries in transition (the Czech Republic, Hungary, Poland, Slovakia and Slovenia) dropped by USD 18 billion to USD 15.7 billion, or USD 2.3 billion, primarily because of a lower level of foreign privatisation (privatisation – mainly that involving infrastructure such as the energy sector and gas distribution – nevertheless strongly underpinned FDI in the Czech Republic, Poland and Slovakia). Among the five most-developed countries in transition, inflows only increased in Hungary and Slovenia. Hungary was the only country where FDI increased as a result of greenfield projects and reinvestment in existing foreign investment companies. Even though flows more than doubled in 2001, Slovenia remained in last place among the most-developed Central European countries in transition (Hunya and Stankovsky, 2002).

At the end of 2000, **FDI in Slovenia** totalled USD 2.8 billion, USD 152 million more than the year before, but only USD 43 million more than at end-1998. Even though the level of FDI stock expressed in US dollars was strongly influenced by

Table 1.3.3.1: FDI in the most-developed Central European countries in transition

	Inflows in 2000 (USD mill.)	Stock in 2000 (USD mill.)	Inflows in 2001* (USD mill.)	Stock in 2001* (USD mill.)	FDI stock as a % of GDP (2001)
Czech Republic	4,595	21,095	4,000	25,000	44.9
Hungary	1,700	19,863	2,000	23,000	45.1
Poland	9,342	33,603	8,000	39,000	22.1
Slovakia	2,117	4,504	1,300	5,500	27.7
Slovenia	176	2,809	350	3,000	16.5

Source od data: Hunya, Gabor & Jan Stankovsky. 2002. WIIW-WIFO Database: Foreign Direct Investment in Central and East European Countries and the Former Soviet Union. Vienna: WIIW/WIFO.
Note: * Estimate.

[64] UNCTAD estimates that the events of 11 September 2001 in New York only had a limited impact on FDI flows (UNCTAD 2001a, 2002).

Table 1.3.3.2: Stock and flows of inward and outward FDI[1] in Slovenia in USD million

	1993	1994	1995	1996	1997	1998	1999	2000	2001[2]
Inward FDI									
Year-end stock	954	1,326	1,763	1,998	2,207	2,766	2,657	2,809	N/A
Annual inflows	113	128	177	194	375	248	181	176	442
Outward FDI									
Year-end stock	281	354	490	460	459	608	605	794	N/A
Annual outflows	-1	3	5	-6	-36	2	-38	-66	-108

Source of data: BS.
Notes: [1] companies where a foreign investor holds a 10% or higher stake; [2] figures for 2001 include an estimate of reinvested earnings in 2000, which is the same as the actual level of reinvested earnings in 1999, N/A - not available.

the value of the dollar[65], it should not be neglected that FDI inflows in Slovenia were steadily falling in 1998-2000 and dropped to a mere USD 181 million in 1999 and USD 176 million in 2000. The year 2001 saw a significant positive change, as FDI inflows increased 2.5 times and totalled USD 442 million. These high inflows were largely fuelled by some foreign acquisitions, being relatively large for Slovenian circumstances (the take-over of Simobil by Austria's Mobilkom and the take-over and capital injection of the SKB Bank by France's Societe Generale, the purchase of a stake in the Union brewery by Belgium's Interbrew etc).

FDI inflows are expected to rise further in 2002, even though it has become clear that last year's Government announcements to privatise the banking sector and the prospect of privatising part of the infrastructural and financial sectors will be carried out in a much longer-term perspective and more cautiously. Some inflows realised early in the year and foreign acquisitions announced for 2002 (the KBC's purchase of a 34% stake in the NLB, Lafarge Perlmooser's bid to buy the Trbovlje cement factory, the Raiffeisen Bank's bid to take over the Krekova banka, and the sale of a 20% stake of Sava Tires to the Goodyear concern) point to a further increase in FDI inflows in 2002. The gradual FDI growth should also be stimulated by measures set out in the Government's Programme of Attracting Foreign Direct Investment in 2001-2004 and the Action Plan for Lifting Administrative Barriers to Investment. However, the effects and range of these programmes depend on several factors which are outside their reach: (i) funds allocated for stimulating FDI and the types of incentives laid down in the Programme are relatively modest; (ii) the process of privatising the remaining state assets gives an impression of uncertainty and non-transparency, which does not help improve Slovenia's image as an attractive location for FDI; and (iii) tasks related to the lifting of administrative barriers, especially the problem of land supply and the rigidity of the labour law, are complex political, legislative and organisational issues which go way beyond the range of the Programme of Attracting Foreign Direct Investment and the Action Plan for Lifting Administrative Barriers to Investment (see also Spring Report 2001).

[65] The fall in FDI stock in 1999 was mainly the result of the US dollar's strong appreciation in international money markets, while FDI stock measured in euros rose by EUR 318 million.

Box 4: Transnationality index

The **transnationality index** measures the relative significance of foreign direct investment (FDI) in an economy and is computed as the average of the following four values: (a) FDI inflows relative to gross fixed capital formation, (b) the stock of inward FDI relative to GDP, (c) value added of foreign investment enterprises relative to GDP, and (d) employees in foreign investment enterprises relative to total employees (UNCTAD 2001b). Slovenia's transnationality index climbed from 5.4% in 1995 to 7.8% in 2000. The **index should reach about 8.5% in 2001**, a forecast made on the basis of provisional figures. The index averaged about 15% for advanced economies in 1998 an 17.5% for developing countries. Comparison of transnationality indices in Slovenia and its comparable countries shows that Slovenia is one of the countries with the lowest relative importance of FDI in its economy. The only EU member-state that recorded a lower value of the transnationality index than Slovenia in 1998 was Italy; Germany was roughly at the level of Slovenia, while other EU members recorded higher indices[66]. Slovenia's position is similar in the group of EU candidate-countries, where it is placed at the **bottom of the rank**, excluding Slovakia[67]. Despite the very low FDI inflows seen up to and including 2000, Slovenia's transnationality index is on a gradual increase, which is underpinned by a steadily rising stock of inward FDI and the number of foreign investment enterprises and their production volumes.

Table 1.3.3.3: Transnationality index for Slovenia, %

	1995	1999	2000
FDI inflows/gross fixed capital formation (average of the last three years)	4.5	5.5	4.0
Stock of inward FDI/GDP	9.4	13.2	15.5
Value added of foreign investment enterprises/GDP	4.4	5.9	6.3
Employees in foreign investment enterprises/all employees	3.3	4.6	5.3
Transnationality index - total	5.4	7.3	7.8

Sources of data: IMAD's calculations based on figures from the SORS, BS, and AP.

In 2001, Slovenia recorded the highest level of outward FDI, amounting to USD 108 million. The growing investment of Slovenian companies abroad is related to Slovenian companies' involvement in the countries of former Yugoslavia and in countries in transition. Slovenian companies are increasingly aware of the need to internationalise their operations by means of foreign direct investment abroad, with the countries of former Yugoslavia and countries in transition being the most obvious

[66] Countries with the highest transnationality indices were Belgium and Luxembourg (34.3%), Ireland (around 27%), the Netherlands and Sweden (around 23%).

[67] Candidate-countries with the highest value of the transnationality index in 1999 were Hungary (close to 25%), Latvia (close to 20%), and the Czech Republic (about 17.5%).

destination in the initial phase of internationalisation, which is further stimulated by privatisation processes in these countries. These trends are expected to intensify in the future.

1.3.4. External Debt - Growth of external debt slowed down

According to data from the Bank of Slovenia, external debt totalled USD 6,717 million at the end of December 2001, USD 500 million more than a year earlier. The public and publicly guaranteed debt stock, which largely consists of debts deriving from bonds issued in foreign currencies, increased by USD 45 million, while private, non-guaranteed debt increased by USD 428 million. Short-term debt, representing 1.9% of total external debt at the end of 2001, increased by USD 27 million last year. External borrowing trends show that the increase in liabilities deriving from loans taken out abroad in 2001 (disbursement of loans minus repayments) was more moderate than the year before, and that it totalled USD 597.5 million (compared to USD 948 million in 2000). The demand of domestic companies for traditional loans from foreign banks dropped slightly in terms of nominal value (from USD 542 million to USD 480 million). Demand, however, continued to be stimulated by the lower interest rates abroad (the average rate of all creditors was 5.3%) and the easier access to larger loans. Nearly all loans were long-term with an average maturity of eight years, and were granted with a variable interest rate. This means that repayment levels will depend on interest rate movements in international markets. The banking sector took out fewer loans abroad, a result of its high liquidity. The state, that is the government sector, repaid abroad USD 8.6 million of loans in excess of loans taken out.

The structure of long-term external debt by creditors remained largely unchanged at the end of 2001. The share of other long-term loans – loans taken out from foreign banks belong to this category – fell slightly (from 88.3% in 2000 to 87.8% in 2001); the share of external debt from foreign financial institutions, however, increased by 0.6 of a percentage point, reaching 11.6% of the long-term external debt (within these figures the highest increase was recorded for the debt with the European Investment Bank).

Financial flows contributed most to the growth of foreign exchange reserves and

Table 1.3.4.1: External debt stock, USD million (end-of-year)

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

Source of data: BS.

Box 5: Indicator of the adequacy of foreign exchange reserves (total foreign exchange reserves compared with the short-term debt by maturity)

The increasing financial flows at the global level and the financial crises of the 1990s demanded a new approach to estimating indebtedness in addition to using the abovementioned indicators. The International Monetary Fund (IMF, 2000) introduced a new indicator to compare total foreign exchange reserves with (gross) short-term debt by maturity[68]. Empirical research has indeed shown that a low ratio of foreign exchange reserves/short-term debt by maturity is an important indicator in generating a financial crisis (IMF, 2001). Before the Asian financial crisis broke out in 1997, this indicator worsened considerably in the region. The authors of the financial crisis generation model try to establish how the phenomenon of financial crises is connected with three groups of explanatory variables: 1) external liquidity, defined as the ratio between foreign exchange reserves and short-term debt by maturity; 2) various debt indicators (share in gross domestic product, share of multilateral creditors, interest rates); and 3) various macroeconomic variables. The results indicate that the ratio between foreign exchange reserves and short-term debt has a major statistical significance. Among macroeconomic variables, the real exchange rate (appreciation) and the openness of the economy stand out (greater openness of the economy means it is less vulnerable to a financial crisis). When, however, the starting point of the observation was moved from 1970 to 1984 the sign changed from + to - and this can be explained by the fact that those countries, which are included in international (goods and capital) flows to a greater extent, have become more vulnerable. This standard of the adequacy of foreign exchange reserves again ranks Slovenia for the 1995-2001 period among countries with no short-term liquidity problems. At the end of 2001 foreign exchange reserves were at a level that exceeded the gross short-term external debt with a maturity of one year, including short-term loans, external debt servicing, and the deposits of non-residents, by 55.6% (ratio value of 1.556).

this was in particular due to the adjustment of households' cash portfolios during the transition to the euro in the last quarter of 2001. At the end of 2001 foreign exchange reserves were USD 1,364 million higher than a year earlier. The share of transactions in this development was USD 1,580 million, while the impact of changes in exchange rates was negative and amounted to USD 216 million. Because total foreign exchange reserves grew faster than the country's total external debt in 2001, the standard indicators of foreign exchange reserves improved. The foreign exchange reserves covered 85.5% of the external debt (in 2000 the coverage ratio was 0.704) and were sufficient to cover 6 months worth of imports of goods and services (in 2000 it was 4.6 months).

[68] The short-term debt by maturity includes: the entire short-term debt deriving from loans (with a one-year maturity), short-term commercial loans taken out, long-term debt-servicing in the following year (repayments of principal and interest), and other short-term liabilities (deposits of non-residents, other).

Table 1.3.4.2: Debt indicators according to the World Bank's criteria, Slovenia's debt in the 1995-2001, in %

Indicator[1]	Low	Medium	Critical	1995	1996	1997	1998	1999	2000	2001
EDT/GDP	30	30-50	50	15.8	21.1	22.6	25.1	26.9	34.3	35.7
EDT/XGS	165	165-275	275	28.6	38.0	39.4	44.2	51.3	58.1	59.5
TDS/XGS	18	18-30	30	7.1	8.9	8.8	13.8	8.0	9.7	14.7
INT/XGS	12	12-20	20	1.6	1.9	2.2	2.1	2.3	2.8	3.2

Source of data: SORS, BS, calculations by the IMAD.
Note: [1] The first two indicators (EDT/GDP, EDT/XGS) show total external debt (EDT) compared to gross domestic product (GDP) and the value of imports of goods and services (XGS). The two other indicators (TDS/XGS, INT/XGS) indicate the flow and compare the exports of goods and services to the value of debt-servicing (TDS) or, in other terms, the interest on foreign debt (INT).

At the end of February 2002 external debt totalled USD 6,633 million, USD 84 million less than at the end of 2001. The lower value of the debt expressed in USD was primarily a result of the US dollar's strengthening, while the volume of new loans taken out during the first two months was moderate (USD 22 million). Foreign exchange reserves dropped by USD 52 million in the first two months and totalled USD 5,688 million at the end of February.

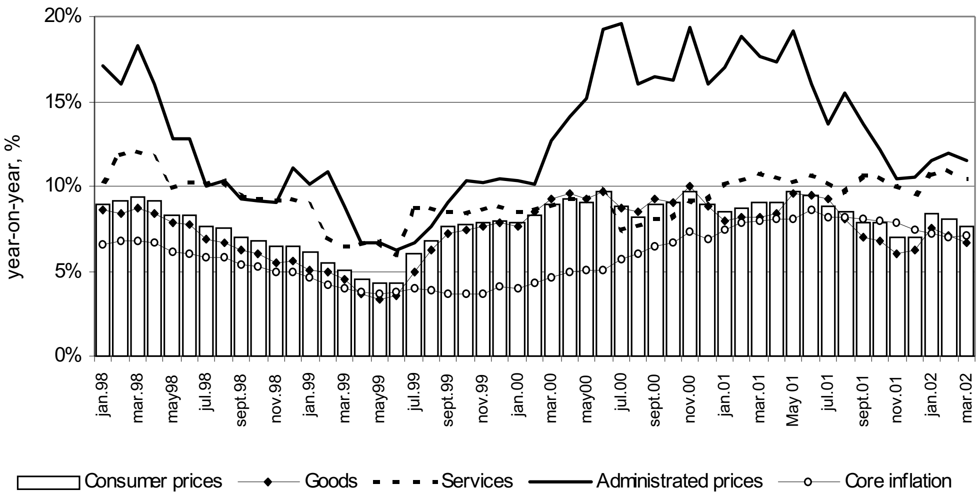
Debt indicators according to the World Bank's criteria show, as far as most indicators are concerned, that Slovenia ranks among the low-debt countries. As a result of the higher repayments of external loans, granted with a variable interest rate, the debt-servicing rate saw its strongest rise in 1998 and 2001. Considering the indicator of the external debt's share in gross domestic product, Slovenia joined the ranks of medium-indebted countries, while the country remained below the critical level regarding all other indicators in the observed period.

1.4. Prices - Long-term inflation indicators expected to decelerate gradually before the end of 2002

After an 18-month period, during which the inflation rate remained at a relatively high level, and the year-on-year inflation rate exceeded 8.5% in most months, **inflation started to slow down in the second half of 2001**. The year-on-year rise at the end of 2001 was 7.0%, 1.9 percentage point less than at the end of 2000, while the average inflation rate was 8.4%, or 0.5 of a percentage point below that of 2000. This downward trend in the inflation rate stopped in the first quarter of 2002, mainly as a result of factors with a one-off impact on price rises (higher value-added tax rates and excise duties, the introduction of environment taxes).

In the first half of 2001 the relatively high price rises continued to be supported, amongst other factors, because their impact on domestic prices was deferred, by external factors, in particular the rising prices of petroleum products and other primary commodities in the world market, the relative strengthening of the US dollar, and the increasing inflation witnessed in EU countries. During this period, the highest price rises were registered in the following groups: transport (7.4%), food and non-alcoholic beverages (7.0%), and communications (7.0%). In the third and fourth

Picture 7: **Inflation and selected price aggregates – January 1998 - March 2002**



Source of data: SORS, calculations by the IMAD.

quarters, services prices started to rise relatively fast, while energy prices slowed down. The prices of communications rose by 4.9%, the prices of catering and accommodation services by 3.7% and those of recreation and culture by 3.7%.

The principal sources of the overall price rise in 2001 were the higher prices of food and non-alcoholic beverages (32.4%), whose share increased by 45% compared to 2000. The next biggest source was the higher prices of goods and services from the transport group (which accounted for 19.6% of the total price rise), but their share was one-third below the 2000 level. The shares of other groups, which compose the consumer prices index, were evenly distributed and did not exceed 8.5% each.

Within the food group, the prices of meat, bread and cereals, and fruit saw the highest rises in 2001. The higher prices of meat, especially pork and poultry, were caused by the higher producer prices of animals for slaughter, and for beef by the additional costs of the heat treatment of waste. It was estimated[69] that the prices of bread, cereals, and fruit were not influenced by the higher prices of agricultural producers. This year the Agricultural Policy Reform Programme is expected to systematically bring food prices down, in particular as a result of the continuing liberalisation of the agricultural products and food markets.

Concurrent with the rising primary commodity prices in foreign markets and the relatively fast rise in food prices, domestically as well as abroad, the **gap between** the **rise in services and goods prices** narrowed. The rise of services prices, which was 3.7 percentage points higher than the rise of goods prices at the end of 1998, slowed down and by the end of 2000 the gap had narrowed to 0.4 of a percentage

[69] The statistics do no monitor the price rises for domestic and imported food separately, and one of the reasons for the rise may therefore be more expensive imported food.

Box 6: The policy of changing administered prices

The share of prices under various regimes of regulation in the consumer price index was around 30% up until 1998. In 1999 the liberalisation of food prices, heating energy prices, and insurance prices cut this share to some 17%. The fall in administered prices by approximately four percentage points in the following years was primarily due to changes in the weighting system of the consumer prices index. Though the share of administered prices changed in this period, the biggest changes involved their impact on pushing up the inflation rate, which varied from 18% (in 1999) to 50% (in 1997). In accordance with the adopted legislation, the prices of telephone services will no longer be under the direct control of the government after May. Their formation is to be monitored by the Telecommunications and Broadcasting Agency of the Republic of Slovenia and based on proposals from the service providers. The Agency will also carry out other regulatory tasks in this sector. Liberalisation of the prices of liquid petroleum gas is planned for the end of the year. This means that only the following prices will remain under direct government control: household electrical power, selected mail services, radio and television subscription fees, railway passenger fares, and selected new textbooks. Petrol and gas prices will continue to be formed in accordance with the applicable pricing models because the government extended their validity for one year at the end of last year. In May, the government adopted the decree on prior notification of price changes of local utility services, which states that no rise of these services (their prices are formed in accordance with the prescribed methodology – waste disposal, household water supply, and sewerage) shall exceed the inflation rate in the same period by more than 10% (water collecting, cleaning and distribution), or by more than 15% (all other local utility services subject to the decree). Rises should be calculated as aggregates starting from January 2001.

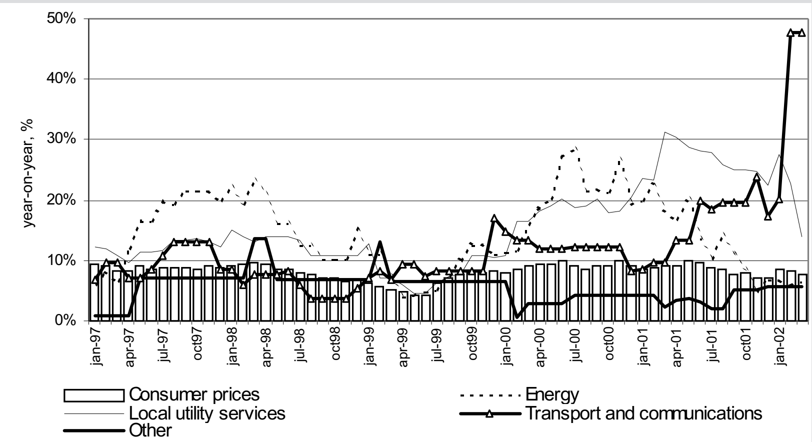
In the next two years the basic strategy concerning administered prices is to remain the gradual abolition of price disparities involving administered prices, that is the gradual harmonisation of their impact on the inflation rate with their share in the consumer prices index. In line with this strategy, which was also the basis for developing a proposal plan for increasing administered prices and which is presently the subject of inter-ministerial co-ordination, the rise of administered prices should this year amount to approximately 9%, and their impact on the inflation rate should be below 20%.

point. Because the reduced differences in the price growth rate were not the result of lower growth rates of services prices, the gap started to widen again when petroleum and food prices slowed down, reaching 3.4 percentage points at the end of last year; in the first quarter of this year the difference increased by another 0.3 of a percentage point. Among the prices of **individual groups of services**, which in 2001 had the strongest impact on the overall price rise, the following had a major impact: local utility services (17.8% rise, 4.4% share in the total price rise), insurance services (16.3% rise, 3.0% share), communication services (12.2% rise, 3.7% share), and catering and accommodation services (7.8% rise, 6.3% share). With a 25.9%

Box 6: The policy of changing administered prices- ***continued***

An alternative approach to gradually raising administered prices would be to adjust them to a balanced level in one move. The approach is based on the idea that a one-off increase to the price level would eliminate the imbalances of relative price levels, and along with them one of the factors that generates inflation. In this case, the inflation rate at the time, presently envisaged for joining the EU, would be higher than when using the gradual adjustment approach but the potential pressures on the general price level would be less pronounced. The price shock caused by a one-off adjustment would also have a weaker impact on inflationary expectations. In the opposite case, that is a continuation of gradual adjustments, the inflation rate when joining the EU would be slightly lower, but this approach would preserve the indirect and direct pressures on price growth because of the still unfinished structural reforms. Concurrent with the continuing and relatively fast growth of administered prices, the preservation of indexation mechanisms in long-term contracts would mean that higher price growth would enhance inflationary expectations and, as a result, inflation inertia.

Picture 8: **Growth of administered prices**



Source of data: SORS, forecasts and calculations by the IMAD.
Note: up until the end of March 2002.

share of the price index, services prices were responsible for a total of 34.8% of the rise of consumer prices last year.

The widening gap of 2001 was primarily the result of differences seen in the speed at which goods and services prices were adjusted to price shocks. In the long term, however, the different price rises are partly a consequence of unfinished structural reforms in areas where prices are still administered, and partly the result of the different dynamics of factor productivity growth between those sectors whose operations are subject to international competition and those which operate primarily in the domestic market. The wage growth in the predominantly non-tradable sectors is indeed not the result of increased productivity (as it is in the predominantly tradable sectors), but primarily derives from the price rises for the services these sectors provide (the Balassa-Samuelson effect; Spring Report 2001, p. 97).

The rise of prices under various regimes of regulation again exceeded the level of general price rises in 2001, but the difference was smaller than the year before. The year-on-year rise of administered prices was 10.5% in December of last year, that is 5.5 percentage points below the 2000 figure, and as a result their share in the inflation rate fell to 20% last year (from 25% in 2000). Last year, movements of energy prices in the world market mainly determined the dynamics of rising administered prices. In the first quarter of 2001, when administered prices rose by 5.7%, over 99% of this rise was due to petrol prices (5.8% rise) and the prices of local utility services (19.4% rise). In the second quarter, the rise of administered prices was 5.1%, and the rise's biggest sources were once more higher petrol prices (9.0% rise) and the increase in the prices of telecommunication services (by 13.6%), which together represented 94% of the rise in administered prices in this period.

It should be noted that the petrol and gas prices, which added most to the inflation rate (their share was 55%) in the first half of 2001, are not under the direct control of the government. Their formation is based on a pricing model that determines how domestic prices change in accordance with price changes of petroleum products abroad, and with changes to the dollar's exchange rate. The prices are administered in the sense that the mechanism for transferring these factors to the prices is determined. A further important factor in the formation of the retail prices of petrol last year was the policy of changing excise duties. More frequent changes in petrol prices were made possible by introducing this model and this has led to frequent changes to the excise duties on petrol (which are not subject to the model), which in turn had a marked impact on the level of petrol prices. As a result of higher excise duties, petrol prices were on average 14.6% higher in 2001 and pushed the inflation rate up by 0.7 of a percentage point.

The formation of local utility prices, which rose by 20.6% in the first half of the year and added 31% to inflation, was still entirely the privilege of the municipalities in this period. As a result of their fast growth, the government adopted a decree on prior notification of price changes of local utility services in June 2001, and this contributed to a slowdown in the second half of the year, when local utility prices increased by just 1.5%. While petrol prices fell in the third and fourth quarters by a total of 2.5%, the only remarkable rise among administered prices was recorded by utility services which rose by 4.7% in this period and finished 2001 with a total rise of 17.4%. The rise in administered prices in 2001 was thus mainly, that is by 36%, the result of the higher prices of local utility services, followed by petrol prices (29%) and telephone services (15.5%).

Industrial producer prices rose slower than consumer prices in 2001. Their year-on-year growth was 7.5% in December last year (3.1 percentage points less than in January 2001). The lower growth rates are chiefly the result of a relatively fast slowdown in the prices of intermediate products (from 13.1% in January to 5.9% in

December). These prices indeed respond fastest among all groups of industrial product prices to changes in primary commodity prices in foreign markets. The prices of investment products fell slightly less, by 1.9 percentage points, but rose year-on-year by 3.6% in December. The prices of consumer goods saw price growth of 1.6 percentage points, and their year-on-year rise totalled 10.2% in December last year. The price rise of industrial producer products continued to slow down in the first quarter of 2002 and was around 1.2%, that is approximately half of what it was in the same period last year.

In the first months of 2002 the decline in the long-term indicators of inflation was interrupted by several factors, which each had a one-off impact on prices. The higher value-added tax rates of early January (the general rate was raised from 19.0% to 20.0%, and the reduced rate from 8.0% to 8.5%) are estimated to have added 0.6 of a percentage point to the inflation rate of that month, while a further 0.2 of a percentage point was added by the higher excise duties levied on alcoholic beverages and tobacco products. The introduction of environment taxes in early January added, together with upward adjustments of the prices, 0.3 of a percentage point to January's inflation rate. In February the inflation rate was pushed up primarily - by 0.3 of a percentage point - by the higher prices of telephone services. In addition to the factors mentioned above, the fact that food prices continued to be relatively higher in 2001 than in 2000 meant that their share in the year-on-year inflation rate again exceeded 30%. The relatively high rise of certain groups of administered prices, which contributed most to last year's aggregate growth of administered prices, continued in the first quarter of 2002. The highest increases were recorded by telephone services (by 7%), local utility services (by 10.4%), and petrol (by 7.0%), and the share of administered prices in the inflation rose to 21% in March.

Taxation changes as well as higher food prices, which both had a major impact on the price growth of past months, are excluded from the estimate of core inflation. Therefore, core inflation continued to fall in the first quarter of this year and was between 6% and 7% at the end of March, approximately one percentage point lower than in the same period last year. The further decline of core inflation to the level on which it was in the first half of 1999 - before petroleum prices started to rise and before the introduction of value-added tax, which had the largest single impact on the then growth of the measured inflation and with a half-year delay also on core inflation - might be interrupted in the coming months in particular by the endogenisation of the present rise of petroleum prices.

In the coming months a further fall in the long-term indicators of inflation is expected, in line with lower fluctuations of the monthly inflation rates - a development expected to be brought about by external as well as internal factors. The prices of raw materials abroad probably reached their bottom in the past months, but their impact on lowering domestic prices will still be considerable in the coming months. It is further expected that their growth will be moderate in the oncoming months, with only petroleum prices being a possible exception. Petroleum prices started to rise again at the end of February, and the prices of petroleum products in the first quarter of this year (taking into account the higher value-added tax rates and excise duties) contributed 0.7 of a percentage point to the consumer prices index in Slovenia. The changes to petroleum prices will therefore remain one of the biggest factors determining this year's inflation trends.

Internal factors, in particular the **expected slowdown in the rise of administered prices,** are also expected to lower the inflation in the upcoming months, and their contribution to inflation will be reduced by the end of the year. Considering the expected higher degree of harmonisation of wage growth and productivity, possible wage pressures on inflation will also be reduced.

Though the faster growth of wages in the public sector, especially because of the uneven rises in different wage brackets, had no major impact on price growth, a continuation of their faster growth may cause additional pressures on price growth. Any higher wage growth, especially in the public sector, and as a result of all other personal benefits linked to wage rises, therefore presents an **income policy issue** related to price growth. Further wage rises would cause budget expenditure to increase, and in order to maintain the planned budget deficit this would mean a further increase in the tax burden which might then stimulate further price growth. Further, inflationary impacts on the fiscal policy will derive mainly from the further harmonisation of the excise duties on petrol, tobacco products and alcohol with the level of excise duties applied in the EU. In the field of **structural reforms,** the slowdown of price growth will be favoured by the start of the process aimed at abolishing indexation mechanisms, and by the realisation of the planned liberalisation of the prices of telephone services.

Monetary policy will play an important role in further lowering of the inflation rate. Along with the expected inflow of foreign capital, which is likely to reach last year's level, the Bank of Slovenia will continue to ensure moderate depreciation of the tolar's nominal exchange rate, and monitor the trends of the money aggregates and interest rates in order to achieve the intended exchange rate level. Preservation of the present conditions, in which growth of the M3 money supply aggregate at the end of the first quarter exceeds by approximately half the upper end of the target band determined for 2002 by the Bank of Slovenia, and in which interest rates are falling owing to favourable liquidity (the inter-bank interest rate reached its lowest level since 1992 in the first quarter of this year), does not support a stable lowering of prices to a level comparable to that in the EU member-states in the long run.

Given the abovementioned assumptions, according to which pressures on price growth from abroad can be expected to further weaken this year, and while domestic pressures on price growth are also expected to abate, year-on-year price growth and average price growth in the following months are expected to fall gradually. The **year-on-year inflation rate** would then be 0.8 percentage of a point below last year's, that is around **6.2%**, while the **average inflation rate** would fall, compared to last year's, by 1.5 percentage points and **not exceed 6.9% at the end of 2002.**

If the current macroeconomic policies are kept up, the inflation rate is expected to gradually lower in 2003 as well, but at the end of the year it will still be at a level exceeding the level determined by the Maastricht criteria (1.5 percentage points above the average inflation rate of the three member-states with the lowest inflation rate). For any sustainable lowering to that level, structural discrepancies have to be removed, especially in those sectors where price formation is under government control, in the financial sector, in particular involving the use of indexation mechanisms, in the operation of financial markets, and in the labour market. In addition to the structural discrepancies inherited from the past, narrowing of the gap between Slovenia's and the EU economic development will cause a higher inflation rate in Slovenia than in the EU member-states (the Balassa-Samuelson effect). At the end of **2003, the year-on-year inflation rate is thus expected to drop by more than one percentage point and to reach 5.2%, while the average inflation rate is expected to drop** by around two percentage points to reach **5.1%**.

1.5. Labour Market

1.5.1. Employment and Unemployment - About 0.6% employment growth anticipated in 2002

In 2001 **employment continued to rise (according to the SORS' monthly figures) up** until October, except for the seasonal stagnation in the summer months; a December fall in employment has been typical for several years now as fixed-term employment contracts expire and employers do not make new ones due to the holidays. The average number of persons in employment increased by 1.4% in 2001, compared to the year before, while the number of employees rose by 1.7%. Compared to previous years, the employment rate in the small business sector (the employees of self-employed persons, 1.3%) fell considerably, and for the first time since the start of the transition it was lower than the employment growth seen in companies and organisations (1.8%). The number of farmers fell by a further 2.4%, while the number of private individual entrepreneurs continued to stagnate.

For the second consecutive year, employment growth was high also according to data from the **labour force survey**. The average number of persons in employment was again higher, up by 1.7%, than the previous year. In the first half of 2001 the number grew faster than according to the monthly statistical data, but in the second half of the year it slowed down considerably. Informal employment, which includes family members helping out, especially in agriculture, and various forms of employment not based on an employment relationship had dropped in 1999 but rose again in the second half of 2000, and the rise continued in the first and second quarters of 2001. In the third and fourth quarters of 2001, however, this growth stopped. Expressed as full-time equivalent employment (**according to the methodology of the national accounts statistics**), however, employment growth was much lower in 2001, only 0.6%, and this means that the average working time per person in employment (according to the monthly statistical data and the survey) was less than the year before.

The number of employees **in manufacturing** increased on average by 0.9%. Broken down by activities, employment dropped again in the textile industry (-3.8%), in food and beverages (-1.2%), coke and petroleum products (-3.2%), the wood industry (-0.8%), and in the paper industry (-3.3%). In publishing, the leather and chemical industries, and in the production of other non-metal products, the number of employees stagnated, while the number increased in printing and in all other manufacturing activities, most of all in the production of vehicles and vessels (6.3%), where it had dropped by the same percentage in the previous year. Significant employment growth was also registered by the metal industry (4%) and by the rubber and plastics industries (3.1%).

In spite of the higher number of employees in manufacturing – the number rose compared to the year before for the first time after 1987 – the **employment restructuring** trend in favour of the services sector continued in 2001. The number of employees and self-employed persons in agriculture (according to the monthly statistical data) dropped for the third year running, but at a slightly slower pace than in the previous two years. The number of persons in employment in mining, and in power, gas and water supply decreased in 2001, as it had already in 2000. The number of employees in construction, which had increased by over 4% in 1999 and 2000, also fell in 2001. Employment growth in services was slightly slower than in 2000, especially in trade, hotels and restaurants, and financial intermediation, while significant growth was registered in the "K" activities: real estate, renting, and business services. Increased employment was also recorded in public administration and education, while employment in the health services and in the "O" activities – other social and personal services – was slightly below that of previous years (see also Table 7 in the statistical appendix).

Table 1.5.1: Persons in employment by monthly sources and by activities

		Structure (in %)			Annual growth (in %)		
		Monthly sources		Forecast	Monthly sources		Forecast
		2000	2001	2002	2000	2001	2002
TOTAL		**100.0**	**100.0**	**100.0**	**1.3**	**1.4**	**1.0**
A+B	**Agriculture**	**5.6**	**5.4**	**5.3**	**-5.3**	**-3.3**	**-0.5**
C:F	**Industry**	**40.2**	**39.7**	**39.3**	**0.2**	**0.4**	**-0.2**
C	Mining	0.7	0.7	0.7	-18.0	-5.3	-1.5
D	Manufacturing	30.5	30.3	29.9	0.0	0.9	-0.4
E	Electricity, gas, water supply	1.5	1.4	1.4	-2.2	-0.8	-2.7
F	Construction	7.5	7.3	7.3	4.1	-0.9	1.2
G:O	**Total services**	**54.2**	**54.9**	**55.4**	**2.8**	**2.7**	**2.1**
G	Trade, motor vehicle repair	12.7	12.7	12.7	3.4	1.9	0.8
H	Hotels and restaurants	3.8	3.7	3.8	3.0	0.5	2.3
I	Transport, storage and communications	6.2	6.2	6.3	1.0	2.0	2.5
J	Financial intermediation	2.5	2.5	2.6	3.6	2.9	2.6
K	Real estate, renting, business services	6.0	6.3	6.4	3.1	6.1	4.0
L	Public administration, defence	5.7	5.9	5.9	3.2	3.8	2.1
M	Education	6.9	6.9	6.9	1.7	2.0	1.1
N	Health services and social work	7.1	7.1	7.2	3.3	2.8	2.3
O	Other social and personal services	3.4	3.4	3.5	3.8	2.3	3.3

Sources of data: SORS; the IMAD's calculations and forecasts .

According to the forecast, the number of employees expressed as the full-time equivalent employment will increase by 0.6% **in 2002** and by 1.1% **in 2003**. Employment growth by monthly sources is expected to exceed full-time equivalent employment in both years. The forecast 1% employment growth in 2002 is expected to be the result of growing numbers of employees in services and construction, stagnation in manufacturing, and a further fall of employment in agriculture, mining, and electricity, gas and water supply[70] .

The **drop in unemployment**, in terms of both registered and survey unemployment, continued in 2001 but at a slower pace than in 2000. The average number of registered unemployed people fell by 4.5%, from 106,600 in 2000 to 101,856, although the December 2001 figures (104,316) were very close to those of December 2000. The registered unemployment rate dropped from 12% in December 2000 to 11.8% in December 2001 and the average rate from 12.2% in 2000 to 11.6%. The survey unemployment rate (7% in 2000) moved below 6% in the second and third quarters of 2001, but increased in the fourth quarter and last year's annual average was 6.4%. If employment grows as forecast, unemployment will continue to fall **in 2002 and 2003** (11.3% or 10.9% of persons in employment), and the participation rate will continue to grow gradually.

The decreasing number of registered unemployed persons does not mean that the **inflow into unemployment** is also falling. For the third consecutive year the inflow of first-time job-seekers and persons who lost their employment has increased, and the direct outflow of unemployed persons into employment keeps falling. Last year, 12.5% less unemployed persons found employment than in 2000, while the inflow into unemployment due to the loss of employment[71] and first-time job-seekers increased by 6.4% and 6.9%, respectively. One of several causes of the unabated inflow into unemployment are fixed-term employment contracts, through which employers avoid the high costs of dismissal by passing on some of the business risk to their employees. The number of registered unemployed persons, however, continues to fall because of the high numbers of persons deleted from the unemployment registers; their number was 10.6% higher last year than in 2000. Deletions of people who failed to report to the employment office (around one-quarter of all deletions) and the high share of deletions requested by unemployed persons (around 14%) may indicate that these people found employment without the assistance of the employment service offices.

[70] The forecasts of companies and organisations, gathered annually by the National Employment Office (LP-ZAP survey), reveal a more pessimistic picture but they were gathered at the beginning of 2002 when the economic prospects were still not so clear.

[71] Among reasons for the loss of employment the most important ones were the termination of fixed-term employment (nearly 50%) and people quitting jobs on their own accord (around 15%), but the latter is often merely a hidden form of dismissal based on an agreement made in advance that the employment will terminate after a certain period, or when certain circumstances arise. In 2001 the share of lost employment due to a bankruptcy fell (from around 8% in previous years to 5%), while other reasons - termination or quitting of employment in public works (around 10%), redundancies (around 8%), winding-up of private businesses (around 3%), and various other reasons (around 9%) - were more or less equally significant as in 2000.

The main cause of the slow fall in registered unemployment in Slovenia continues to be the high structural unemployment, which is shrinking slowly, and which has resulted from the laying-off of redundant, mostly older or insufficiently qualified workers. The share of long-term unemployed persons fell slightly in 2001 for reasons of retirement and other deletions (from 63% in 2000 to 59% in 2001), but the periods of unemployment continue to grow (in 2001 the average period of long-term unemployment - 2 years, 8 months, 12 days in 2002 - increased by 13 days). For the same reasons, the share of people aged 40 or 50 dropped slightly - to 50.5% and 27%, respectively. The share of unemployed persons without any qualifications remains at around 47%. The share of the long-term unemployed among the unemployed, unqualified persons dropped slightly, from 70% in 2000 to 66% in 2001; among the over 40 the share fell from 78% in 2000 to 77% in 2001. The differences in unemployment rates (of both registered and survey unemployment) by sex continue to grow. The average unemployment rate of men fell more in relative terms in 2001 than the unemployment rate of women (see Table 14 in the statistical appendix). Though unemployment fell in all regions in 2001, with the exception of Spodnje Posavje, regional differences in unemployment continue to increase. The coefficient of variation in the registered unemployment rates increased from 30.46 in 2000 to 32.26 in 2001. Unemployment is falling fastest in the Gorica region, and is worsening most in the Pomurje region, when compared to the country's average. The highest registered unemployment rate (17.9%) is that of the Podravje region, which has exceeded the Slovenian average by over 50% for several years.

In 2001 the **number of vacancies was** 7.6% below that of 2000, and the ratio between unemployed persons and vacancies even worsened slightly compared to 2000: 8.5 unemployed persons per vacancy, in 2000 the ratio was 8.3. The ratio improved only for those vacancies requiring a high education. The share of fixed-term employment, which had fallen below 71% in 1999 and 2000, rose again to 72.4% in 2001. The occupational structure of vacancies is slowly changing in favour of more skilled occupations and occupations in the services sector.

1.5.2. Wages - Wage growth in the private and public sector in 2002 expected to be more balanced and below the rate of productivity growth

A country's wages policy must ensure adequate purchasing power and appropriate wage distribution by determining wage adjustment mechanisms, stimulating the efficiency and productivity of the human factor, and preventing any rapid wage growth from reducing the economy's competitiveness or stimulating inflation.

In 2001 January's 4.5% adjustment of the basic wage in the **private sector** was still based on the previous Agreement on Incomes Policy for the 1999-2001 period; in August the basic wage was adjusted by 4.4%, based on the Annex to the Agreement on Incomes Policy for the 1999-2001 period adopted in May 2001. The adjustment mechanism has only a minor impact on wages growth in the private sector. The additional adjustment of the minimum wage, on the other hand, has a relatively bigger impact, especially on the growth of low wages. The year-on-year growth of the gross wage per employee was 3.4% in the first quarter of last year, but much more moderate in the second quarter (1.3%), and rose again in the third and fourth quarters (2% and 2.6% year-on-year). In 2001 the real gross wage increased from January to October by 0.4%, but accelerated towards the end of the year, and went up to 7% in the last two months. The latter trend has been quite typical from 1997 onwards. In this period, a "thirteenth" wage is paid (a reward for good business results at the end of the business year, or a Christmas bonus (as a reward for employees' loyalty and the amounts are fairly equal). From 1997 to 1999 the real gross wage rose substantially in the last two months (5% in 1997, 9% in 1998, and no less than 13.8% in 1999), to become more moderate in the following years (8.7% in 2000, 7% in 2001). The latter downward trend is confirmed by statistical data recorded from 1999 onwards: in 1999 the share of employees receiving such a bonus was around 26%, in 2000 19.8%, and in 2001 this share dropped to 17.2%. The share of employees who receive a 13th wage or Christmas bonus, however, is growing every year in the electricity, gas and water supply sector (around 60% at the end of 2001), and in financial intermediation (77%). The share is also high in transport, storage and communications (26% of employees, but it did not rise there). These are activities in which the annual growth of the real gross wage per employee is among the highest. In 2001 the **real gross wage per employee in the private sector rose by 2.3% and was lower than the achieved 2.5% growth of total labour productivity.**

The adjustment mechanism for 2001 in **the public sector** was laid down in the Agreement on the Wage Adjustment Mechanism in the Public Sector in 2001. Growth of the gross wage per employee in this sector depends less on adjustments than on increases in benefits determined in annexes to collective agreements and in the government's decree, because they are part of wages; a third factor which makes wages grow, and which is a phenomenon typical of the public administration, involves new employees (with high wages) and extraordinary promotions. Compared to the first quarter of 2000, the first quarter of 2001 saw the real gross wage in the public sector increase by 8.2%. The 3.6% adjustment based on the Agreement was one reason, and the substantial rise in the first quarter was also caused by the wage growth in the public administration by 2.3%, and in education by 3.5%, in the form of benefits based on the decree or on a branch collective agreement. This high level of gross wages also had an impact on the high, albeit falling, wage growth in the quarters that followed. In the second quarter, year-on-year growth of the real gross wage was more modest, though still high, at 5.2%. In the third quarter, August's wages increased by 2.6% as a result of an adjustment in the form of differentiated benefits aimed at reducing the discrepancies between wages in the public sector, and the growth was 4%. In the last quarter, wage growth was intensified by wage rises due to benefits, in education by 6.5%, and in the public administration by 2.3%. The real gross wage per employee in the public sector increased in 2001 by 5.1%. In the public sector, application of the adjustment mechanism alone would have preserved the real value of the gross wage per employee. This means that most of the real increase was the result of higher benefits based on changes in the branch collective agreements, on the government's decree and, especially in the public administration, on extraordinary promotions and new employees with high wages. **The exceptional wage growth seen in the public sector,** which was more than double total labour productivity growth, thus caused the **deterioration of macroeconomic conditions in 2001**, the most prominent worsening since 1996**. In**

2001, the real gross wage per employee rose by 3.2% compared to the previous year and exceeded the 2.5% growth of labour productivity.

The wages policy for the **private sector** for **2002** has not yet been agreed. In January basic wages were adjusted by 2.7%, that is 90% of the expected price rise in the second half of 2001, according to the Annex to the Agreement on Incomes Policy for the 1999-2001 period. Owing to the fact that the expected 7% rise in consumer prices (December 2000-December 2001) was not exceeded, the safety valve built into the agreement was not triggered. The adjustment mechanism to be used in the future is still in the elaboration phase. The negotiations between employers and employees on the Social Agreement include short-term and long-term goals of the wage policy, and they have yet to be concluded. Taking into account that the new adjustment mechanism will not differ essentially from the present one, and the forecasts that the wage trends in the private sector will follow the expected improvement in economic growth in the second half of the year, the forecast sets the growth of the real gross wage per employee in the private sector – in accordance with the estimated dynamics of consumer prices – at around **2.4%**.

The approach adopted in 2001 that the adjustment mechanism in the public sector need not necessarily be the same as in the private sector will probably be upheld in 2002. While the wages policy of the private sector has not yet been agreed, an agreement was reached in the public sector on the wage adjustment method in the form of the Annex to the Collective Agreement for the Public Sector. The adjustment mechanism takes into account 88% of the predicted 5.7% growth of consumer prices (December 2001-December 2002). In view of the fact that the spring forecast of the inflation rate is 0.5% higher, the current adjustment of basic wages will not preserve the real value of last year's basic wage. Nevertheless, as a result of the high wage growth in 2001 (especially in the second half of the year), the real gross wage per employee in the public sector will rise by 2% in 2002 only on the basis of the agreed adjustment mechanism. In addition to this, account must be taken of part of the regular promotions in individual branches, and of the yet to be agreed rise for on-call hours in the health services and social work. This means that the real gross wage per employee will increase by **2.6 %** in accordance with the estimated dynamics of consumer prices. Any other additional benefit to wages in the public sector would mean further wage growth, and inevitably worsen the macroeconomic situation. To prevent such a development, the government adopted a decision restricting extraordinary promotions in the public sector early this year. Further, in the negotiations with unions representing the public administration the government succeeded in redirecting a wage benefit, which would come into force in May, to the additional pension insurance of employees. Payment of this benefit in the form of higher wages within the public administration would mean no less than a 3.2% rise in the real gross wage per employee instead of the estimated 2.6%. In the negotiations on the professional collective agreement for doctors and dentists, and in the collective agreement for health services, social work, and education, which started last year, the government has insisted on the position that possible corrections to wage ratios should be applied as part of the law on the wages system in the public sector. Early this year the government also accelerated procedures concerning the Public Sector's Wages System Act, which was then adopted by the National Assembly. To implement the law, the following tasks have to be accomplished:

elaboration of an accompanying methodology, classification of correlated jobs for individual activities in the sectoral collective agreements, and determination of periodic benefits, attached to wages in the collective agreement for the public sector. These tasks will be completed by the end of 2003. The Public Sector's Wages System Act will come into force in early 2004.

Taking into account the estimated wage movements in both sectors, the **real gross wage per employee in 2000 will rise by around 2.5% and will only slightly lag behind the estimated 2.8% growth of labour productivity.**

In 2003 the **real gross wage per employee** in the **private sector** will rise by around **2.5%** compared to the previous year. This forecast takes into account that the adjustment mechanism will incorporate the expected inflation, and that it will not differ essentially from the present adjustment method. It also takes into account that the minimum wage will continue to be determined by additional adjustments with the growth of gross domestic product of the past year. Every increase in the minimum wage is particularly important for the formation of wages in manufacturing, where the share of employees who are paid wages close to the minimum wage is largest.

The gross wage per employee in the **public sector** will increase in **2003** owing to the adjustment mechanism in the Annex to the Collective Agreement for the Public Sector, and as a result of regular promotions of employees in the public sector. In addition to these elements, the spring forecast of the rise in consumer prices in 2002 is higher than the rise on which the Annex was based and signed. Therefore, room has been left in January 2003 for the safety valve, that is the rise of gross wages in January by the difference forecast in the price rise, and taking account of the adjustment mechanism. Based on these assumptions, growth in the real gross wage per employee in 2003 will be around **1.5%** compared to the previous year. The government will take measures aimed at preserving the current wage ratios in the public sector because pressures for higher wages have become very strong in expectation of the coming into force of the Public Sector's Wage System Act.

Given that gross wages in the public sector will rise slightly slower than in the private sector, the **real gross wage per employee in 2001 will rise by 2.0% and be more than one percentage point lower than labour productivity growth.**

The minimum wage has an additional safeguard in the adjustment mechanism, as it will increase in accordance with the growth of gross domestic product seen in the previous year. With this adjustment mechanism, the social partners wanted to achieve the goal that the minimum wage would amount to 58% of the average gross wage per employee in the collective agreements in manufacturing. In the past years the minimum wage reached, with some minor fluctuations, around 53% of the average gross wage per employee laid down in the collective agreements in manufacturing; in 2001 the ratio improved dramatically in favour of the minimum wage, which reached 54.3%, meaning that it rose by 4.7%. In general, the distribution of employees by gross wage did not change, and the inter-decile ratio remained at 3.5.

In 2001 work-related allowances and other remuneration, and payments based on contracts for work and services and copyright contracts rose more slowly than the total net wage bill, and amounted to 41.2% of the bill, that is nearly two percentage points less than the ratio has been in recent years (around 43%). Movements of these payments in the first two months of 2002 indicate that the ratio achieved in 2001 will be preserved.

1.6. Public Finance

1.6.1. General Government Revenues in 2001-2003 - Revenues from value-added tax in 2002 expected to be lower than planned while drafting the budget

In 2001 some changes were made to the payment and calculation of general government revenues, but they did not significantly interfere with the scope or structure of revenues. Social security contributions were paid in at the same contribution rate (38%) as the year before. The payroll tax remained a tax source as in 2001, and its progressive tax scale was not changed. In order to ease the tax burden of people in the lowest income brackets, an agreement was reached with the social partners and the resulting Exceptional Reduction of Tax Liability Act (income tax reduction for those with lower incomes) was passed in 2000. Its provisions were applied to final income tax assessments for 1999 and 2000, and also reduced income tax revenues in 2001. In 2001 excise duties on mineral oils were raised several times, those on alcohol, alcoholic beverages, tobacco and tobacco products were also raised, and excise duties on gas were introduced. An amendment to the Value-added Tax Act changed the provisions of the Act, which regulates the calculation period of value-added tax and the deadlines for VAT-input tax refunds, and reduces the administrative costs of tax collection. As a result of free-trade agreements and the EU Association Agreement, import tax rates for certain products were lowered, reducing the revenues from custom duties and import taxes. Amendments to the Public Finance Act systematically regulated the preparation, submission and adoption of two-year budgets.

The adopted 2001 national budget envisaged the general government revenues in 2001 to be 5.7% higher in real terms than in 2000, and to amount to 42.9% of gross domestic product (i.e. 0.1 of a percentage point higher than in 2000). The revenues were, however, lower because the actual movements of the macroeconomic aggregates, which indirectly or directly determine the scope of general government revenues, differed from those envisaged when the budget was drafted. Domestic consumption was lower in 2001 than initially planned, and so were goods imports, expressed in tolars, which slowed down the growth of VAT payments. In this respect, the most obvious difference from the adopted national budget were the downward movements. VAT revenue fell in the (calendar) year 2001 by 5.4% in real terms compared to 2000. Revenues from excise duties were higher than envisaged in the national budget. All existing excise duties were raised several times in 2001, and by higher percentages than assumed when the budget was adopted. The fall of petrol prices on world markets was compensated for by raising the excise duties. In the calendar year of 2001, revenues from excise duties were 12.2% higher in real terms than in 2000.

In 2001 movements of contributions and taxes which are wage-based were favourable. The general government revenues, calculated on the basis of wages, and which represent around 56% of government revenues, increased in 2001 by around 4% in real terms; taxes on wages and payroll tax increased faster, whereas social security contributions were slightly slower. Payroll tax increased by 14.2% in 2001 compared to the year before as a result of the fixed, nominal and progressive tax scale. Total revenue from income taxes increased by 2.6% in real terms in 2001. Taxes on wages account for almost 95% (92.7% in 2000) of income tax revenues, and increased in real terms by 5.1% because of the progressive tax scale. Among other income tax revenues, growth in real terms was registered in 2001 by the tax on entrepreneurial profits, and by taxes on income from real estate, while the other sub-groups of income tax fell in real terms compared to 2000. Income tax refunds, which totalled SIT 20.7 billion in 2001, were 44% higher in real terms than the year before; they increased because of refunds made in accordance with the Exceptional Reduction of Tax Liability Act, which reduced the income tax paid by lower income groups. Social security contributions increased in 2001 by 2.6% in real terms and the contribution rates remained unchanged. The growth of social security contributions was lower in 2001 than the growth of the total gross wage bill (4.3% in real terms), which forms the basis for the calculation and payment of contributions. This suggests that in 2001 social security contributions were not calculated and paid on the total basis. Due to further reductions in customs duty rates, which resulted from the EU Association Agreement and other trade agreements, customs duties and import taxes fell in 2001 for the sixth consecutive year. They fell by 28% in real terms and represented only 0.6% of gross domestic product. Revenue from corporate income tax increased in 2001 by 22.5% in real terms and totalled 1.5% of gross domestic product.

According to the consolidated global balance (elaborated in accordance with the Ministry of Finance's methodology) general government revenue increased in 2001 by 5.1% in real terms, totalling 43.1% of gross domestic product, and was 0.3 of a structural point higher than in 2000.

In **2001** some changes were introduced to the formation of general government revenues. In January 2002 value-added tax rates were raised: the standard rate from 19% to 20%, and the lower rate from 8% to 8.5%. Excise duties were also raised for all products subject to excise duties. Two new taxes were introduced in 2002: an environmental tax on waste disposal, and an environmental tax on the use of lubricants. Both taxes have a positive effect on the revenues of the national budget as well as on the environment. Registration taxes were introduced for motorbikes. The rates for social security contributions paid by employees remained unchanged in 2002, while the rate of contributions for health insurance paid by employers was raised from 6.36% to 6.56% of the wage bill. The rate of pensioners' health insurance contributions was raised by 0.2 of a percentage point. Payroll tax's bottom limit for taxation was lifted by one bracket and the taxation of wages in higher brackets was lowered by 0.2 of a percentage point. Both are expected to bring labour costs down. Import tax rates will be further reduced in 2002.

The changed macroeconomic developments which influenced the lower economic growth forecast for 2002 than in the autumn forecast (the basis for preparing the national budgets for 2002 and 2003) will have an impact on the scope and structure of general government revenues in 2002. Like in 2001, the actual general government revenues in 2002 will be lower than envisaged by the adopted national budget. This year's spring forecast for 2002 anticipates lower growth of domestic consumption and lower growth of imported goods, expressed in tolars, than expected by the autumn forecast. The actual revenues in 2001 were lower than envisaged when the budget was drafted. The estimates of the general government revenues for the next years were therefore based on too high starting values, in spite of the nominal increase of significant macroeconomic aggregates in the forecasts. For these two reasons, the Ministry of Finance now estimates that revenue from value-added tax will be lower (by around SIT 30 billion) than anticipated in the national budget.

The general government revenues, which are calculated and paid on the basis of wages, will increase slightly faster in 2002 than the growth of gross domestic product (the estimate is 4.5% in real terms). Social security contributions are estimated to increase by 4.3% in real terms, owing to the increased contribution rate, and revenues from income tax by 4.2% in real terms[72]. As a result of the abovementioned changes to payroll tax, the increase in real terms of revenues from payroll tax will be around 7%. The average tax burden deriving from payroll tax is estimated to drop from around 4.6% of the total wage bill in 2001 to around 4.25% in 2002.

It is further estimated that general government revenues, consolidated in line with the Ministry of Finance's methodology (without value-added tax and the excise duties paid in January 2003) will total around 41.5% of gross domestic product, that is around one percentage point less than envisaged when the 2002 national budget was adopted, and 1.6 structural points less than in 2001.

The activities aimed at reforming direct taxes are continuing in 2002. They involve the preparation of a new systemic law on income tax and corporate income tax, because the effective tax rate reaches only half the applicable tax rate due to numerous tax exemptions. Real estate taxes will also be reformed. The legislation which will support these changes is expected to enter into force in 2003 and its implementation will somewhat change the structure of general government revenues. Among indirect taxes, revenues from corporate income tax will rise, while revenues from income tax will fall.

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

[72] In 2002 there will be no increase in refunds based on the law which reduced the liabilities of those people in the lowest income brackets.

1.6.2. General Government Expenditure in 2001-2003 - Consolidated general government expenditure forecast to equal about 45% of gross domestic product in 2002

National budget expenditure totalled SIT 1.194 billion in **2001**, 7.1% more in real terms than in 2000. Compared to gross domestic product, expenditure equalled 26.2% or 0.7 of a structural point more than the year before. External interest payments were the fastest growing item of the 2001 expenditures (a 23.6% increase in real terms). Faster growth in real terms than the total expenditure of the national budget was also registered by expenditure on wages, contributions, and other allowances for the employees of government and public institutions (10.5% in real terms), and by expenditure on purchases of goods and services (8% in real terms). Transfers from the national budget to the Pension and Disability Insurance Institute increased by nearly 16%; their share was up to 16.2% of the national budget expenditure (as against 15% in 2000), or 4.2% of gross domestic product. Slower growth than total budget expenditure was recorded in 2001 by transfers to individuals and households from the national budget (1.2% in real terms). The budget expenditure on transfers to municipalities (-5.1%), expenditure on goods and services in public institutions (-3.9%), domestic interest payments (-2.6%), capital transfers (-1.3%), and subsidies (-0.8%) was below the 2000 level.

The national budgets for **2002 and 2003** were adopted in December 2001**.** The **2002** budget envisages budget expenditure increasing by 5.5% in real terms and compared to the actual expenditure level of 2001. Expenditure's share in gross domestic product will increase from 26.2% in 2001 to 26.7% in 2002. Since revenues were lower (by SIT 40 billion according to present estimates) than anticipated in the budget at the time it was drafted, the government has already adopted measures to temporary restrain implementation of the budget in accordance with the Public Finance Act. Taking into account more realistic estimates of the taxation sources, and the provisions concerning the budget deficit (the so-called automatic stabiliser), the government will propose a rebalance of the national budget which will bring budget expenditure into line with the real possibilities.

The **2003** budget envisages budget expenditure slowing down in 2003 and dropping to 2.6% in real terms, and its share in gross domestic product falling to 26.4%. Expenditure on wages is estimated to increase by 2.3% in real terms. The 2003 budget also anticipates a drop by 9% in real terms in interest payments. Expenditure on goods and services will increase by only 1.4% according to the budget. Compared to 2002, growth in real terms of transfers to individuals and households will slow down to 3.1%. Due to the planned revision of the 2002 budget, further adjustments will also result in changes to the adopted 2003 national budget.

The expenditure **of municipal budgets grew** in 2001 by 4.3% in real terms. Expenditure's share in gross domestic product totalled 5.3%, which is approximately the same level as in 2000. Spending on wages and contributions to local government bodies, on goods and services for these bodies, transfers to individuals and households, and capital expenditure increased faster in 2001 than the total expenditure of municipal budgets. In 2001 less funds were spent than in 2000 on subsidies, expenditure on goods and services for public institutions and some other transfers.

Table 1.6.2: Structure and share of national budget expenditure in gross domestic product, in %

	Structure in %				Share in GDP, in %			
	2000	2001	2002	2003	2000	2001	2002	2003
TOTAL STATE BUDGET EXPENDITURE	**100.0**	**100.0**	**100.0**	**100.0**	**25.5**	**26.2**	**26.7**	**26.4**
Current expenditure	**30.5**	**30.5**	**30.1**	**29.5**	**7.8**	**8.3**	**8.3**	**8.2**
Of which:								
Wages, contributions, other allowances for government employees	13.0	13.2	13.3	13.5	3.3	3.5	3.6	3.6
Expenditure on goods and services in the state administration	10.6	11.2	10.6	10.5	2.7	3.0	2.9	2.8
Domestic and external interest payments	5.8	5.9	6.0	5.3	1.4	1.6	1.6	1.5
Current transfers	**59.6**	**60.1**	**59.5**	**59.8**	**15.2**	**15.7**	**15.9**	**15.7**
Of which:								
Subsidies	5.1	4.8	4.6	4.6	1.3	1.3	1.2	1.2
Transfers to individuals and households	14.6	13.8	13.7	13.7	3.7	3.7	3.7	3.7
Transfers to public institutions	20.8	21.1	21.1	20.8	5.3	5.5	5.7	5.5
Transfers to the Pension and Disability Institute	15.0	16.2	15.9	16.1	3.8	4.1	4.2	4.2
Capital expenditures and transfers	9.8	9.4	10.4	10.7	2.5	2.6	2.7	2.7

Sources of data: Ministry of Finance; national budgets adopted for 2002 and 2003, the IMAD's calculations.

A slight slowdown in the growth of the municipal budget expenditure is expected in 2002 and 2003, which is below the growth of gross national product in both years. Compared to gross domestic product, expenditure on municipal budgets will drop to the level of around 5%.

Expenditure on pension and disability insurance increased in 2001 by 2.8% in real terms. Spending on pensions and disability allowances increased by 2.4% in real terms. In accordance with the adopted indexation method, pensions were adjusted in line with wage growth; the number of beneficiaries increased by a good one percent. Expenditure on wage compensation and other forms of ensuring social security (the introduction of state pensions) increased faster than the expenditure on pensions. To implement the rights deriving from the Pension and Disability Insurance Act (excluding contributions paid for the health insurance of pensioners), 13.2% of gross domestic product was used in **2001**. The estimates for 2002 and 2003, which take into account a further lowering of the (annual) accrual rate, modest growth in the number of beneficiaries (1.1% annually), and the presently applicable method of adjusting pensions in line with wage growth, envisage that around 13.3% of gross domestic product will be needed for this purpose in 2002, and about 13.1% in 2003.

Expenditure in **mandatory health insurance** rose in 2001 by 6.9% in real terms, and totalled 6.9% of gross domestic product. Expenditure on payments of health services increased by 6.4% in real terms, and within this group expenses on wages and contributions in health-care institutions increased by 6.5% in real terms, while expenses on goods and services for health-care institutions grew by 3.9% in real terms. Expenditure on medicines increased in 2001 by 13.9%. The growth of expenditure on wage compensation for sick leave slowed down slightly (excluding the effect generated by the payment of contributions based on compensations). Rights deriving from mandatory health insurance were not changed by legislation in 2001. A range of activities was adopted to control expenses on medicines, and to rationalise implementation of health-care programmes. **2002 and 2003** will see further activities aimed at curbing expenditure in the health sector. The limited means available from mandatory health insurance, which dictate continuous efforts to control expenses in the public health service, are already affecting the accessibility of health services. Any continuation of this trend raises questions about equity and solidarity in the public health system. Analyses and measures are therefore being prepared which will have to be used in **2002 in 2003** to intervene in this field.

After consolidation, **general government expenditure** in **2001,** as reported in the global balance, increased by 5.2% in real terms and totalled 44.5% of gross domestic product, 0.4 of a structural point more than in 2000. According to the adopted national budgets and estimated expenditure of the pension and health service budgets, general government expenditure in **2002 will increase,** after consolidation, **by 4.6%** in real terms, and its share in gross domestic product will rise to 45.2%. The total (consolidated) general government expenditure in **2003** will grow more slowly than gross domestic product according to the estimates, and its share will drop to 44.3% of gross domestic product. This is the only way to achieve the principal objective – to reduce the general government deficit compared to gross domestic product.

1.6.3. General Government Deficit in 2001- 2003 - Measures to curb general government expenditure will have to be pursued further in order to achieve balanced public finances

Although economic policy measures provided more stable financing sources and eased the pressures on general government expenditure, the general government deficit in **2001 totalled 1.4%** of gross domestic product, or 0.4 of a structural point more than envisaged in the budget memorandum.

To achieve the goal of balanced public finances, the gradual reduction of the general government deficit will have to continue in 2002 and 2003 through measures involving general government revenues (providing stable financing sources), but in particular through measures aimed at limiting and reducing general government expenditure. The adopted budget for **2002** foresees the budget year matching the calendar year, and this means that the annual expenditure of the national budget will be effected by the 11-month revenues from value-added tax and excise duties (excluding revenues from value-added tax and excise duties paid in January 2003). The actual general government deficit in 2002 will therefore increase by the ‘compensatory’ deficit, amounting to 1.5% of gross domestic product. Together

Table 1.6.3: Balance of public finance, consolidated in line with GFS-IMF methodology (shares in GDP in %)

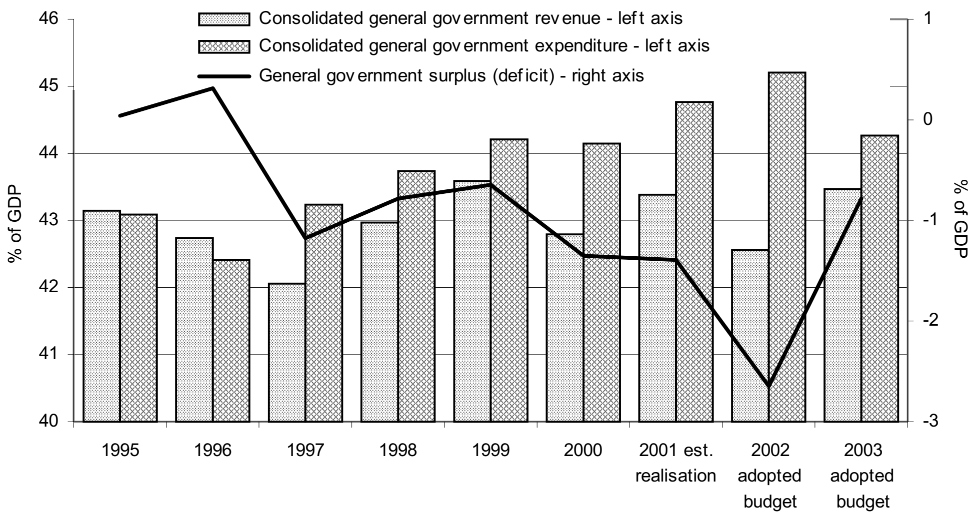
	1995	1996	1997	1998	1999	2000	2001	2002	2003
General government revenues	43.1	42.7	42.0	43.0	43.6	42.8	43.1	42.6	43.5
General government expenditure	43.1	42.4	43.2	43.8	44.2	44.2	44.5	45.2	44.3
Surplus /deficit	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-1.4	-2.6	-0.8

Sources of data: Ministry of Finance, adopted 2002 and 2003 budgets, the IMAD's calculations.

with the current deficit, the general government deficit will total around 2.6% of gross domestic product in 2002. In **2003,** the general government deficit will again equal the current deficit, which is estimated to total some 0.8% of gross domestic product.

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

Picture 9: **Consolidated balance of public finance**



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

which must be based on the methodology of the European System of Accounts – ESA 95. Presentation of the general government deficit using uniform methodology for all countries is important for monitoring how the Maastricht convergence criteria are being met. Transformation of the present calculation of the general government deficit, based on the national methodology, into the European methodology requires the following actions: the inclusion of new transactors (inclusion of public funds and other missing institutions of the state sector) and transactions (e.g. the institutions' own revenues, certain environmental taxes); the transition to recording transactions when a liability arises (particularly important concerning interest on public debt); adjustment to the calendar year; adjustment of the consolidation method, and other steps. Calculations elaborated this year set the general government deficit in 2001 according to the national methodology at 1.1% of gross domestic product, that is below the deficit established by the European methodology (-2.5%). For 2002, the deficit calculated by the national methodology is 1% of gross domestic product, and higher than calculated by the European methodology (-1.6%).

1.6.4. Central Government Debt - Relative Falls in Central Government Debt Expected in 2003

Central government debt increased nominally by SIT 215.6 billion in 2001 and totalled SIT 1,228.9 billion at the end of the year. Broken down by currencies, the tolar-nominated debt represented 42.9% of total debt at the end of 2001, followed by Euro-nominated debt with 52.6%, and US dollar-nominated debt with 3.8%. By type of interest, the indexed debt equalled 33.6%, debt with a fixed interest rate 48.8%, and debt with a variable interest rate 17.6% of the total debt.

Loan disbursement totalled SIT 676.5 billion in 2001, while debt repayment stood at SIT 526.1 billion. Value changes (indexation and exchange rate differences) increased the debt by SIT 65.2 billion. In the past year, the state took out long-term loans for a total of SIT 180.2 billion: SIT 5.7 billion of loans with domestic commercial banks, SIT 50.6 billion by issuing securities in the domestic market, SIT 5.5 billion of loans with international financial institutions, and SIT 118.3 billion by issuing securities in foreign markets. The stock of short-term debt totalled SIT 55 billion at the end of 2001. That debt was composed of SIT 0.8 billion promissory notes, SIT 13 billion of three-month treasury bills, SIT 7 billion of six-month treasury bills, SIT 14.2 billion of 12-month treasury bills, and SIT 20 billion of one-month treasury bills. In 2001 the Republic of Slovenia also took over the debts of the

Table 1.6.4.1: Stock and changes in the debt of the RS in 2001 (SIT billion)

	31.12.2000 Stock	Disburse-ment	Repayment	Net disburse-ment	Revaluation and changes	Debt changes	31.12.2001 Stock
DEBT OF THE RS	**1,013.3**	**676.5**	**526.1**	**150.4**	**65.2**	**215.6**	**1,228.9**
I. Internal debt	505.1	520.1	421.0	98.2	31.9	130.1	636.0
II. External debt	508.3	156.4	105.1	52.2	33.3	85.5	592.9

Sources of data: Ministry of Finance, Public Finance Bulletin.

Table 1.6.4.2: Bonds of the RS issued by the end of 2001

Bond	Maturity	Interest rate	Total value
RS 22 - 5-years	13. 02. 2006	TOM+4.70%	SIT 8,000 mill.
RS 23 - 10-years	13. 02. 2011	6.00%	EUR 40 mill.; SIT 8,561
Reopening of Eurobond 2010	24. 03. 2010	6.00%	EUR 100 mill.
RS 24 - 3-years	13. 03. 2004	TOM+4.20%	SIT 11,000 mill.
Eurobond 2011	11. 04. 2011	5.375%	EUR 450 mill.
RS 25 - 5-years	18. 04. 2006	TOM+4.70%	SIT 8,000 mill.
RS 26 - 10-years	01. 06. 2011	5.375%	EUR 50 mill.; SIT 10,962.5 mill.
RS 27 - 5-years	04. 12. 2006	TOM+4.70%	SIT 4,100 mill.

Source of data: Ministry of Finance.
Note: TOM - tolar indexation clause.

Slovenian Ironworks, totalling SIT 29 billion, and those of the Slovenian Railways, totalling SIT 61.6 billion.

Take-over debt deriving from the succession to former Yugoslavia's debts - In the 1996-2001 period the Republic of Slovenia reached a formal and comprehensive agreement with foreign creditors of the former SFRY concerning the past debt restructuring of the New Financing Agreement, and with the Paris Club. In this period, the Republic of Slovenia also started formally reporting the debt taken over by the country in its statistics, although the liabilities had existed from Slovenia's independence onwards. In 1996 the National Assembly passed two laws which laid down how the Republic of Slovenia was to settle its liabilities towards creditors of the former SFRY. The first law concerned the London Club was entitled "Law on the partial take-over of the debt deriving from the New Financing Agreement from 1988, and on the issue of RS bonds to compensate the debt"[73]. The second law dealt with the Paris Club and was entitled "Law on the procedures and conditions for meeting the obligations deriving from the bilateral agreements on the take-over of the debt allocated to Slovenia, which results from bilateral agreements to consolidate the debt of the former SFRY and which were entered by the SFRY and the member-states of the Paris Club in the 1984-1988 period"[74]. Based on these two laws, in 1996 the Republic of Slovenia ratified the agreement with the consortium of commercial banks (the London Club) on implementation of the New Financing Agreement (NFA; in 1988 a group of business banks headed by the National Bank of Yugoslavia had entered into this agreement with a consortium of commercial banks). Slovenia also ratified the agreements with three members of the Paris Club: France, Germany, and the USA. Based on the agreement with the consortium of commercial banks, the Republic of Slovenia issued NFA bonds with a total value of USD 812 million (USD 646.2 million and DEM 255.5 million). By issuing these bonds, Slovenia achieved the position where all Slovenian debtors were discharged from the still applicable international agreement, which contains a joint and several liability clause (if Slovenian debtors had remained bound to this agreement, the

[73] Ur. l. RS (Official Journal of the Republic of Slovenia), 14/96

[74] Ur. l. RS (Official Journal of the Republic of Slovenia), 1/96

Table 1.6.4.3: Debt of the Republic of Slovenia, increased by liabilities deriving from the NFA, liabilities to member-states of the Paris Club, the Slovenian Ironworks, and the Slovenian Railways

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Debt stock of RS according to debt report	303,020	342,982	418,121	580,698	673,313	771,298	893,292	1,013,354	1,228,875
Succession debt stock deriving from the NFA, up to year of take-over	90,539	92,862	98,932						
Succession debt stock - Paris Club, up to year of take-over	23,549	25,961	29,072	14,690	2,156	2,060	946	1,106	
Debt stock deriving from Slovenian Ironworks, up to year of take-over	18,996	20,308	21,860	22,633	23,480	23,966	25,093	26,897	
Debt stock deriving from Slovenian Railways up to year of take-over	7,824	9,289	10,050	11,025	11,999	23,081	25,078	45,743	
Debt of the RS including take-over (share in GDP in %)	443,927	491,402	578,035	629,045	710,949	820,404	944,409	1,087,100	1,228,875
Debt of the RS as in debt report (share in GDP in %)	21.11	18.51	18.82	22.72	23.16	23.78	24.56	25.11	27.03
Debt of the RS including take-over (share in GDP in %)	30.93	26.52	26.02	24.62	24.45	25.29	25.96	26.94	27.03

Source of data: Ministry of Finance.

creditors would have been entitled to recover from them the entire value of the agreement, which totalled US 5.6 billion in early 1996, including matured and unpaid liabilities). In 1997 the Republic of Slovenia ratified agreements with the Kingdoms of Sweden and Belgium and settled its liabilities to these two countries in 1998. In 1998 similar agreements were entered into with Kuwait and Austria and the liabilities

Table 1.6.4.4: Central government debt in the 2002-2004 period (SIT billion)

	2002	2003	2004
Required scope of borrowing	257.4	195.1	197.3
Interest payments[1]	81.3	78.2	85.1
Repayment of principal[1]	130.7	144.9	172.6
Central government debt	**1,308.8**	**1,311.5**	**1,324.7**
Debt as % of GDP	**25.9**	**23.8**	**22.0**

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

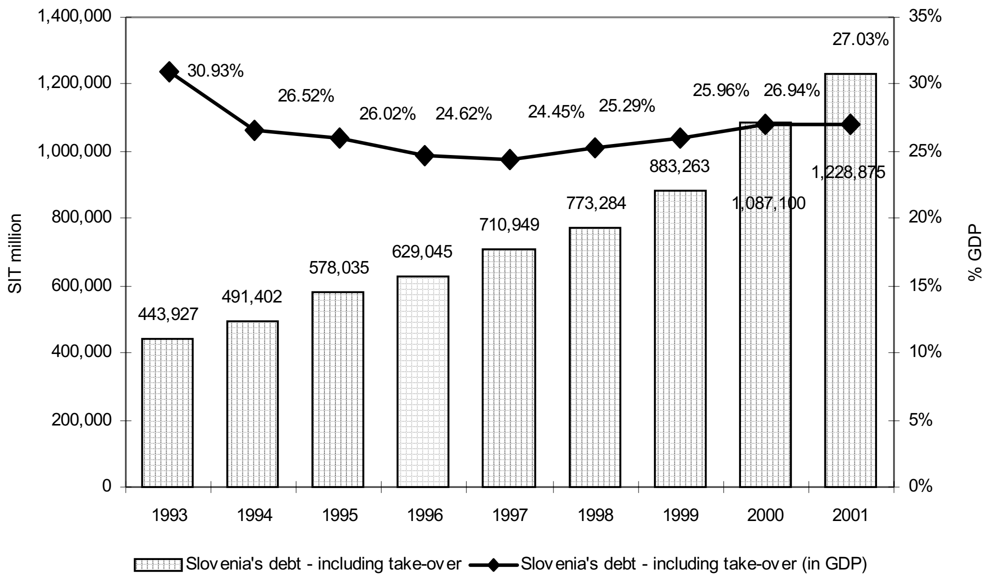
to these two countries were paid, followed by agreements and settlements with Japan and Switzerland in 1999. Agreements with Denmark and the Netherlands were ratified in 2000, while agreements with Great Britain, Italy and Norway were signed in 2001.

Table 1.6.4.3. shows the officially reported debt, increased by the above-mentioned liabilities. All the liabilities deriving from NFA and towards the member states of the Paris Club from 1993 onwards are shown. Further included are the liabilities towards the Slovene Ironworks and the Slovene Railways, which have been serviced from 1993 onwards. These reported liabilities show that the debt fell in relative terms (compared to gross domestic product) in the 1993-1997 period, and that it increased by 2.5 percentage points in the 1998-2000 period. At the end of 2001 the relative value of the debt was almost unchanged compared to the end of 2000.

The estimate of the dynamics of the **central government debt for the 2002-2004 period** is based on the following assumptions: (i) the budget deficit will decrease in the observed period and not exceed 0.5% of gross domestic product in 2004; (ii) the planned privatisation of state property will be carried out in full, and the proceeds of privatisation will be used to repay the debt; (iii) the government will not take over any additional debts based on special laws in the 2002-2004 period.

Based on the abovementioned assumptions, nominal debt will increase slightly in the observed period but its share, relative to gross domestic product, will continue to fall during the entire period. This estimate of the debt's dynamics is primarily based on the planned privatisation of state property and the advance repayment of debt from the proceeds of privatisation.

Picture 10: **Central government debt, including liabilities from take-overs**



Source of data: Ministry of Finance.

1.7. Monetary Trends, Financial Flows and the Capital Market

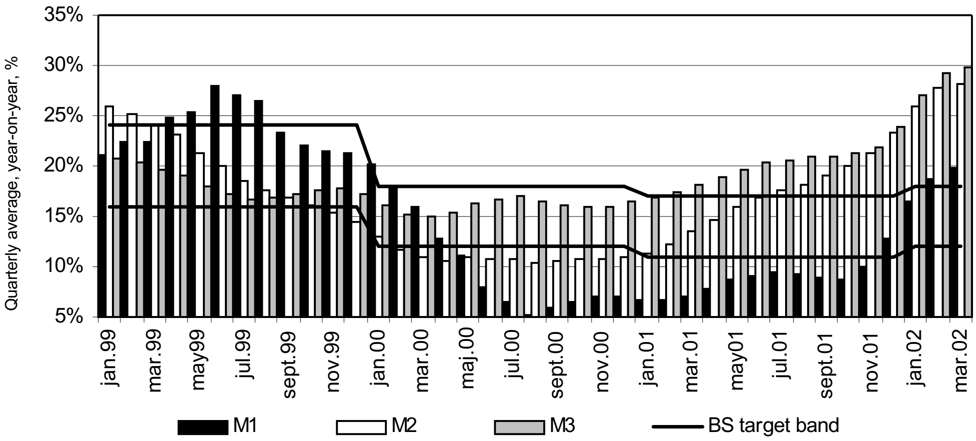
1.7.1. MONETARY TRENDS - M3 growth overshot the upper end of the target band by 6.9 percentage points in 2001

The aim of the Bank of Slovenia - to bring inflation down to a level comparable to inflation in the EU countries - remains unchanged in 2002. Accordingly, the Bank of Slovenia will carry out a policy to enable the reduction of inflation to 4% in the next two years, that is before the expected accession to the European Union. In line with its new monetary policy strategies adopted in November last year (see Box 7), the policy of the Bank of Slovenia for achieving the abovementioned long-term objective **will be based on two pillars**. The first pillar is the amount of money in circulation; as a reference value, the Bank of Slovenia will continue to monitor the M3 broad money supply aggregate, as well as its components. The second pillar consists of the indicators which have an impact on price stability and the sustainability of monetary policy; here, the Bank of Slovenia will primarily monitor the indicators of economic activity, wage growth, the deficit of the current account of the balance of payments, movements of administered prices, and the deficit of the government sector.

The intermediate objective of monetary policy, defined as the **growth of the M3 money aggregate,** remains unchanged. Following its stable growth in 2000, when the average volume of M3 money supply aggregate increased by 0.4 of a percentage point (from 16.1% in January to 16.5% in December), the Bank of Slovenia lowered both the floor and ceiling of the target band for its growth in 2001 by one percentage point (setting them at 11% and 17%). Growth of M3 reached the ceiling of the target band already in January 2001, and exceeded it by 3.9 percentage points by the end of the third quarter. This was mainly a result of developments in the current account of the balance of payments and financial inflows connected with the sale of equity shares to foreign investors; in the formation of M3 in this period, creation through net foreign assets amounted to 42.7%. In the last quarter of 2001, the supply of foreign money increased further, mainly due to the inflow of foreign cash deriving from introduction of the euro and, consequently, the formation of M3 through net foreign assets rose to 71.6%. The volume of M3 thus saw a total rise of SIT 430 billion in 2001, while the year-on-year growth was 27.1% in December. The average annual growth of M3 in 2001, measured as the average of the volumes in the last quarter, compared with the average volumes in the same period one year earlier, was 23.9% at the end of the year, or 6.9 percentage points above the ceiling of the target band.

The high growth of the M3 money aggregate continued in the first quarter of 2002, though the Bank of Slovenia took into account last year's trends and changed the floor and ceiling of the target band for M3 growth by one percentage point (to between 12% and 18%). M3 growth at the end of the first quarter of this year was 29.8%, exceeding the ceiling of the target band by more than half.

Picture 11: **The Bank of Slovenia's money aggregates – trends (growth, quarter/ same quarter of previous year)**



Source of data: BS.

The fastest growing **components** of the broad money aggregate in 2001 were tolar time and foreign currency deposits with banks. The year-on-year growth of the first increased from 14.3% in January to 29.5% in December, while the growth of the foreign currency deposits, which increased year-on-year by 32.3% at the beginning of the year, fell by 3.2 percentage points to 29.0%, primarily because of the slower growth of corporate foreign currency deposits. The relatively faster growth of tolar time deposits also caused faster growth of the M2 money aggregate in 2001 (from 12.2% in January to 26.2% at the end of the year). The difference between the growth of the M3 and M2 money aggregates was reduced to 0.8 of a percentage point last year (it was 5.2 percentage points in January).

The year-on-year growth of currency in circulation increased by 14.2 percentage points last year, from 3.3% in December 2000 to 17.5% at the end of the year, and the growth was strongest in the last quarter. A similar development was recorded for the reserves of banks; their growth increased by 3.4 percentage points from December 2000 to September 2001, and in the last quarter by a further 6 percentage points, totalling 13.9% at the end of the year. Base money in circulation increased by 13 percentage points last year, but only 3.4 percentage points in the first nine months and the rest in the last quarter, totalling 17.8% at the end of the year.

The abovementioned inflows of foreign currency had the biggest impact on the volume and issue of base money. The Bank of Slovenia issued net base money through currency transactions, mostly through repo deals (SIT 245 billion) and net foreign currency purchases (SIT 218.5 billion), and managed to reduce the net volume by SIT 15.8 billion through other foreign currency transactions (final sales of foreign currency). The net withdrawal of base money was primarily achieved through tolar transactions, mostly by issuing tolar bills of the Bank of Slovenia through which the Bank of Slovenia withdrew net SIT 118.8 billion, and by increasing the tolar deposits of the government and companies (SIT net 19.9 billion). The stock of

Box 7: Monetary policy guidelines of the Bank of Slovenia

As part of the forecast trends for macroeconomic indicators until 2003, in November last year the Bank of Slovenia presented its monetary policy guidelines for the next few years. The Bank of Slovenia emphasised that in order to meet the nominal convergence criteria on one hand, and to preserve macroeconomic stability on the other, inflation must be brought down to 3 to 4 percent annually before joining ERM2. The Bank also drew attention to the discrepancy between meeting the nominal convergence criteria and faster catching up with the level of economic development of the EU member-states, and ensuring the economy's structural balance. Faster convergence in real terms, which is primarily the result of higher growth of productivity, does indeed cause prices to grow faster compared to developed countries, and increases the real appreciation of the tolar.

The Bank of Slovenia will therefore implement a monetary policy allowing a "soft transition" of economic integration with the economy of the European Union; to this end the bank will continue to use instruments influencing the exchange rate, interest rates, and the volume of money in circulation. As far as the exchange rate policy is concerned, the BS will prevent any changes in the tolar's real exchange rate, which are not due to higher labour productivity growth in Slovenia, by signalising the level of the nominal exchange rate. At the same time, the bank will influence the volume of issued money by changing the level of interest rates on temporary purchases and sales of foreign exchange; this will indirectly influence the imbalances between domestic and foreign interest rates which, in addition to changes to the exchange rate, have the biggest impact on the volume of capital flows to and from the rest of the world. In addition to these measures, the BS will avail itself of regulations on the capital adequacy of banks and their liquidity levels to influence the management of foreign currency and the liquidity risks of commercial banks.

The document presented by the Bank of Slovenia clearly sets its strategy and objectives in the period up to joining ERM2. It is obvious from the document that the Bank of Slovenia will devote most attention to the dynamics of the real exchange rate of the tolar, but it is not clear how the inflation rate can be brought down given the emphasised discrepancies between the exchange rate objective and target inflation comparable with inflation in the member-states of the European Union.

overnight deposits, which the Bank of Slovenia introduced last year, totalled SIT 19.9 billion at the end of December.

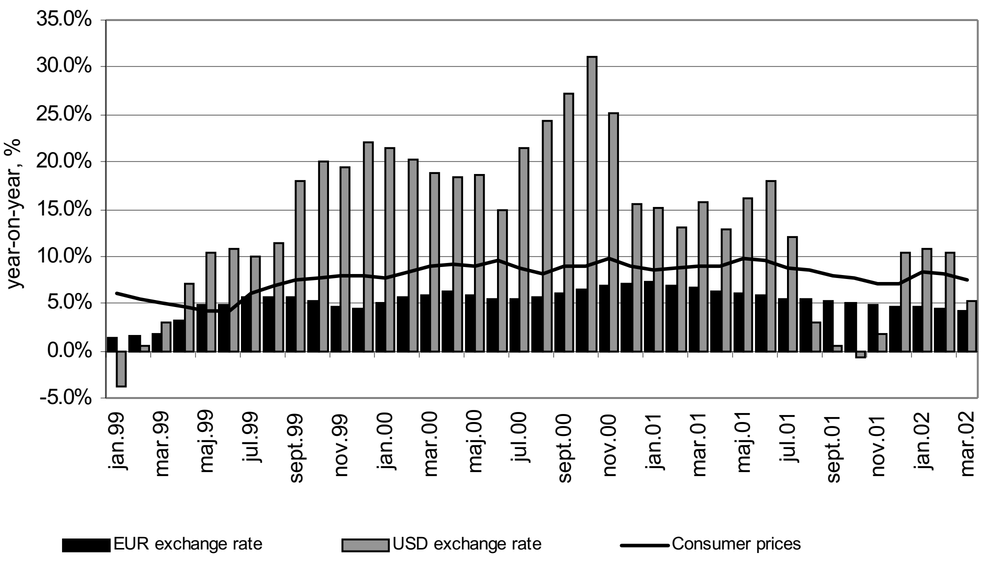
Given the increased financial flows, the clearly defined objective of the Bank of Slovenia is to ensure stability of the domestic currency; the **priority task of the Bank of Slovenia in 2001 therefore remained to maintain the level and adjust the fluctuations of the exchange rate**[75]. Nominal depreciation against the euro

[75] To adjust the trends and fluctuations in the exchange rate, the Bank of Slovenia used the following instruments; temporary and final purchases of foreign currency, signalling of

was 4.8% last year (7.1% in 2000). In the first quarter of 2001 the average monthly growth of the euro's exchange rate was 0.6%, and slowed down to 0.3% in the second quarter. To correct the slowly reacting floating exchange rate of the tolar in the months that followed, the Bank of Slovenia interfered in the foreign currency market in September by setting the lowest exchange rate at which the banks, signatories to the agreement on co-operation in interventions in the foreign currency market, are bound to purchase foreign currency. As a result, the growth of the exchange rate climbed to 0.4% monthly but, after the intervention, the growth slowed down in the last quarter and finished at an average 0.2% monthly. Like in previous years, the fluctuation of the US dollar's exchange rate in individual months was much larger, between 4.1% and 2.9%, and the total growth of the nominal exchange rate of the US dollar reached 5.2%. In early 2002 the euro's exchange rate grew faster, due to surplus demand, and reached on average 0.4% monthly in the first three months, while the dollar's exchange rate increased by 3.2% as it continued to fluctuate considerably. In view of the expected capital inflows, further rapid growth of the exchange rate is not expected.

In setting the level of its **key interest rates** the Bank of Slovenia followed the fluctuations of the exchange rate and the money supply aggregates. After another increase in the Lombard interest rate from 10% to 11%, and the discount interest

Picture 12: **Year-on-year changes in the exchange rates of the euro, US dollar, and inflation**



Source of data: BS, SORS.

exchange rates, and issuing of foreign currency bills denominated in euros and US dollars. The bank also continued to reduce the number of bills with a different maturity and in February last year it stopped issuing foreign currency bills with a maturity over 120 days, while the purchase of other bills continues to be restricted to commercial banks.

rate from 11% to 12% in April last year, the Bank of Slovenia lowered both interest rates in January 2002 (to 9% and 11%, respectively). The movements of the Bank of Slovenia's key interest rates were followed by the interest rates for tolar bills and repo deals. Regarding **foreign currency bills,** the Bank of Slovenia primarily monitored movements of interest rates in foreign markets: for euro-nominated bills interest rates were reduced by 1.5 percentage points for 60-day bills, and by 1.6 percentage points for 120-day bills; for US dollar-denominated bills the interest rates were lowered by 4.7 percentage points for 60-day bills, and by 4.5 percentage points for 120-day bills.

The method of calculating tolar interest rates saw some changes in 2002. A first step towards the abolition of indexation in the financial sphere was the elimination of the base interest rate from all new contractual relationships involving deals of up to one year, which will come into force in July 2002. The gradual abolition of the indexation of interest rates with a tolar indexation rate (TOM) will reduce inflation's inertia and contribute to its faster lowering, but this may have a negative effect in the short run, in particular by increasing nominal interest rates and by reducing tolar savings. The gradual abolition of TOM and its function as a reference interest rate is connected with the institutionalisation of the Slovenian inter-bank interest rates ("SMOM" – see Chapter 1.7.2) and the introduction of an interest rate which will function as a reference interest rate.

Expecting relatively high inflows of foreign capital to continue in the remaining months of this year, and an unchanged policy of the Bank of Slovenia, the bank's principal task will remain managing exchange rate fluctuations and the rate's level. This means that the bank will use exchange rate instruments to ease pressures on the tolar's exchange rate, and prevent any stronger **appreciation of the tolar's real effective exchange rate.** In such conditions, the volume of money in circulation will change in accordance with movements of the exchange rate and this will reduce the Bank of Slovenia's ability to actively influence price growth, while interest rates policy will be subordinated to the set exchange rate objective. The continuation of Slovenia's approximation to the member-states of the European Union, especially in the sense of achieving the Maastricht (nominal) convergence criteria, will largely depend on adjusting the monetary policy and the exchange rate policy to the fiscal and revenue policy.

1.7.2. Financial Flows and the Capital Market - High savings growth and moderate lending activity of domestic banks, the stock exchange experienced positive trends in 2001

In 2001 **household savings in banks saw a strong increase, and other forms of saving also strengthened**. The net inflow of tolar and foreign currency household deposits in banks increased by 96.5% last year. The volume of **household savings in banks** increased by 28.1% compared to the year before, and changes also occurred in the currency and maturity structure. The foreign currency deposits saw the strongest rise in relative terms, and for tolar deposits, where growth also exceeded the growth seen in 2000, the maturity was extended. The average monthly growth of household bank deposits in real terms was 2.1% (1.2% in 2000). The accelerated growth in the first half of the year resulted from the relatively high level of TOM in that period, and in the second half from inflows of cash in the twelve currencies of the EU countries due to their exchange into euros, which had a strong impact on the growth of foreign currency household savings[76].

The **net inflow of tolar deposits in banks** was 72% higher in real terms than in 2000. The total net inflow consisted of 19.8% sight deposits, 59.9% short-term deposits, and 20.3% long-term deposits. The net inflows of long-term tolar deposits grew fastest, as they increased by 4.4 times in real terms compared to 2000. The growth of net inflows of time deposits for 91 to 365 days was 44.8% in real terms. Both developments had a favourable impact on **extending the average maturity of deposits.** The **volume of tolar deposits** increased last year by 24.7% in real terms (14.2% in 2000). Long-term tolar deposits increased in real terms by nearly half, and by the end of 2001 represented 13.1% of all tolar deposits (12.2% in 2000). Savings play an increasingly important role in these developments in the National Housing Savings Scheme. According to an estimate by the Housing Fund of the Republic of Slovenia, the scheme had gathered savings totalling SIT 24.9 billion[77] (92% represent five-year savings) by the end of 2001, or approximately 20% of all long-term tolar deposits (their structural share increased by 8.9 percentage points compared to 2000).

The **net inflow of foreign currency deposits increased by** 124.7% in real terms last year, and was strongest in December (SIT 78.4 billion or nearly 42% of the total foreign currency inflows in 2001). **The high inflows of foreign currency into the banks in the last few months of 2001 exceeded the estimates** of the foreign cash assets of households, and these were probably even higher since part of the cash in the currencies of twelve EU countries is thought to have been exchanged or deposited in accounts held abroad[78]. The **volume of foreign currency savings** increased last year by 32.1% (16.6 percentage points more than in 2000), while its structural share in total household savings increased by 0.9 of a percentage point, and reached 45.3% at the end of the year. Among foreign currency deposits, the scope of savings deposits increased by 50.7% in real terms, that of sight deposits by 34.2%, and the highest increase was recorded in December (over 20% monthly increase).

In the first two months of 2002, the growth of household savings in banks slowed down considerably (the average monthly growth in real terms was below 0.5%), a development caused among others by the lowering of deposit interest rates in banks. The year-on-year growth rate in real terms of household deposits in banks fell to 25% (28.1% at the end of 2001). A slowdown was seen in tolar deposits as

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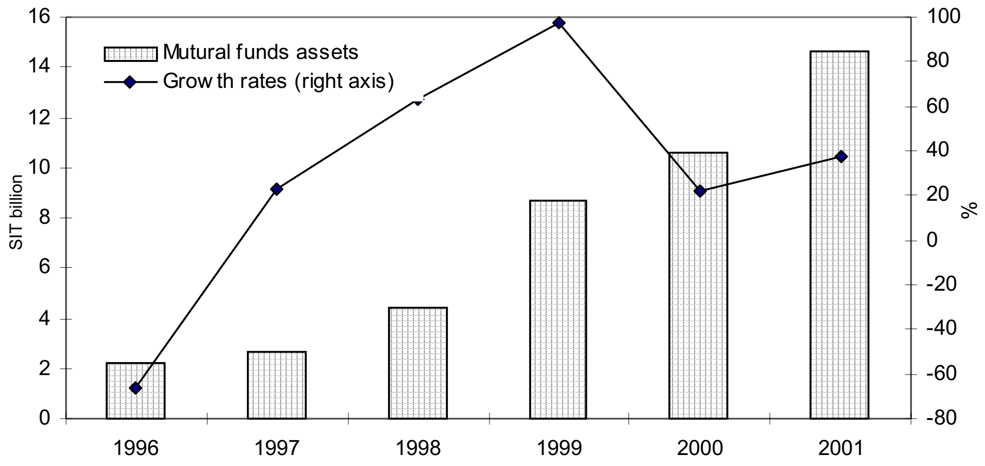
[76] Even if we technically eliminate the impact which the conversion into euros had on the growth of foreign currency deposits by transferring the trend of the growth rates of households' foreign currency savings in banks from the first nine months to the last three months of 2001, the year-on-year real growth rate of household savings of December (19.1%) still exceeded the 2000 growth.

[77] The monthly inflows totalled on average around SIT 1.2 billion.

[78] The holders of these savings thus enjoyed anonymity, since banks and exchange offices in Slovenia are obliged to report any cash transaction involving more than SIT 3.6 million to the Office for the Prevention of Money Laundering. (ZPPDen, Official Journal of the RS, 79/2001)

Picture 13: **Mutual funds capital in the 1996-2001 period (end-of-year figures)**



Source of data: BS, www.vzajemci.com.

well as foreign currency deposits, but tolar savings increased in this period at higher monthly rates than foreign currency deposits (the volume of foreign currency was at about the same level in real terms as at the end of 2001).

Savings in banks continue to be the prevailing form of household saving in Slovenia, but there is a gradual increase of other options, including the **significance of mutual funds**. In developed countries, mutual funds are a major form of saving and have a higher return than time deposits[79], while they do not involve big risks because of the dispersion of deposits. Slovenia is still far behind the developed countries in this area, but also behind some countries in transition which are less developed according to other financial business indicators. In early April 2002, 18 mutual funds in Slovenia had an estimated[80] capital of SIT 21 billion (USD 41 per capita; Czech Republic USD 171, Portugal USD 1,695, Greece USD 2,778, and Spain USD 4,302)[81].

Table 1.7.2.1: Structure of tolar bank loans in the 1998-2001 (end-of-year data)

	1998	1999	2000	2001
Companies and OFOs	60.9	54.6	54.7	56.5
Government	7.6	8.7	9.3	9.8
Households	31.5	36.7	35.9	33.7

Source of data: BS.

[79] The same is true of Slovenia – the average annual real return of the mutual funds has reached 10.1% (nominal 18.7%) in the past five years. Compared with the real interest rates for long-term time deposits (the average rate was 4.9% in the same period), the latter were considerably less profitable.

[80] According to data published on the website www.vzajemci.com.

[81] The data for the other countries refer to 2000.

Due to favourable movements in the stock market (high growth of share prices), which led to high profits for the mutual funds, and the lower interest rates in banks for tolar deposits, assets in mutual funds increased by an estimated SIT 6.3 billion in the first three months of 2002.

Individuals can also invest in securities abroad since portfolio investments abroad were liberalised in September 1999[82]. Investment abroad offers better risk dispersion and higher liquidity of the securities than investment in just the domestic securities market. At the end of 2001 the value of investments by individuals in foreign markets reached SIT 97 billion (5.5% compared to the value of households' total bank deposits); bonds prevailed (96.3%) and a little under half were investments in securities of domestic issuers, which are traded on foreign markets (Eurobonds of the Republic of Slovenia). New in 2001 were investments in foreign investment funds.

Real growth of total bank loans increased last year (7.8% as against 5.9% in 2000); while the growth of household loans slowed down, and loans to companies and other financial institutions (OFOs) and the government increased.

The **moderate growth of household loans** (1.2% in real terms against 3.6% in 2000) was primarily the result of the reduction in real terms of the volume of long-term loans (nearly 79% of all household loans), which decreased in 2001 in real terms by 0.4%. Short-term bank loans to households increased last year (10.4% in real terms)[83]. Due to the low growth rates of household loans and increased savings, **household indebtedness, measured as the ratio of loans to deposits, dropped** (from 0.37 in early 2001 to 0.31 in December 2001). In the first two months of 2002 the volume of household loans fell by 3.1% in real terms, compared to December 2001 (the volume of overdrafts and advances fell by 12.2% in real terms, that of short-term loans by 2.4%, and of long-term loans by 1.3%). In February household indebtedness was 0.30.

The **real growth of tolar and foreign currency bank loans to enterprises** was 17.3% in 2001 (3.5 percentage points higher than in 2000). **Foreign currency loans increased relatively faster** (35.1% against 26.5% in 2000), and by the end of 2001 their share in the total of domestic bank loans to corporations was 26.1% (22.6% in 2000). The high growth of foreign currency loans in domestic banks was made possible by the high foreign currency liquidity, and it was also encouraged by the preservation of TOM at a relatively high level in 2001. The real growth rate of **tolar corporate loans** also increased (to 11.6% against 6.1% in 2000), primarily due to the faster real growth of long-term loans (12.8%; 1.1% in 2000), although the real

[82] Residents can buy and sell securities abroad only though an authorised Stock Exchange member that is a brokerage house, bank, or a branch of either, which is licensed to pursue these activities in accordance with the law governing the securities market. Residents cannot invest directly in a foreign market or through a brokerage house or bank, which is licensed abroad, but not in the Republic of Slovenia. Pursuant to the Personal Income Tax Act, capital profits earned by residents of the Republic of Slovenia in foreign markets are not taxed in Slovenia, but in the country where the taxable profit was generated.

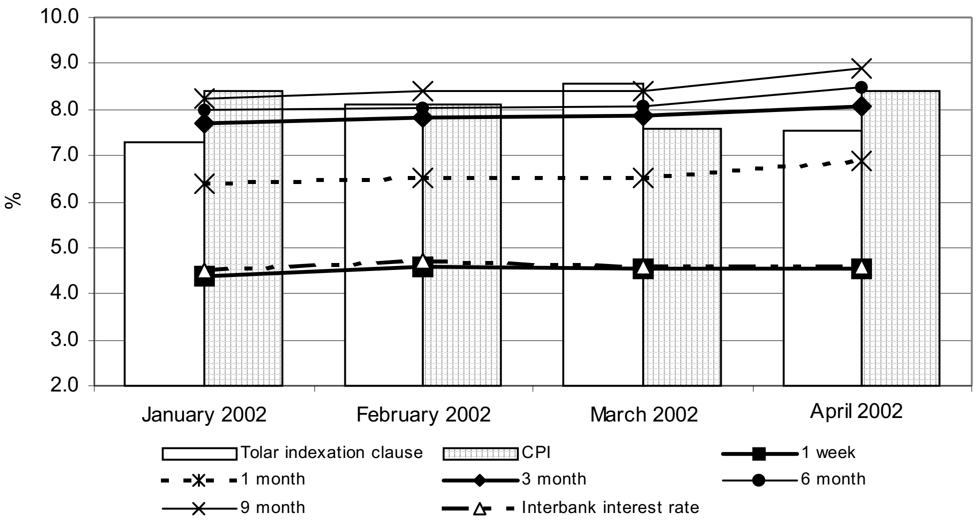
[83] The net flows of household loans fell by 34.8% last year as a result of the 44.4% reduction of the net flow of long-term loans, the lowest in real terms of the past five years.

growth of short-term loans was also higher than in 2000 (10.5% against 3.1% in 2000); short-term loans account for around 60% of all corporate tolar loans. **The net flow of foreign currency and tolar corporate loans made by banks** (SIT 204.1 billion SIT) was 23% higher in real terms than in 2000, and the biggest inflow was registered in December, when it totalled 18.4% of the total net in flow of corporate and OFO loans in 2001. The net flow of long-term tolar loans increased by a factor of 2.6 in 2001. **In the first two months of 2002 the growth of foreign currency corporate and OFO loans made by domestic banks continued to increase** (37.7% year-on-year growth in February 2002), while the real growth of tolar loans is dropping (in February the year-on-year growth was 6.5%, 5.1 percentage points less than in December 2001).

In 2001 the net flow of corporate and OFO indebtedness abroad fell in real terms by 8.9%, and the share of loans taken out abroad in the total of corporate and OFO loans dropped last year by 7.9 percentage points to 36.3% of their total debts at home and abroad. This drop was partly the result of the high liquidity of banks, and it also reflects last year's drop in investment activities, because borrowing conditions continued to be more favourable abroad last year.

The real growth of tolar government loans increased last year (from 13.5% in 2000 to 18.7% in 2001). Nearly two-thirds of the growth came from long-term loans. Foreign currency loans, taken out by the government with domestic banks, fell compared to 2000 and in real terms by no less than 77.4%[84]. Government loans with domestic banks peaked in November (SIT 25.7 billion), primarily because of the payment of rehabilitation bonds of the RS 15-series D. The net flow of

Picture 14: **Movements of the TOM, consumer price index and some Slovenian inter-bank interest rates (at the annual level, in %)**



Source of data: Bank Association of Slovenia, BS, SORS.

[84] The net flows of foreign currency loans reveal a net outflow of SIT 20.5 billion in 2001.

government loans from abroad recorded an outflow of SIT 2.1 billion last year, as against the net inflow of SIT 27.9 billion in 2000. The government's indebtedness increased last year mainly because of tolar securities issued (SIT 20.8 billion)

Nominal interest rates saw strong fluctuations in 2001, a result of the fluctuations of the tolar indexation rate (TOM), which rose from 8.6% early in the year to 10.2% in June (the highest level after March 1998), but started to fall in the second half of the year, reaching 7.3% in December. The average TOM in 2001 was 8.6%, 0.5 of a percentage point less than in 2000. **The average loan interest rates on top of TOM** for long-term loans (7.8%) was lower last year on average by 0.2 of a percentage point than in 2000. Major changes occurred to the average interest rates on top of TOM for short-term loans, which dropped in February by 0.5 of a percentage point, and their annual average (5.8%) was half a percentage point lower than in 2000. In the first four months of 2002 loan interest rates on top of TOM were still falling (in April by 0.1 of a percentage point for short-term loans, by 0.2 of a percentage point for long-term loans, compared to December). After the banks officially withdrew from the recommendation of the Bank Association of Slovenia on the highest deposit interest rate in February, **the average interest rates on top of TOM for deposits** increased in March and April and were at their highest level after 1998. Combined with the high TOM, this made tolars savings more attractive[85]. In the second half of the year interest rates on BS securities and treasury bills fell, but interest rates for time deposits on top of TOM did not change until January. They started to fall in 2002 and, compared to December, they were lower by 0.7 of a percentage point in April. **The average inter-bank interest rate** ranged between 7.2% and 7.7% in the first half of 2001, when the liquidity of the banking system was slightly worse, but started to fall in the second half and stood at 4.7% in December. The high liquidity of the banking system continued in the first few months of 2002, and the inter-bank interest rate ranged between 4.5% and 4.7%. In accordance with the Act Amending the Prescribed Interest Rate Act, the Bank Association of Slovenia (ZBS) started to daily publish the Slovenian Inter-bank Interest Rate (SMOM) on January1, 2002. The SMOM represents the interest rates for tolar liquidity loans and time deposits, which are formed in the domestic inter-bank money market; it is published for maturity from 1 day to 9 months, and since March 1, 2002 also for 1 year. The agreement includes the 10 biggest banks which report their interest rates to the Association[86]. In the first three months no essential changes occurred to the level of the SMOM for the same maturity. The one-day SMOM was around 4.1%, and the SMOM for one year was between 8.7% and 9.1%.

Favourable trends in the Ljubljana Stock Exchange in 2001. The SBI20 share index reached 2,152 points at the end of 2001 and was 19% higher than at the end of

[85] Interest rates on top of TOM for time deposits over 31 days increased by 0.2 of a percentage point last year, by 0.4 of a percentage point for time deposits over 91 days, by 0.3 of a percentage point for time deposits over 181 days and up to 1 year, and they remained unchanged for time deposits over one year.

[86] Calculation of the SMOM includes only the 8 biggest banks, while the two minor banks report their interest rates for information purposes only. They are used only in the case of irregularities or when the interest rates quoted by an individual bank differ considerably from the interest rates in the market.

Table 1.7.2: Trade by individual groups of securities on the Ljubljana Stock Exchange (SIT million)

Period	Shares	Bonds	Authorised investment funds	Short-term securities	Pension coupons	Total
1998	133,757	22,070	10,036	7,512	0	165,863
1999	168,422	35,298	53,802	6,446	1,701	265,670
2000	145,323	56,441	62,824	3,187	1,841	269,617
2001	237,139	51,620	55,402	2,830	1,652	348,644
31.3.2001	54,965	23,984	18,175	0	847	98,022

Source of data: Ljubljana Stock Exchange.

2000 (growth in 2000 0.1%, in 1999 5.9%). The main reasons were more intensive merger and acquisition activities, the good business results of some companies, good liquidity, and the higher trading of non-residents, which increased by 145.7% (due to the abolition of the system of custody accounts in July 2001). The share of non-residents' stakes in Slovenian companies, listed on the Ljubljana Stock Exchange, reached 10.5% at the end of December 2001, and was 2.7 structural points higher than in December 2000. The PIX, the index of authorised investment funds, which equalled 1,588 points at the end of 2001, gained 4.4% in 2001 (2.5% in 2000). Among branch indexes, the highest growth profit in 2001 was recorded by the petroleum and gas index, which increased by 41.5%. It was followed by the food and beverages index (32.6%), the transport index (22.5%), the chemistry index (12.1%), the pharmaceutical index (3.9%), and the trade index (0.3%). **The market capitalisation** of all securities on the stock exchange (excluding the securities of the investment funds) was 25.9% higher at the end of 2001 than in December 2000. The market capitalisation of all shares on the stock marker increased by 20.5%, and that of all bonds was 41.5% higher than at the end of December 2000, mainly as a result of new bonds being listed on the organised market. The market capitalisation of authorised investment funds' shares was 5.4% lower at the end of 2001 than at the end of 2000. The number of block trades (larger trades made outside the organised market) increased last year (from 1,318 in 2000 to 1,512), but their share in overall trading fell slightly (from 57.7% to 56.6%).

The market capitalisation (including the shares of investment funds) on the Ljubljana Stock Exchange totalled 30.2% of gross domestic product in 2001, two percentage points more than in 2000. This indicator puts Slovenia ahead of the other countries in transition (in Hungary the market capitalisation equalled 25.9% of gross domestic product in 2000, in Poland 19.8%, and in the Czech Republic 23.7%), but considerably lags behind comparable EU member-states (in 2000 the share was 96% in Greece, 88.2% in Spain, and 56.2% in Portugal; the EU-15 average was 102.9%).

The relative liquidity of shares on the Ljubljana Stock Exchange, expressed by the share turnover ratio (the ratio of turnover in a year to market capitalisation at the end of the year), **increased in 2001** from 0.21 to 0.28, while the bond turnover ratio dropped (from 0.22 to 0.14), as did the turnover ratio of the shares of authorised investment funds (from 0.37 to 0.34). In spite of some improvement, the relative liquidity of share is still much lower than in developed capital markets where it is between 0.5 in 0.8 in normal periods.

In the first three months of 2002, the SBI20 share index increased by 18.5%, reaching 2,551 points at the end of March. Among reasons for the high growth were the lower deposit interest rates in banks, the good business results in 2001 of some companies listed on the stock exchange, and acquisitions. Among branch indexes, the oil and gas index saw the highest growth (30.8%), while the lowest was registered by the foodstuffs and beverages index (10.5%). The PIX, the index of authorised investment funds, equalled 1,939 points on the last trading day of March, 22.1% more than at the end of December 2001. In addition to the positive factors which had an impact on the entire market, the demand of foreign investors probably also increased due to the higher prices of shares in the authorised investment funds. The growth of shares prices, especially the shares of authorised investment funds, continued in April. In April the SBI20 share index exceed 2,600 points for the first time since its introduction, and the PIX index exceeded 2,100 points.

1.7.2.1. Business results of banks and savings banks

Since 1994, when there were 33 banks, the number of banks in Slovenia' s banking system has dropped to 21 as a result of mergers and acquisitions. The market share of the three biggest banks, measured as their share in total bank assets, was 56.2% at the end of 2001, 5.8 percentage points higher than in 2000. The higher concentration is mainly the result of the acquisition of three banks by the biggest bank, which had a market share of around 35% last year (excluding the affiliated banks).

At the end of 2001 and according to unaudited data, the total assets of all Slovenian banks was 15.6% higher in real terms than at the end of 2000, the highest growth of total assets in the past five years. The biggest share in the assets of banks were loans to the non-financial sector (46.9%), which increased by 8.7% in real terms (0.6 of a percentage point more than in 2000), primarily because of the higher borrowing of companies. Investment in tolar bills of the Bank of Slovenia foreign currency bills and government securities[87] also increased strongly, influencing the growth of investments in securities in assets by 3.3 percentage points compared to 2000 (to 28.1%). The liabilities of banks saw an increase of the structural share of deposits of the non-banking sector (from 67.6% to 69.9%), due to the vigorous growth of household saving. The share of liabilities to the banking sector fell by 1.3 percentage points and fell to 11.2%, mainly because of the net repayments of loans taken out with foreign banks.

The performance indicators of the banks were down in 2001. Compared to 2000, pre-tax profits were SIT 17.2 billion lower, totalling SIT 15.4 billion - the lowest figure in the past six years. To a great extent this was the result of higher provisions (one bank made additional provisions to meet the classification criteria of its foreign parent bank), a lower interest margin (less revaluation profits), and higher labour costs.

[87] Including NFA and rehabilitation bonds.

2. Medium-term Forecasts for 2004-2006 and Implementation of the Strategy for the Economic Development of Slovenia (SEDS)

The economic slowdown of 2001 and 2002, and especially some changes recorded in the structure of gross domestic product growth (lower shares of investment in gross domestic product, changes in the composition of spending disposable income), as well as the pending and slow structural reforms in some areas, which have been pointed out in the Development Report (IMAD, 2002), will affect the implementation and feasibility of the medium-term macroeconomic scenario set out in the Strategy for the Economic Development of Slovenia (SEDS; IMAD, 2001). According to this scenario, real gross domestic product growth should range between 5.3% and 5.7% in 2005 and 2006.

Table 2: Forecasts of the main macroeconomic indicators

Real growth rates, %

	2004	2005	2006
Gross domestic product	4.4	4.6	4.9
Employment (% growth)	1.2	1.4	1.3
Labour productivity (% growth)	3.3	3.3	3.6
Gross wage per employee	2.5	2.5	2.5
Exports of goods and services	6.3	6.6	7.0
Imports of goods and services	6.8	6.6	7.1
Final consumption (government and private)	3.9	3.8	4.0
Gross fixed capital formation	6.3	6.3	6.5
Current account deficit (% of GDP)	0.0	0.2	0.5
INFLATION AND EXCHANGE RATES			
Inflation rate (annual average, %)	4.6	4.6	3.6
USD exchange rate (SIT per USD 1)	268.6	270.4	271.5
EUR exchange rate (SIT per EUR 1)	236.1	237.6	238.6

Source of data: the IMAD's forecasts.

The two main sets of development weaknesses are: (a) a low level of co-operation between the scientific, research and education spheres on one hand and the economy on the other, as reflected in gaps as regards the quality of human resources, technological development, development of the information society, and export competitiveness; and (b) slow reforms in the labour and financial markets, infrastructure and the public sector, including the government sector, as reflected in poor national competitiveness and structural pressures on inflation and general government expenditure. The calculations of potential capacity for growth show that growth may slow down substantially to around 2% in the next few years unless more is invested in technological development and education and if investment continues to fall.

Economic trends envisaged by the Strategy should continue in the next few years, however, the development shortcomings and qualitative changes in the economic growth structure will result in a slightly delayed raising of economic growth to a higher level in the next medium-term period. The current medium-term forecast is not at odds with the underlying macroeconomic orientation of the Strategy – a moderate acceleration of economic growth which should ensure a long-term reduction of the development gap behind the EU – it only puts this orientation off slightly and also points out the main reason for this delay, which is the pending reforms. Medium-term forecasts are still based on the envisaged qualitative changes, which should be brought about by the restructuring of investment and bigger shares of education, telecommunications, international trade and foreign direct investment, and the elimination of macroeconomic imbalances, which primarily concern the reduction of inflation to levels acceptable in the EU, the gradual elimination of the fiscal deficit and the sustainability of the current account of the balance of payments.

An important factor influencing the policy of reducing inflation in the next few years is the anticipated date of Slovenia's accession to the EU (during 2004), which requires Slovenia to enter the exchange rate mechanism (ERM2), allowing exchange rate fluctuations to range $\pm$ 15% around the central parity rate. Before entering the ERM2, the structural and institutional causes of inflation should be eliminated, so that after accession any price rises above the EU average would solely be the result of faster productivity growth in Slovenia relative to the EU (the so-called real convergence), which could at first be partly offset by nominal depreciation within the allowed range of exchange rate fluctuations. This suggests that internal factors will have to contribute more than before to bringing inflation down to levels comparable to the EU, especially the conclusion of structural reforms in the labour market, the financial sector and economic infrastructure. This will allow slower rises in administered prices (their contribution to inflation should become equal to their share in the price index before the exchange rate is fixed) and a more balanced wage growth in the public and private sectors, which will reduce upward pressures on prices exerted through higher prices of services and consequently higher inflation and through household spending and reduce upward pressures on national budget expenditure. Monetary policy's measures, which play a key role in maintaining moderate price rises, will continue to be limited to managing exchange rate changes, especially as the current levels of foreign capital inflows are expected to remain unchanged. In 2002-2004, the euro's exchange rate will rise more slowly than consumer prices, but the real appreciation of the tolar should nevertheless be moderate despite the expected over-supply of foreign exchange fuelled by high foreign exchange inflows (interventions by the Bank of Slovenia). Hence, inflation should fall gradually in the next three years, but the rate is expected to exceed the level set by the Maastricht criterion on the anticipated date of entry into the ERM2 (1.5 percentage points above the average level of the three member-states with the lowest inflation rates). This forecast took into account the estimated effect of different rates of productivity growth (the Balassa-Samuelson effect[88]), which is why the

[88] The Balassa-Samuelson effect is reflected in relatively faster rises in the prices of services compared to the prices of goods, resulting from different dynamics of factor productivity growth between

level of Slovenia's inflation will continue to be higher than that of the EU. Given the current trends in productivity growth of tradable and non-tradable sectors, the Balassa-Samuelson effect is estimated to contribute 1-2 percentage points to inflation in the next few years.

On the assumption of a relatively favourable international environment and further diversification of Slovenia's external trade flows, accelerated export growth after 2003 will be achieved through improved export competitiveness. Bolstering real export growth will depend on the efforts to achieve bigger shares of products with high value added, which calls for new production programmes and new products. Exports should continue to be an important lever of economic growth, but the average export growth rates expected after 2004 should be slightly lower than those projected in the Strategy. This will mainly be due to the slightly slower strengthening of competitiveness caused by the structural problems mentioned above and the relatively lower volume of commercial investment, one of the key factors stimulating competitiveness.

After stagnating in 2000 and shrinking in 2001, real investment growth should gradually strengthen in 2002 and 2003, while in the period after 2003 investment should again rise above the rate of gross domestic product growth, but still at a rate lower than envisaged in the Strategy. A higher level of national savings is to be accompanied by stronger net capital inflows in the form of direct and portfolio investments, which should increase the amount of funds available for investment and facilitate the restructuring of the economy. Public funds earmarked for investment increased in the budgets for 2002 and 2003, however, projections made under the assumption of balanced public finance show that the proportion of public funds in investment financing will again drop slightly. Since increased borrowing needed to provide additional funding might undermine macroeconomic sustainability, the projections envisage the involvement of foreign private capital to finance infrastructure building on a concession basis and increased donations from the EU. The latter assumption depends on the possibilities of using structural funds and the outcome of negotiations over criteria and the level of inflows. Taking into account these assumptions, room for investing in machinery and equipment, technological development and information and communications technologies should gradually expand, the share of investment in economic infrastructure should increase, and the planned investment in residential building construction should be realised, with the share of investment in government services shrinking. Despite the rising share of investment, the investment-savings gap should be closed with the help of slightly lower average rates of domestic spending, further growth in domestic investment savings, higher net inflows of transfers from the EU, and the envisaged gradual reduction of the fiscal deficit.

The medium-term macroeconomic scenario reveals a realistic path of development on the assumptions given above and the projected qualitative changes in economic growth; however, the **main risks** for its implementation also need to be pointed out.

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sectors exposed to international competition and sectors mainly operating in the domestic market. The raising of wages in the predominantly non-tradable sectors does not allow any improvement in productivity, as is the case in mainly tradable sectors, but instead leads to higher prices of services provided by these sectors (2001 Spring Report, the IMAD).

Box 8: Growth achievable in the next medium-term period (taken from the Development Report, the IMAD 2002).

Long-term economic growth capacity can be estimated by calculating potential gross domestic product growth. Projections differ considerably according to the methods used. According to the **trend extrapolation method**, average potential growth in the period 2003-2006 will be **5.1%**. Such projection is roughly consistent with the SEDS' scenario which envisages growth to be even higher (about 5.5%) providing that structural reforms and active policy, particularly in the area of human resource development, competitiveness and technological development, are carried out. Such a projection also implies that the current slowdown of economic growth (to about 3% and 3.3% in 2001 and 2002) is a result of short-term factors of domestic and foreign demand.

The projection based on the **aggregate production function** is much more pessimistic: potential economic growth should fall **below 2.5%** in the following years. This projection is based on the assessment of future trends in particular production factors. Trends in the volume of physical capital are calculated as the extrapolation of the recent trend according to which the investment rate will continue to decrease (it began falling in 1999). Trends in the volume of labour are assessed on the assumption that the actual employment rate will have to be closer to the balanced rate, implying a downward or even negative (after 2003) employment rate growth. Trends in the growth of the volume of human capital and total factor productivity are also assessed on the basis of the trend extrapolation method, meaning that total factor productivity will fall further. The projection based on aggregate production function therefore implies that the current decrease of economic growth is not only the result of normal short-term cycles but is also a **sign of structural problems**, particularly in maintaining a high investment rate and halting the downward trend of total factor productivity.

It can thus be established that the lower economic growth rates in 2001 and 2002 compared to the potentially achievable rates are certainly affected by cyclical factors of domestic and foreign demand, although their slowdown depends on significant structural factors. In this sense, both the analysis of growth factors based on the aggregate production function as well as the analysis based on selected development indicators reveal that the **main structural weaknesses** are to be found in technological development and innovation (also the information society), the transfer and application of knowledge, lifelong learning, and the capacity to finance the desired level of investment. Without economic policy measures taken in these areas, we may expect a drop in the long-term growth capacity.

SOURCE: **Simona Bovha Padilla, Helios Padilla Mayer**, *Sources of GDP Growth, Potential Output and Output Gap in Slovenia: Mid-term Projection*, the IMAD, March 2002.

The first risk arises from the assumption of a stable and steadily growing international economic environment. According to alternative calculations, about 1.5 percentage points lower average economic growth in Slovenia's main trading partners could reduce Slovenia's gross domestic product growth by up to 1 percentage point through lower real export growth rates and spillover effects on domestic production and consumption. Another risk stems from the assumption of a sufficient level of domestic savings needed to maintain or slightly increase the current level of investment relative to gross domestic product. Should the assumptions about a moderate rise in domestic private savings and the gradual elimination of the fiscal deficit fail to come true, the share of investment in gross domestic product would start to decline or a need for greater external borrowing would emerge, which would in turn lead to a higher deficit in the current account of the balance of payments.

Statistical Appendix

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Table 1: Main macroeconomic indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998	1999
GROSS DOMESTIC PRODUCT	4.1	3.5	4.6	3.8	5.2
Structure in value added in % [1]					
Agriculture, forestry, fishing(A+B)	4.6	4.5	4.3	4.2	3.7
Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.5	38.3
- Industry (C+D+E)	33.4	32.8	32.5	32.8	32.0
- Construction F	5.1	5.7	5.7	5.7	6.3
Services (G...O)	59.2	59.5	59.8	59.7	60.3
FISIM	-2.3	-2.5	-2.3	-2.4	-2.2
GDP in mil. SIT (current prices)	2,221,459	2,555,369	2,907,277	3,253,751	3,648,401
GDP in mil. EUR	14,508	15,075	16,116	17,468	18,843
GDP in mil. US$	18,745	18,878	18,206	19,585	20,071
GDP per capita in EUR	7,300	7,571	8,111	8,811	9,490
GDP per capita in US$	9,431	9,481	9,163	9,878	10,109
GDP per capita (PPS)*	11,300	11,800	12,800	13,500	14,500
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS					
Exports of goods and services- real [2]	1.1	3.6	11.6	6.7	1.7
Exports of goods	3.0	2.4	13.3	9.2	2.7
Exports of services	-6.3	8.7	4.9	-3.6	-2.7
Imports of goods and services- real [2]	11.3	2.1	11.9	10.4	8.2
Imports of goods	13.1	1.8	13.3	10.9	8.8
Imports of services	-1.2	3.6	3.1	7.0	3.6
Exports of goods and serv. in mil. US$	10,378	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	2004
			Forecast		
GROSS DOMESTIC PRODUCT	4.6	3.0	3.3	4.3	4.4
Structure in value added in % [1]					
Agriculture, forestry, fishing(A+B)	3.3	3.1	3.1	3.1	3.0
Industry and construction (C+D+E+F)	38.3	37.6	37.1	37.0	36.6
- Industry (C+D+E)	32.1	31.6	31.2	31.2	30.8
- Construction F	6.2	6.0	5.8	5.8	5.8
Services (G...O)	60.6	61.3	61.8	61.9	62.3
FISIM	-2.2	-2.0	-2.0	-1.9	-1.9
GDP in mil. SIT (current prices)	4,035,518	4,566,191	5,045,000	5,515,000	6,020,000
GDP in mil. EUR	19,682	21,024	22,353	23,843	25,498
GDP in mil. US$	18,122	18,810	19,623	20,962	22,413
GDP per capita in EUR	9,889	10,564	11,238	11,992	12,834
GDP per capita in US$	9,105	9,451	9,866	10,543	11,281
GDP per capita (PPS)*	15,600				
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS					
Exports of goods and services- real [2]	12.7	6.2	4.7	6.5	6.3
Exports of goods	12.8	6.6	4.8	6.9	6.5
Exports of services	11.8	4.1	4.2	4.5	5.4
Imports of goods and services- real [2]	6.1	2.1	3.8	5.2	6.8
Imports of goods	6.1	2.2	3.9	5.3	6.9
Imports of services	6.0	1.1	3.5	4.7	6.2
Exports of goods and serv. in mil. US$	10,694	11,288	11,707	12,552	13,345
As a % of GDP	59.0	60.0	59.7	59.9	59.5
Imports of goods and serv. in mil. US$	11,397	11,409	11,731	12,532	13,386
As a % of GDP	62.9	60.7	59.8	59.8	59.7
Trade balance in mil. US$ [2]	-1,139	-622	-537	-501	-578
As a % of GDP	-6.3	-3.3	-2.7	-2.4	-2.6
Current account balance in mil. US$	-611	-67	-14	5	-2
As a % of GDP	-3.4	-0.4	-0.1	0.0	0.0
Foreign exchange reserves in mil. US$	4,370	5,740	5,688 [3]		
External debt in mil. US$	6,217	6,717	6,624 [4]		
As a % of GDP	34.3	35.7	33.8		

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

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Table 1: Main macroeconomic indicators of Slovenia

- Real growth rates in %

	2000	2001	2002	2003	2004
			Forecast		
EMPLOYMENT, WAGES AND PRODUCTIVITY					
Employment - SNA methodology	1.1	0.6	0.6	1.1	1.2
Registered unemployed (annual average in thousand)	106.6	101.9	100.5	97.6	94.0
Rate of registered unemployment in %	12.2	11.6	11.3	10.9	10.4
Rate of unemployment by ILO in %	7.0	6.4	6.4	6.2	5.9
Gross wage per employee	1.6	3.2	2.5	2.0	2.5
Labour productivity**	4.0	2.5	2.8	3.2	3.3
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS					
Final consumption	1.4	2.1	2.5	3.0	3.9
As a % of GDP	75.8	74.9	74.8	74.4	74.3
in which:					
Private consumption	0.8	1.7	2.3	3.0	4.1
As a % of GDP	54.9	53.6	53.3	53.0	52.9
Government consumption	3.1	3.2	2.9	3.3	3.1
As a % of GDP	20.8	21.3	21.5	21.5	21.4
Gross fixed capital formation	0.2	-1.9	2.9	4.8	6.3
As a % of GDP	26.7	24.9	24.7	24.9	25.2
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY					
General government revenue as a % of GDP	42.8	43.1 [5]	42.6 [5]		
General government expenditure as a % of GDP	44.2	44.5 [5]	45.2 [5]		
Surplus/deficit as a % of GDP	-1.4	-1.4 [5]	-2.6 [5]		
EXCHANGE RATE AND PRICES					
Average exchange rate SIT/US$	222.7	242.7	257.1	263.1	268.6
Average exchange rate SIT/EUR	205.0	217.2	225.7	231.3	236.1
Effective exchange rate [6]	-2.1	-0.3	1.3	0.9	0.8
Inflation (end year) [7]	8.9	7.0	6.2	5.2	4.6
Inflation (annual average) [7]	8.9	8.4	6.9	5.1	4.6

Source of data: SORS, BS, Ministry of Finance, * Eurostat, IMAD forecast.
Notes:
[1] Letters in brackets refer to NACE Rev. 1, Classification of Economic Activities,
[2] Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets,
[3] February 2002,
[4] January 2002,
[5] MF- calculations by IMAD, for 2002 figures taken from the adopted budget,
[6] Growth in index denotes appreciation of tolar and vice versa,
[7] Retail prices as a measure of inflation until 1998, after 1998 consumer price index,
** Value added by employment in full-time equivalent.

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

- Current prices, SIT million

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

Continued on next page.

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

- Current prices, SIT million

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	115,101	124,161	136,771	146,694	154,911
B.	Fishing	534	460	507	549	585
C.	Mining and quarrying	36,763	36,393	39,565	40,767	42,464
D.	Manufacturing	970,014	1,082,244	1,184,564	1,300,703	1,409,454
E.	Electricity, gas and water supply	112,768	134,556	141,310	147,811	154,730
F.	Construction	214,935	236,420	254,528	276,834	302,849
G.	Wholesale, retail, trade, repair	403,227	460,079	508,224	553,961	604,994
H.	Hotels and restaurants	111,721	131,266	147,104	162,654	180,200
I.	Transport, storage, communications	282,646	313,330	351,135	386,413	428,300
J.	Financial intermediation	156,326	176,644	200,785	225,164	254,183
K.	Real estate, renting and business activities	421,884	489,887	543,765	595,549	656,824
L.	Public administration and com. soc. sec.	203,034	236,766	261,542	286,449	314,192
M.	Education	205,041	240,022	262,577	283,457	306,445
N.	Health and social work	195,243	227,855	251,699	274,351	299,481
O.	Other community and personal activities	133,145	153,066	171,625	189,767	210,140
	FISIM	-77,324	-79,058	-86,108	-91,962	-98,503
1. TOTAL VALUE ADDED (basic prices)		3,485,059	3,964,092	4,369,593	4,779,158	5,221,250
2. CORRECTIONS [1]		550,460	602,099	675,408	735,841	798,750
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4,035,518**	**4,566,191**	**5,045,000**	**5,515,000**	**6,020,000**
TOTAL VALUE ADDED (basic prices)		3,485,059	3,964,092	4,369,593	4,779,158	5,221,250
in which:						
1. Agriculture, forestry, fishing (A + B)		115,635	124,621	137,278	147,242	155,496
2. Industry and construction (C + D + E + F)		1,334,480	1,489,613	1,619,966	1,766,114	1,909,497
- Industry (C + D + E)		1,119,545	1,253,193	1,365,438	1,489,281	1,606,649
- Construction F		214,935	236,420	254,528	276,834	302,849
3. Services (G ... O)		2,112,268	2,428,916	2,698,457	2,957,764	3,254,760
4. FISIM		-77,324	-79,058	-86,108	-91,962	-98,503

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

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

- Shares in GDP in %, current prices

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

Continued on next page.

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

- Shares in GDP in %, current prices

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	2.9	2.7	2.7	2.7	2.6
B.	Fishing	0.0	0.0	0.0	0.0	0.0
C.	Mining and quarrying	0.9	0.8	0.8	0.7	0.7
D.	Manufacturing	24.0	23.7	23.5	23.6	23.4
E.	Electricity, gas and water supply	2.8	2.9	2.8	2.7	2.6
F.	Construction	5.3	5.2	5.0	5.0	5.0
G.	Wholesale, retail, trade, repair	10.0	10.1	10.1	10.0	10.0
H.	Hotels and restaurants	2.8	2.9	2.9	2.9	3.0
I.	Transport, storage, communications	7.0	6.9	7.0	7.0	7.1
J.	Financial intermediation	3.9	3.9	4.0	4.1	4.2
K.	Real estate, renting and business activities	10.5	10.7	10.8	10.8	10.9
L.	Public administration and com. soc. sec.	5.0	5.2	5.2	5.2	5.2
M.	Education	5.1	5.3	5.2	5.1	5.1
N.	Health and social work	4.8	5.0	5.0	5.0	5.0
O.	Other community and personal activities	3.3	3.4	3.4	3.4	3.5
	FISIM	-1.9	-1.7	-1.7	-1.7	-1.6
1. TOTAL VALUE ADDED (basic prices)		86.4	86.8	86.6	86.7	86.7
2. CORRECTIONS [1]		13.6	13.2	13.4	13.3	13.3
3. GROSS DOMESTIC PRODUCT (3=1+2)		100.0	100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:						
1. Agriculture, forestry, fishing (A + B)		2.9	2.7	2.7	2.7	2.6
2. Industry and construction (C + D + E + F)		33.1	32.6	32.1	32.0	31.7
- Industry (C + D + E)		27.7	27.4	27.1	27.0	26.7
- Construction F		5.3	5.2	5.0	5.0	5.0
3. Services (G ... O)		52.3	53.2	53.5	53.6	54.1
4. FISIM		-1.9	-1.7	-1.7	-1.7	-1.6
5. Corrections [1]		13.6	13.2	13.4	13.3	13.3
Shares in value added in %						
TOTAL VALUE ADDED		100.0	100.0	100.0	100.0	100.0
in which:						
1. Agriculture, forestry, fishing (A + B)		3.3	3.1	3.1	3.1	3.0
2. Industry and construction (C + D + E + F)		38.3	37.6	37.1	37.0	36.6
- Industry (C + D + E)		32.1	31.6	31.2	31.2	30.8
- Construction F		6.2	6.0	5.8	5.8	5.8
3. Services (G ... O)		60.6	61.3	61.8	61.9	62.3
4. FISIM		-2.2	-2.0	-2.0	-1.9	-1.9

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

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

- Prices 1995, SIT million

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

Continued on next page.

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

- Prices 1995, SIT million

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	85,309	83,535	85,999	87,762	88,640
B.	Fishing	409	414	426	439	448
C.	Mining and quarrying	27,253	25,324	26,071	25,810	25,939
.D.	Manufacturing	692,199	722,325	748,690	789,868	825,807
E.	Electricity, gas and water supply	61,513	65,254	64,895	65,220	65,872
F.	Construction	146,663	141,498	144,257	150,749	159,115
G.	Wholesale, retail, trade, repair	275,444	280,974	287,515	297,578	309,630
H.	Hotels and restaurants	70,635	74,174	77,846	81,738	86,274
I.	Transport, storage, communications	180,708	188,870	197,275	207,138	217,599
J.	Financial intermediation	97,833	102,777	108,378	115,423	123,560
K.	Real estate, renting and business activities	264,951	273,884	283,333	294,666	308,074
L.	Public administration and com. soc. sec.	139,909	147,244	152,324	157,655	164,829
M.	Education	126,659	129,888	133,070	136,397	140,557
N.	Health and social work	125,101	129,668	134,531	139,227	144,866
O.	Other community and personal activities	80,961	84,065	87,806	92,244	97,364
	FISIM	-51,230	-52,573	-53,605	-54,704	-55,771
1. TOTAL VALUE ADDED, (basic prices)		2,324,317	2,397,321	2,478,811	2,587,212	2,702,803
2. CORRECTIONS [1]		422,705	431,088	442,187	458,790	477,197
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,747,021**	**2,828,409**	**2,921,000**	**3,046,000**	**3,180,000**
TOTAL VALUE ADDED, (basic prices)		2,324,317	2,397,321	2,478,811	2,587,212	2,702,803
in which:						
1. Agriculture, forestry, fishing (A + B)		85,718	83,949	86,425	88,201	89,088
2. Industry and construction (C + D + E + F)		927,628	954,401	983,913	1,031,647	1,076,733
- Industry (C + D + E)		780,965	812,903	839,656	880,898	917,618
- Construction F		146,663	141,498	144,257	150,749	159,115
3. Services (G ... O)		1,362,201	1,411,544	1,462,077	1,522,068	1,592,753
4. FISIM		-51,230	-52,573	-53,605	-54,704	-55,771

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

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

- Real growth rates in % (prices 1995)

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

Continued on next page.

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

- Real growth rates in % (prices 1995)

		2000	2001	2002	2003	2004
				Forecast		
A.	Agriculture, hunting, forestry	-1.0	-2.1	3.0	2.0	1.0
B.	Fishing	-3.5	1.2	3.0	3.0	2.0
C.	Mining and quarrying	-1.4	-7.1	3.0	-1.0	0.5
D.	Manufacturing	8.6	4.4	3.7	5.5	4.5
E.	Electricity, gas and water supply	2.9	6.1	-0.5	0.5	1.0
F.	Construction	2.8	-3.5	2.0	4.5	5.5
G.	Wholesale, retail, trade, repair	2.5	2.0	2.3	3.5	4.0
H.	Hotels and restaurants	9.8	5.0	5.0	5.0	5.5
I.	Transport, storage, communications	4.7	4.5	4.5	5.0	5.0
J.	Financial intermediation	5.9	5.1	5.5	6.5	7.0
K.	Real estate, renting and business activities	3.0	3.4	3.5	4.0	4.5
L.	Public administration and com. soc. sec.	5.7	5.2	3.5	3.5	4.5
M.	Education	3.7	2.5	2.5	2.5	3.0
N.	Health and social work	4.2	3.7	3.8	3.5	4.0
O.	Other community and personal activities	4.5	3.8	4.5	5.1	5.5
	FISIM	1.9	2.6	2.0	2.0	2.0
1. TOTAL VALUE ADDED, (basic prices)		5.1	3.1	3.4	4.4	4.5
2. CORRECTIONS [1]		1.9	2.0	2.6	3.8	4.0
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4.6**	**3.0**	**3.3**	**4.3**	**4.4**
TOTAL VALUE ADDED, (basic prices)		5.1	3.1	3.4	4.4	4.5
in which:						
1. Agriculture, forestry, fishing (A + B)		-1.0	-2.1	3.0	2.1	1.0
2. Industry and construction (C + D + E + F)		7.0	2.9	3.1	4.9	4.4
- Industry (C + D + E)		7.8	4.1	3.3	4.9	4.2
- Construction F		2.8	-3.5	2.0	4.5	5.5
3. Services (G ... O)		4.2	3.6	3.6	4.1	4.6
4. FISIM		1.9	2.6	2.0	2.0	2.0

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

Table 4: Gross domestic product and primary incomes

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT (1=2+3-4+5)**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,566,191**	**5,045,000**	**5,515,000**	**6,020,000**
2	Compensation of employees	1,271,699	1,400,005	1,558,696	1,700,323	1,889,714	2,122,115	2,405,581	2,675,103	2,899,366	3,143,386
	Wages and salaries	1,070,010	1,213,825	1,363,936	1,482,608	1,646,253	1,847,245	2,091,871	2,322,386	2,517,466	2,729,427
	Employees' actual soc. cont.	201,689	186,180	194,760	217,716	243,462	274,869	313,710	352,717	381,900	413,959
3	Taxes on production and imports	377,964	444,708	493,398	572,126	668,115	697,701	773,377	870,144	951,381	1,035,069
4	Subsidies	48,001	52,873	59,868	71,771	79,200	77,108	81,853	90,594	97,812	105,530
5	Gross operating surplus and gross mixed income	619,797	763,529	915,051	1,053,073	1,169,772	1,292,810	1,469,085	1,590,347	1,762,065	1,947,075
	in which:										
6	Consumption of fixed capital	390,891	463,466	522,945	580,989	634,144	706,093	789,655	854,672	945,638	1,042,873
	Net operatin surplus and net mixed income	228,906	300,063	392,106	472,084	535,628	586,717	679,430	735,675	816,427	904,202

Continued on next page.

Table 4: Gross domestic product and primary incomes

- As a share in GDP in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT (1=2+3-4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Compensation of employees	57.2	54.8	53.6	52.3	51.8	52.6	52.7	53.0	52.6	52.2
	Wages and salaries	48.2	47.5	46.9	45.6	45.1	45.8	45.8	46.0	45.6	45.3
	Employees' actual soc. cont.	9.1	7.3	6.7	6.7	6.7	6.8	6.9	7.0	6.9	6.9
3	Taxes on production and imports	17.0	17.4	17.0	17.6	18.3	17.3	16.9	17.2	17.3	17.2
4	Subsidies	2.2	2.1	2.1	2.2	2.2	1.9	1.8	1.8	1.8	1.8
5	Gross operating surplus and gross mixed income	27.9	29.9	31.5	32.4	32.1	32.0	32.2	31.5	32.0	32.3
	in which:										
6	Consumption of fixed capital	17.6	18.1	18.0	17.9	17.4	17.5	17.3	16.9	17.1	17.3
	Net operatin surplus and net mixed income	10.3	11.7	13.5	14.5	14.7	14.5	14.9	14.6	14.8	15.0

Source of data: SORS, IMAD's forecast.

Table 5a: Expenditure on gross domestic product

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,566,191**	**5,045,000**	**5,515,000**	**6,020,000**
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,424,628	1,669,985	1,842,906	1,916,217	2,386,009	2,743,370	3,009,870	3,302,431	3,584,467
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,451,273	1,693,895	1,892,614	2,077,530	2,529,423	2,760,711	3,016,040	3,297,169	3,595,480
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-26,645	-23,910	-49,708	-161,313	-143,414	-17,341	-6,170	5,262	-11,013
5	TOTAL DOMESTIC DEMAND (5=6+9)	2,266,445	2,582,014	2,931,187	3,303,459	3,809,714	4,178,932	4,583,532	5,051,170	5,509,739	6,031,013
6	FINAL CONSUMPTION (6=7+8)	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,421,452	3,775,108	4,103,861	4,470,042
7	PRIVATE CONSUMPTION	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,447,405	2,688,486	2,920,463	3,181,617
	- households	1,275,971	1,443,649	1,609,667	1,780,915	2,000,581	2,179,351	2,405,631	2,642,740	2,870,963	3,127,693
	- non-profit institutions	24,353	25,493	29,015	30,815	33,434	36,823	41,774	45,746	49,500	53,923
8	GOVERNMENT CONSUMPTION	447,519	514,518	592,535	658,989	738,388	841,108	974,047	1,086,622	1,183,398	1,288,425
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,162,080	1,276,063	1,405,878	1,560,972
10	GROSS FIXED CAPITAL FORMATION	474,626	574,631	679,465	800,629	999,183	1,076,840	1,138,673	1,246,191	1,372,615	1,516,356
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	23,722	20,505	32,111	38,128	44,810	23,407	29,872	33,263	44,615

Continued on next page.

Table 5a: Expenditure on gross domestic product

- Structure in % (current prices)

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	EXPORTS OF GOODS AND SERVICES	55.2	55.8	57.4	56.6	52.5	59.1	60.1	59.7	59.9	59.5
3	IMPORT OF GOODS AND SERVICES	57.2	56.8	58.3	58.2	56.9	62.7	60.5	59.8	59.8	59.7
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-2.0	-1.0	-0.8	-1.5	-4.4	-3.6	-0.4	-0.1	0.1	-0.2
5	TOTAL DOMESTIC DEMAND (5=6+9)	102.0	101.0	100.8	101.5	104.4	103.6	100.4	100.1	99.9	100.2
6	FINAL CONSUMPTION (6=7+8)	78.7	77.6	76.7	75.9	76.0	75.8	74.9	74.8	74.4	74.3
7	PRIVATE CONSUMPTION	58.5	57.5	56.4	55.7	55.8	54.9	53.6	53.3	53.0	52.9
	- households	57.4	56.5	55.4	54.7	54.8	54.0	52.7	52.4	52.1	52.0
	- non-profit institutions	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
8	GOVERNMENT CONSUMPTION	20.1	20.1	20.4	20.3	20.2	20.8	21.3	21.5	21.5	21.4
9	GROSS CAPITAL FORMATION (9=10+11)	23.3	23.4	24.1	25.6	28.4	27.8	25.4	25.3	25.5	25.9
10	GROSS FIXED CAPITAL FORMATION	21.4	22.5	23.4	24.6	27.4	26.7	24.9	24.7	24.9	25.2
11	CHANGES IN INVENTORIES AND VALUABLES	2.0	0.9	0.7	1.0	1.0	1.1	0.5	0.6	0.6	0.7

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

Table 5b: Expenditure on gross domestic product

- Prices 1995, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	GROSS DOMESTIC PRODUCT (1=4+5)	2,221,459	2,299,900	2,404,764	2,495,956	2,625,942	2,747,021	2,828,409	2,921,000	3,046,000	3,180,000
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,270,085	1,416,863	1,512,395	1,538,789	1,733,512	1,840,412	1,926,083	2,050,412	2,180,510
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,297,490	1,451,977	1,602,804	1,733,995	1,839,624	1,878,466	1,949,012	2,051,237	2,189,799
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-27,405	-35,114	-90,409	-195,206	-106,112	-38,054	-22,929	-826	-9,288
5	TOTAL DOMESTIC DEMAND (5=6+9)	2,266,446	2,327,305	2,439,879	2,586,364	2,821,148	2,853,133	2,866,463	2,943,929	3,046,826	3,189,288
6	FINAL CONSUMPTION (6=7+8)	1,747,844	1,788,413	1,845,160	1,917,730	2,025,866	2,054,222	2,097,417	2,149,757	2,215,300	2,300,810
7	PRIVATE CONSUMPTION	1,300,324	1,325,902	1,362,595	1,407,115	1,491,768	1,503,349	1,528,963	1,564,818	1,611,058	1,677,836
	- households	1,275,971	1,302,942	1,338,965	1,383,268	1,467,679	1,478,792	1,503,449	1,538,705	1,584,174	1,649,838
	- non-profit institutions	24,353	22,960	23,630	23,847	24,089	24,557	25,514	26,112	26,884	27,998
8	GOVERNMENT CONSUMPTION	447,519	462,511	482,565	510,615	534,098	550,873	568,454	584,939	604,242	622,974
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	538,892	594,719	668,635	795,282	798,911	769,045	794,172	831,526	888,478
10	GROSS FIXED CAPITAL FORMATION	474,626	516,828	576,673	642,087	764,422	766,172	751,775	773,576	810,708	861,782
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	22,064	18,046	26,548	30,860	32,739	17,270	20,596	20,818	26,696

Continued on next page.

Table 5b: Expenditure on gross domestic product

- Real growth rates in % (prices 1995)

		1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
1	GROSS DOMESTIC PRODUCT (1=4+5)	3.5	4.6	3.8	5.2	4.6	3.0	3.3	4.3	4.4
2	EXPORTS OF GOODS AND SERVICES	3.6	11.6	6.7	1.7	12.7	6.2	4.7	6.5	6.3
3	IMPORT OF GOODS AND SERVICES	2.1	11.9	10.4	8.2	6.1	2.1	3.8	5.2	6.8
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)									
5	TOTAL DOMESTIC DEMAND (5=6+9)	2.7	4.8	6.0	9.1	1.1	0.5	2.7	3.5	4.7
6	FINAL CONSUMPTION (6=7+8)	2.3	3.2	3.9	5.6	1.4	2.1	2.5	3.0	3.9
7	PRIVATE CONSUMPTION	2.0	2.8	3.3	6.0	0.8	1.7	2.3	3.0	4.1
	- households	2.1	2.8	3.3	6.1	0.8	1.7	2.3	3.0	4.1
	- non-profit institutions	-5.7	2.9	0.9	1.0	1.9	3.9	2.3	3.0	4.1
8	GOVERNMENT CONSUMPTION GROSS CAPITAL FORMATION	3.3	4.3	5.8	4.6	3.1	3.2	2.9	3.3	3.1
9	GROSS CAPITAL FORMATION	3.9	10.4	12.4	18.9	0.5	-3.7	3.3	4.7	6.8
	in which:									
	GROSS FIXED CAPITAL FORMATION	8.9	11.6	11.3	19.1	0.2	-1.9	2.9	4.8	6.3

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

Table 6: Main aggregates of national accounts

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,566,191**	**5,045,000**	**5,515,000**	**6,020,000**
2	Net primary income from the rest of the world	21,023	17,528	5,680	5,048	-6,250	-14,941	-17,515	-32,138	-40,781	-44,319
3	GROSS NATIONAL INCOME (3=1+2)	2,242,482	2,572,897	2,912,957	3,258,799	3,642,151	4,020,577	4,548,676	5,012,862	5,474,220	5,975,681
4	Net current transfers from the rest of the world	11,273	11,625	19,472	20,701	22,890	27,809	30,931	34,709	36,834	54,794
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	2,253,754	2,584,522	2,932,429	3,279,500	3,665,041	4,048,386	4,579,607	5,047,571	5,511,054	6,030,475
6	FINAL CONSUMPTION EXPENDITURE	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,421,452	3,775,108	4,103,861	4,470,042
	- private consumption	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,447,405	2,688,486	2,920,463	3,181,617
	- government consumption	447,519	514,518	592,535	658,989	738,388	841,108	974,047	1,086,622	1,183,398	1,288,425
7	GROSS SAVING (7=5-6)	505,911	600,861	701,212	808,781	892,638	991,104	1,158,155	1,272,463	1,407,193	1,560,433
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-12,691	2,508	1,242	-23,959	-144,673	-130,546	-3,925	-3,599	1,315	-538
9	GROSS CAPITAL FORMATION (9=7-8)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,162,080	1,276,062	1,405,878	1,560,972
	in which:										
	- gross fixed capital formation	474,626	574,631	679,465	800,629	999,183	1,076,840	1,138,673	1,246,191	1,372,615	1,516,356
	- changes in inventories and valuables	43,976	23,722	20,505	32,111	38,128	44,810	23,407	29,872	33,263	44,615
10	CONSUMPTION OF FIXED CAPITAL	390,891	463,466	522,945	580,989	634,144	706,093	789,655	854,672	945,638	1,042,873
11	NET CAPITAL FORMATION (11=9-10)	127,711	134,887	177,025	251,751	403,167	415,557	372,425	421,391	460,240	518,098

Continued on next page.

Table 6: Main aggregates of national accounts

- As a share in GDP in %

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1	**GROSS DOMESTIC PRODUCT**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Net primary income from the rest of the world	0.9	0.7	0.2	0.2	-0.2	-0.4	-0.4	-0.6	-0.7	-0.7
3	GROSS NATIONAL INCOME (3=1+2)	100.9	100.7	100.2	100.2	99.8	99.6	99.6	99.4	99.3	99.3
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	0.9
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	101.5	101.1	100.9	100.8	100.5	100.3	100.3	100.1	99.9	100.2
6	FINAL CONSUMPTION EXPENDITURE	78.7	77.6	76.7	75.9	76.0	75.8	74.9	74.8	74.4	74.3
	- private consumption	58.5	57.5	56.4	55.7	55.8	54.9	53.6	53.3	53.0	52.9
	- government consumption	20.1	20.1	20.4	20.3	20.2	20.8	21.3	21.5	21.5	21.4
7	GROSS SAVING (7=5-6)	22.8	23.5	24.1	24.9	24.5	24.6	25.4	25.2	25.5	25.9
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-0.6	0.1	0.0	-0.7	-4.0	-3.2	-0.1	-0.1	0.0	0.0
9	GROSS CAPITAL FORMATION (9=7-8)	23.3	23.4	24.1	25.6	28.4	27.8	25.4	25.3	25.5	25.9
	in which:										
	- gross fixed capital formation	21.4	22.5	23.4	24.6	27.4	26.7	24.9	24.7	24.9	25.2
	- changes in inventories and valuables	2.0	0.9	0.7	1.0	1.0	1.1	0.5	0.6	0.6	0.7
10	CONSUMPTION OF FIXED CAPITAL	17.6	18.1	18.0	17.9	17.4	17.5	17.3	16.9	17.1	17.3
11	NET CAPITAL FORMATION (11=9-10)	5.7	5.3	6.1	7.7	11.1	10.3	8.2	8.4	8.3	8.6

Source of data: SORS, IMAD's forecast.

Table 7: Persons in employment and productivity by sectors of activity

- Year change ** (in %)

		Absolute data* 2001	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
										Forecast		
PERSONS IN EMPLOYMENT in full time equivalent		**836.8**	**1.0**	**-1.0**	**-0.5**	**0.0**	**1.2**	**1.1**	**0.6**	**0.6**	**1.1**	**1.2**
A+B	**Agriculture, hunting, forestry, fishing**	43.3	-0.2	-9.0	-2.7	0.4	-2.6	-4.1	-8.1	-1.1	-2.1	-3.0
C:F	**Industry**	327.9	0.4	-3.6	-3.3	-2.0	-0.3	0.2	0.0	-0.4	0.3	-0.1
G:O	**Services - total**	465.5	1.7	2.4	2.1	1.6	2.9	2.3	1.9	1.6	2.0	2.5
G:K	**Commercial services**	277.4	1.9	1.7	0.9	1.3	1.8	1.9	1.1	1.3	2.0	2.5
L:N	**Public services**	188.1	1.4	3.7	4.0	2.0	4.5	2.9	3.1	1.9	1.9	2.5
C	Mining and quarrying	5.5	1.2	-9.3	-1.3	-2.6	-5.3	-15.5	-8.3	-1.8	-5.6	-4.2
D	Manufacturing	245.1	-1.3	-5.3	-5.0	-2.1	-1.7	-0.3	0.1	-0.6	-0.3	-1.3
E	Electricity, gas and water supply	11.6	2.5	4.0	-3.1	-5.6	0.0	-1.7	-0.9	-2.6	-1.6	-1.2
F	Construction	65.7	9.8	4.2	4.4	-1.0	6.3	4.5	0.5	1.0	3.4	4.4
G	Wholesale, retail, trade, repair	113.4	1.9	1.3	1.1	0.2	1.5	1.6	-0.1	-0.3	0.9	1.3
H	Hotels and restaurants	36.1	0.9	4.5	-0.3	1.1	0.0	2.0	0.0	2.0	2.0	2.5
I	Transport, storage, communications	50.3	-2.8	-1.0	-0.6	0.4	1.0	1.4	1.6	1.2	1.7	2.1
J	Financial intermediation	20.2	2.9	0.0	3.9	2.2	1.1	3.1	2.5	2.8	3.7	4.2
K	Real estate, renting and business activities	57.4	7.6	4.1	1.6	4.4	4.6	2.6	3.4	3.6	3.9	4.2
L	Public administration and com. soc. sec.	44.8	-0.3	6.1	6.3	2.0	3.8	3.9	4.2	2.4	2.4	3.4
M	Education	54.3	2.6	3.1	3.0	1.2	2.3	1.1	1.9	1.4	1.4	1.9
N	Health and social work	55.1	1.4	3.4	2.0	3.5	6.7	4.1	4.0	2.7	2.4	2.9
O	Other community and personal activities	33.9	1.8	2.2	6.0	1.3	5.9	2.5	2.1	0.9	1.5	1.8

Continued on next page.

Table 7: Persons in employment and productivity by sectors of activity

Year change** (in %)

		Absolute data* 2001	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
										Forecast		
PRODUCTIVITY OF LABOUR (value added by person in employment)		**21.8**	**2.5**	**4.4**	**5.2**	**3.6**	**3.4**	**4.0**	**2.5**	**2.8**	**3.2**	**3.3**
A:B	**Agriculture, hunting, forestry, fishing**	13.3	1.7	10.0	-0.2	2.7	0.5	3.0	6.0	4.1	4.1	4.1
C:F	**Industry**	20.9	2.5	6.7	9.7	6.2	4.9	6.7	2.9	3.6	4.5	4.4
G:O	**Services - total**	24.0	2.3	1.8	1.7	1.8	1.9	1.9	1.7	2.1	2.1	2.2
G:K	**Commercial services**	26.1	3.0	2.5	1.9	1.9	2.8	2.1	2.4	2.4	2.4	2.5
L:N	**Public services**	21.0	1.1	0.6	1.7	1.7	0.6	1.7	0.8	1.6	1.6	1.6
C	Mining and quarrying	30.5	-0.3	11.2	4.4	2.7	6.4	14.1	1.2	4.8	4.8	4.8
D	Manufacturing	20.3	3.7	6.8	11.6	6.7	4.8	8.9	4.3	4.4	5.8	5.8
E	Electricity, gas and water supply	53.4	-2.2	-2.8	7.2	6.5	-0.8	4.5	7.0	2.2	2.2	2.2
F	Construction	16.6	-0.7	9.0	3.3	5.6	9.5	-1.7	-4.0	1.0	1.0	1.0
G	Wholesale, retail, trade, repair	18.7	4.8	1.7	1.7	2.6	4.9	0.9	2.1	2.6	2.6	2.6
H	Hotels and restaurants	16.7	2.6	-0.1	3.9	-0.2	3.1	7.8	5.0	2.9	2.9	2.9
I	Transport, storage, communications	28.7	8.7	3.6	4.8	4.8	2.2	3.3	2.9	3.3	3.3	3.3
J	Financial intermediation	40.3	0.6	11.0	-3.9	2.4	2.2	2.8	2.6	2.7	2.7	2.7
K	Real estate, renting and business activities	39.3	-4.5	0.1	0.9	-2.1	0.1	0.4	0.0	-0.1	0.1	0.3
L	Public administration and com. soc. sec.	24.3	3.4	-0.7	4.0	3.0	1.6	1.9	1.0	1.1	1.1	1.1
M	Education	20.4	0.3	-2.0	1.8	1.9	1.1	2.6	0.6	1.1	1.1	1.1
N	Health and social work	19.0	0.7	3.0	1.1	-1.8	-0.3	0.0	-0.3	1.1	1.1	1.1
O	Other community and personal activities	20.8	0.3	2.7	-1.9	4.4	-0.3	2.0	1.7	3.6	3.6	3.6

Sources of data: SORS; calculations and IMAD's forecast.
Note * persons in employment in thousands, productivity in thousands EUR, ** for productivity: real growht rates (in 1995 constant prices in SIT).

Table 8: Balance of payments

- US$ million

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
I. CURRENT ACCOUNT	**-99**	**31**	**11**	**-147**	**-783**	**-611**	**-67**	**-14**	**5**	**-2**
1. TRADE BALANCE	**-953**	**-825**	**-776**	**-789**	**-1,245**	**-1,139**	**-622**	**-537**	**-501**	**-578**
1.1. Exports fob	8,350	8,353	8,408	9,091	8,623	8,808	9,342	9,712	10,496	11,178
1.2. Imports fob	9,303	9,178	9,184	9,880	9,868	9,947	9,964	10,249	10,997	11,756
2. SERVICES	578	633	630	493	364	436	501	513	521	537
2.1. Receipts	2,028	2,135	2,048	2,028	1,899	1,886	1,946	1,995	2,056	2,167
- Transport	505	481	465	540	521	492	499	511	529	558
- Travel	1,084	1,240	1,187	1,088	954	961	995	1,018	1,045	1,105
- Other	439	414	396	400	424	433	452	466	482	505
2.2. Expenditure	1,449	1,502	1,417	1,535	1,535	1,450	1,445	1,482	1,535	1,630
- Transport	436	408	367	409	378	354	318	322	334	359
- Travel	573	602	518	558	539	521	518	527	539	565
- Other	440	493	532	568	618	575	609	633	661	705
1-2. GOODS AND SERVICES	**-375**	**-191**	**-146**	**-297**	**-881**	**-702**	**-121**	**-24**	**20**	**-41**
Exports	10,378	10,488	10,455	11,118	10,522	10,694	11,288	11,707	12,552	13,345
Imports	10,753	10,679	10,601	11,415	11,403	11,397	11,409	11,731	12,532	13,386
3. FACTOR SERVICES	**179**	**132**	**39**	**28**	**-25**	**-25**	**-74**	**-125**	**-155**	**-165**
3.1. Receipts	411	413	397	417	410	422	481	500	515	545
- Labour income	216	234	206	206	199	186	183	190	195	215
- Investment income	195	179	191	211	211	235	298	310	320	330
3.2. Expenditure	231	280	357	389	435	446	555	625	670	710
- Profits from direct investment	25	24	26	27	25	27	26	25	30	30
- Interest	206	256	331	362	410	419	529	600	640	680
4. UNREQUITED TRANSFERS	**96**	**91**	**118**	**122**	**123**	**116**	**128**	**135**	**140**	**204**
4.1. Receipts	248	251	260	300	334	341	389	405	425	521
4.2. Expenditure	152	160	142	178	211	225	261	270	285	317

Continued from next page.

Table 8: Balance of payments

- US$ million

	1995	1996	1997	1998	1999	2000	2001
II. CAPITAL AND FINANCIAL ACCOUNT	**294**	**-26**	**-89**	**85**	**755**	**569**	**19**
A. CAPITAL ACCOUNT	**-7**	**-2**	**1**	**-2**	**-1**	**4**	**-4**
1. Capital transfers	-5	1	2	0	0	1	0
2. Non-produced non-financial assets	-2	-3	-1	-1	-1	3	-4
B. FINANCIAL ACCOUNT	**301**	**-24**	**-90**	**86**	**756**	**565**	**23**
1. Direct investment	183	188	340	250	144	110	338
- Foreign in Slovenia	177	194	375	248	181	176	442
- Domestic abroad	5	-6	-36	2	-38	-66	-104
2. Portfolio investment	-14	637	236	90	354	189	89
3. Other long-term capital	369	-261	622	-95	178	445	881
3.1. Assets	-240	-432	261	-459	-575	-501	151
3.2. Liabilities	609	171	361	364	753	947	730
4. International reserves	-237	-588	-1,287	-158	81	-178	-1,285
III. STATISTICAL ERRORS	-195	-5	78	62	28	43	48

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

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

- Million US $; current exchange rates

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1.	Exports of goods	8,350	8,353	8,408	9,091	8,623	8,808	9,342	9,712	10,496	11,178
	investment goods	944	1,002	1,069	1,174	1,089	1,127	1,280	1,331	1,459	1,565
	intermediate goods	3,941	3,767	3,825	4,123	4,052	4,316	4,550	4,720	5,133	5,488
	consumer goods	3,465	3,584	3,514	3,794	3,482	3,365	3,513	3,661	3,904	4,125
2.	Exports of services	2,028	2,135	2,048	2,028	1,899	1,886	1,946	1,995	2,056	2,167
3.	**EXPORTS TOTAL**	**10,378**	**10,488**	**10,455**	**11,118**	**10,522**	**10,694**	**11,288**	**11,707**	**12,552**	**13,345**
4.	Imports of goods	9,303	9,178	9,184	9,880	9,868	9,947	9,964	10,249	10,997	11,756
	investment goods	1,572	1,478	1,480	1,764	1,895	1,790	1,764	1,792	1,914	2,108
	intermediate goods	5,627	5,259	5,354	5,643	5,427	5,938	5,889	6,098	6,607	7,035
	consumer goods	2,104	2,441	2,350	2,474	2,546	2,218	2,312	2,359	2,476	2,613
5.	Imports of services	1,449	1,502	1,417	1,535	1,535	1,450	1,445	1,482	1,535	1,630
6.	**IMPORTS TOTAL**	**10,753**	**10,679**	**10,601**	**11,415**	**11,403**	**11,397**	**11,409**	**11,731**	**12,532**	**13,386**
7.	BALANCE	-375	-191	-146	-297	-881	-702	-121	-24	20	-41
	Services	578	633	630	493	364	436	501	513	521	537
	Goods	-953	-825	-776	-789	-1,245	-1,139	-622	-537	-501	-578
8.	Exports to imports ratio (in %)	90	91	92	92	87	89	94	95	95	95

Continued from next page.

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

- Per cent change

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Forecast		
1.	Exports of goods	22.2	0.0	0.7	8.1	-5.1	2.1	6.1	4.0	8.1	6.5
	investment goods	23.2	6.1	6.7	9.8	-7.2	3.5	13.5	4.0	9.7	7.3
	intermediate goods	29.0	-4.4	1.5	7.8	-1.7	6.5	5.4	3.7	8.7	6.9
	consumer goods	15.1	3.4	-1.9	8.0	-8.2	-3.4	4.4	4.2	6.6	5.7
2.	Exports of services	12.1	5.3	-4.1	-1.0	-6.3	-0.7	3.2	2.5	3.1	5.4
3.	**EXPORTS TOTAL**	**20.1**	**1.1**	**-0.3**	**6.3**	**-5.4**	**1.6**	**5.6**	**3.7**	**7.2**	**6.3**
4.	Imports of goods	29.8	-1.3	0.1	7.6	-0.1	0.8	3.0	2.9	7.3	6.9
	investment goods	37.4	-6.0	0.1	19.2	7.4	-5.5	-1.5	1.6	6.8	10.1
	intermediate goods	27.7	-6.5	1.8	5.4	-3.8	9.4	-0.8	3.6	8.3	6.5
	consumer goods	30.0	16.0	-3.7	5.2	2.9	-12.9	4.2	2.0	5.0	5.5
5.	Imports of services	24.3	3.6	-5.6	8.3	0.0	-5.5	-0.3	2.6	3.6	6.2
6.	**IMPORTS TOTAL**	**29.0**	**-0.7**	**-0.7**	**7.7**	**-0.1**	**-0.1**	**0.1**	**2.8**	**6.8**	**6.8**

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

Table 10a: Foreign trade by geographical area

- US$ million

	EXPORTS (f.o.b.)							IMPORTS (f.o.b.)						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
TOTAL	8,316	8,310	8,369	9,051	8,546	8,732	9,252	9,492	9,421	9,366	10,111	10,083	10,116	10,145
DEVELOPED INDUSTRIAL COUNTRIES	6,086	5,842	5,796	6,453	6,199	6,176	6,303	7,423	7,325	7,205	7,963	8,043	7,918	7,827
EUROPEAN UNION	5,575	5,367	5,320	5,928	5,650	5,580	5,758	6,532	6,360	6,312	7,017	6,945	6,856	6,863
Germany	2,508	2,545	2,460	2,572	2,626	2,376	2,428	2,206	2,044	1,936	2,089	2,072	1,919	1,949
Italy	1,212	1,103	1,248	1,255	1,176	1,188	1,158	1,611	1,593	1,558	1,697	1,686	1,761	1,793
France	682	598	463	748	491	619	628	798	925	980	1,258	1,100	1,043	1,079
United Kingdom	229	162	150	161	170	186	259	190	208	241	233	307	310	260
Netherlands	117	125	123	142	144	150	154	207	194	200	225	208	211	197
Belgium	71	76	85	158	134	98	100	144	145	149	155	149	147	157
Spain	42	44	53	69	76	84	90	225	170	199	233	234	265	263
Denmark	42	47	54	75	79	81	87	46	42	46	55	53	52	56
Greece	32	23	24	23	24	24	29	11	13	15	19	24	22	32
Ireland	17	4	5	5	9	14	14	20	29	26	35	38	38	38
Portugal	9	13	14	12	12	16	15	5	5	11	14	11	12	15
Luxembourg	2	2	1	3	10	4	3	10	8	10	17	18	19	22
Austria	535	551	565	621	623	656	693	919	835	789	802	805	832	844
Finland	18	20	18	19	17	23	27	39	39	41	43	53	58	55
Sweden	58	54	56	65	61	61	73	101	111	110	143	185	167	103
EFTA	87	83	87	98	112	124	120	237	249	194	208	239	213	172
Suiss	71	68	70	78	89	101	97	199	178	162	172	215	162	152
Norway	12	12	14	16	18	17	17	34	68	30	36	22	49	18
Liechtenstein	3	3	2	3	3	5	5	4	2	1	1	1	2	1
Island	0	0	0	1	2	1	1	0	1	1	0	0	0	0

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Table 10a: Foreign trade by geographical area

- US$ million

	E X P O R T S (f.o.b.)							I M P O R T S (f.o.b.)						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
OTHER OECD	361	340	340	382	387	404	357	549	585	546	737	717	681	654
in which:														
United States of America	261	245	243	252	258	270	244	291	325	287	296	293	299	297
Other countries	100	95	97	130	129	134	113	258	260	259	441	424	382	357
OTHER DEVELOPED COUNTRIES	64	53	50	45	50	67	68	105	132	153	135	142	168	138
DEVELOPING COUNTRIES	2,230	2,462	2,568	2,592	2,343	2,554	2,949	2,069	2,095	2,160	2,148	2,039	2,197	2,317
COUNTRIES OF EX-YUGOSLAVIA	1,209	1,385	1,387	1,397	1,296	1,363	1,564	671	709	594	593	572	594	540
Croatia	891	855	837	815	671	688	799	576	590	466	432	444	447	404
Macedonia	189	170	149	161	177	158	132	86	72	56	47	37	48	27
Bosnia and Hercegovina	119	264	288	319	363	374	397	8	15	30	47	55	58	62
FR Yugoslavia	9	96	112	103	85	143	236	2	32	42	68	36	41	47
FORMER USSR COUNTRIES	375	390	432	330	213	281	410	275	236	284	216	201	263	323
in which:														
Russian Federation	305	298	326	235	129	191	281	241	209	250	178	159	231	281
OTHER EUROPE	445	495	525	614	628	699	751	707	664	723	779	854	922	972
in which:														
Czech Republic	132	147	147	150	159	151	168	247	237	234	264	281	252	249
Slovakia	52	57	56	73	62	69	83	82	92	103	90	91	132	143
Hungary	115	105	120	141	145	168	157	267	239	293	244	267	294	315
Poland	105	142	155	181	190	227	242	38	48	58	78	111	137	144
Other countries	42	44	45	69	73	84	101	73	48	35	103	105	107	121
OTHER COUNTRIES	201	193	225	251	207	211	224	416	485	559	423	411	417	482
Unclassified	0	6	4	6	4	2	0	0	1	1	0	1	1	0

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

Table 10b: Foreign trade by geographical area

- Structure in %

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

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Table 10b: Foreign trade by geographical area

- Structure in %

	EXPORTS (f.o.b.)							IMPORTS (f.o.b.)						
	1995	1996	1997	1998	1999	2000	2001	1995	1996	1997	1998	1999	2000	2001
OTHER OECD	4.3	4.1	4.1	4.2	4.5	4.6	3.9	5.8	6.2	5.8	7.3	7.1	6.7	6.4
in which:														
United States of America	3.1	3.0	2.9	2.8	3.0	3.1	2.6	3.1	3.4	3.0	2.9	2.9	3.0	2.9
Other countries	1.2	1.1	1.2	1.4	1.5	1.5	1.2	2.7	2.8	2.8	4.4	4.2	3.8	3.5
OTHER DEVELOPED COUNTRIES	0.8	0.6	0.6	0.5	0.6	0.8	0.7	1.1	1.4	1.6	1.3	1.4	1.7	1.4
DEVELOPING COUNTRIES	26.8	29.6	30.7	28.6	27.4	29.3	31.9	21.8	22.2	23.1	21.2	20.2	21.7	22.8
COUNTRIES OF EX-YUGOSLAVIA	14.5	16.7	16.6	15.4	15.2	15.6	16.9	7.1	7.5	6.3	5.9	5.7	5.9	5.3
Croatia	10.7	10.3	10.0	9.0	7.9	7.9	8.6	6.1	6.3	5.0	4.3	4.4	4.4	4.0
Macedonia	2.3	2.1	1.8	1.8	2.1	1.8	1.4	0.9	0.8	0.6	0.5	0.4	0.5	0.3
Bosnia and Hercegovina	1.4	3.2	3.4	3.5	4.2	4.3	4.3	0.1	0.2	0.3	0.5	0.5	0.6	0.6
FR Yugoslavia	0.1	1.2	1.3	1.1	1.0	1.6	2.6	0.0	0.3	0.4	0.7	0.4	0.4	0.5
FORMER USSR COUNTRIES	4.5	4.7	5.2	3.6	2.5	3.2	4.4	2.9	2.5	3.0	2.1	2.0	2.6	3.2
in which:														
Russian Federation	3.7	3.6	3.9	2.6	1.5	2.2	3.0	2.5	2.2	2.7	1.8	1.6	2.3	2.8
OTHER EUROPE	5.4	5.9	6.3	6.8	7.4	8.0	8.1	7.4	7.0	7.7	7.7	8.5	9.1	9.6
in which:														
Czech Republic	1.6	1.8	1.8	1.7	1.9	1.7	1.8	2.6	2.5	2.5	2.6	2.8	2.5	2.5
Slovakia	0.6	0.7	0.7	0.8	0.7	0.8	0.9	0.9	1.0	1.1	0.9	0.9	1.3	1.4
Hungary	1.4	1.3	1.4	1.6	1.7	1.9	1.7	2.8	2.5	3.1	2.4	2.6	2.9	3.1
Poland	1.3	1.7	1.9	2.0	2.2	2.6	2.6	0.4	0.5	0.6	0.8	1.1	1.4	1.4
Other countries	0.5	0.4	0.5	0.8	0.9	1.0	1.1	0.8	0.5	0.4	1.0	1.1	1.1	1.2
OTHER COUNTRIES	2.4	2.3	2.7	2.8	2.4	2.4	2.4	4.4	5.1	6.0	4.2	4.1	4.1	4.8
Unclassified	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

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

- Current prices, SIT million

	CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2001
		ACTUAL						
I.	TOTAL GENERAL GOVERNMENT REVENUES	958,186	1,091,815	1,222,587	1,397,903	1,590,017	1,726,724	1,967,042
	CURRENT REVENUES	955,790	1,089,017	1,217,023	1,390,982	1,579,255	1,695,040	1,936,774
	TAX REVENUES	916,328	1,032,285	1,156,099	1,302,752	1,499,430	1,599,594	1,798,131
	TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	311,429	357,877
	Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634	289,102
	Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795	68,775
	SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	496,371	552,574	620,911
	Employees contributions	195,413	221,929	247,519	276,805	305,649	342,129	377,817
	Employer's contributions	151,504	134,112	127,472	142,649	157,206	172,980	188,929
	Self-employed contributions	13,096	17,167	20,657	25,492	30,626	33,875	36,264
	Other unallocable social security contributions	2,987	2,976	4,982	3,452	2,889	3,590	17,901
	TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071	83,369
	Payroll tax	809	14,943	33,994	42,058	51,454	63,849	79,031
	Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222	4,338
	TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513	32,964
	DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895	673,165
	TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089	29,607
	OTHER TAXES	451	241	208	787	100	23	238
	NON-TAX REVENUES	39,462	56,732	60,924	88,230	79,825	95,447	138,643
	ENTERPRENEURIAL AND PROPERTY INCOME	6,628	8,301	9,792	24,186	23,522	27,619	65,098
	FEES AND CHARGES	8,291	8,813	10,452	11,903	13,624	19,964	21,192
	FINES AND FORFEITS	2,784	3,690	3,921	5,576	6,793	7,696	7,912
	SALES OF GOODS AND SERVICES	5,166	4,996	6,800	8,608	5,830	9,075	8,997
	OTHER NON-TAX REVENUES	16,592	30,932	29,959	37,956	30,055	31,093	35,444
	CAPITAL REVENUES	1,824	1,738	3,805	4,471	6,430	5,897	10,183
	VOLONTARY DONATIONS	470	940	1,760	2,449	4,332	7,421	10,694
	GRANTS	102	119	0	0	0	0	9,391
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (consolidated)	42,687	43,894	47,491	52,723	59,212	66,199	80,435

Continued on next page.

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

- Per cent share relative to GDP

CONSOLIDATED GENERAL GOVERNMENT REVENUES		1995	1996	1997	1998	1999	2000	2001
		ACTUAL						
I.	TOTAL GENERAL GOVERNMENT REVENUES	43.1	42.7	42.0	43.0	43.6	42.8	43.1
	CURRENT REVENUES	43.0	42.6	41.9	42.8	43.3	42.0	42.4
	TAX REVENUES	41.2	40.4	39.8	40.0	41.1	39.6	39.4
	TAXES ON INCOME AND PROFIT	7.2	7.7	7.8	7.8	7.5	7.7	7.8
	Personal income tax	6.6	6.8	6.7	6.6	6.3	6.4	6.3
	Corporate income tax	0.6	0.9	1.2	1.2	1.2	1.3	1.5
	SOCIAL SECURITY CONTRIBUTIONS	16.3	14.7	13.8	13.8	13.6	13.7	13.6
	Employees contributions	8.8	8.7	8.5	8.5	8.4	8.5	8.3
	Employer's contributions	6.8	5.2	4.4	4.4	4.3	4.3	4.1
	Self-employed contributions	0.6	0.7	0.7	0.8	0.8	0.8	0.8
	Other unallocable social security contributions	0.1	0.1	0.2	0.1	0.1	0.1	0.4
	TAXSES ON PAYROLL AND WORKFORCE	0.2	0.7	1.3	1.4	1.5	1.7	1.8
	Payroll tax	0.0	0.6	1.2	1.3	1.4	1.6	1.7
	Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	TAXES ON PROPERTY	0.6	0.6	0.7	0.9	0.7	0.7	0.7
	DOMESTIC TAXES ON GOODS AND SERVICES	13.4	13.7	14.2	14.7	16.5	14.9	14.7
	TAXES ON INTERN. TRADE AND TRANSACTIONS	3.5	3.0	2.0	1.5	1.3	0.9	0.6
	OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	NON-TAX REVENUES	1.8	2.2	2.1	2.7	2.2	2.4	3.0
	ENTERPRENEURIAL AND PROPERTY INCOME	0.3	0.3	0.3	0.7	0.6	0.7	1.4
	FEES AND CHARGES	0.4	0.3	0.4	0.4	0.4	0.5	0.5
	FINES AND FORFEITS	0.1	0.1	0.1	0.2	0.2	0.2	0.2
	SALES OF GOODS AND SERVICES	0.2	0.2	0.2	0.3	0.2	0.2	0.2
	OTHER NON-TAX REVENUES	0.7	1.2	1.0	1.2	0.8	0.8	0.8
	CAPITAL REVENUES	0.1	0.1	0.1	0.1	0.2	0.1	0.2
	VOLONTARY DONATIONS	0.0	0.0	0.1	0.1	0.1	0.2	0.2
	GRANTS	0.0	0.0	0.0	0.0	0.0	0.0	0.2
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (consolidated)	1.9	1.7	1.6	1.6	1.6	1.6	1.8

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

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

- Current prices, SIT million

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001
		A C T U A L						
II.	TOTAL EXPENDITURE	957,273	1,083,586	1,256,668	1,423,494	1,613,314	1,781,444	2,029,828
	CURRENT EXPENDITURE	169,751	192,816	223,184	262,658	309,000	355,364	415,161
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	116,560	131,911	155,269
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	149,900	178,087
	INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	60,956	72,806
	RESERVES	1,225	1,783	1,736	10,713	10,552	12,597	8,999
	CURRENT TRANSFERS	694,218	783,390	912,303	1,020,473	1,136,544	1,255,135	1,416,039
	SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951	63,150
	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077	821,335
	Transfers to unemployed	13,498	12,657	18,861	19,875	20,374	20,008	24,547
	Child allowances	32,322	41,100	49,487	53,151	61,314	73,653	81,632
	Social allowances	23,777	27,544	31,798	34,294	34,523	38,407	43,353
	War invalids, war veterans, war victims allowances	7,146	6,085	10,434	14,941	14,876	15,568	16,658
	Pensions	273,892	310,075	352,534	391,921	441,027	490,682	544,511
	Wage compensation	7,895	10,338	12,344	14,850	18,262	22,326	26,718
	Sick leave compensation	15,905	17,239	19,093	20,483	20,552	22,737	28,363
	Scholarship	9,549	10,884	14,066	13,926	15,038	16,338	18,092
	Other transfers to individuals	7,802	8,262	10,492	10,380	22,105	31,358	37,462
	CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	5,501	5,980	7,368	8,489	14,598	16,883	18,827
	OTHER CURRENT DOMESTIC TRANSFERS	252,406	294,851	341,932	383,889	405,573	444,402	507,306
	Current transfers to extrabudgetary funds	809	719	775	4,569	6,648	2,757	-1,042
	Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	398,925	441,645	508,348
	- Wages, salaries and other personnel expenditure	126,861	152,469	188,044	208,458	234,079	255,590	301,065
	- Purchases of goods and services	124,736	141,663	153,113	170,862	164,846	186,055	207,283
	CURRENT TRANSFERS	2,780	3,829	3,934	5,035	5,214	3,822	5,421
	CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	111,003	127,221
	CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942	71,407
III.	SURPLUS / DEFICIT (I. - II.)	913	8,230	-34,081	-25,591	-23,297	-54,720	-62,786
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (consolidated)	42,687	43,894	47,491	52,723	58,751	66,199	80,435

Continued on next page.

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

- Per cent share relative to GDP

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2001
		A C T U A L						
II.	TOTAL EXPENDITURE	43.1	42.4	43.2	43.8	44.2	44.1	44.5
	CURRENT EXPENDITURE	7.6	7.5	7.7	8.1	8.5	8.8	9.1
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	3.0	3.2	3.3	3.2	3.2	3.3	3.4
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.4	3.0	3.1	3.3	3.6	3.7	3.9
	INTEREST PAYMENTS	1.2	1.2	1.2	1.3	1.4	1.5	1.6
	RESERVES	0.1	0.1	0.1	0.3	0.3	0.3	0.2
	CURRENT TRANSFERS	31.3	30.7	31.4	31.4	31.2	31.1	31.0
	SUBSIDIES	1.9	1.4	1.4	1.5	1.7	1.5	1.4
	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.6	17.4	17.9	17.6	17.8	18.1	18.0
	Transfers to unemployed	0.6	0.5	0.6	0.6	0.6	0.5	0.5
	Child allowances	1.5	1.6	1.7	1.6	1.7	1.8	1.8
	Social allowances	1.1	1.1	1.1	1.1	0.9	1.0	0.9
	War invalids, war veterans, war victims allowances	0.3	0.2	0.4	0.5	0.4	0.4	0.4
	Pensions	12.3	12.1	12.1	12.0	12.1	12.2	11.9
	Wage compensation	0.4	0.4	0.4	0.5	0.5	0.6	0.6
	Sick leave compensation	0.7	0.7	0.7	0.6	0.6	0.6	0.6
	Scholarship	0.4	0.4	0.5	0.4	0.4	0.4	0.4
	Other transfers to individuals	0.4	0.3	0.4	0.3	0.6	0.8	0.8
	CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	0.2	0.2	0.3	0.3	0.4	0.4	0.4
	OTHER CURRENT DOMESTIC TRANSFERS	11.4	11.5	11.8	11.8	11.1	11.0	11.1
	Current transfers to extrabudgetary funds	0.0	0.0	0.0	0.1	0.2	0.1	0.0
	Current transfers to public institutions and public utilities	11.3	11.5	11.7	11.7	10.9	10.9	11.1
	- Wages, salaries and other personnel expenditure	5.7	6.0	6.5	6.4	6.4	6.3	6.6
	- Purchases of goods and services	5.6	5.5	5.3	5.3	4.5	4.6	4.5
	CURRENT TRANSFERS	0.1	0.1	0.1	0.2	0.1	0.1	0.1
	CAPITAL EXPENDITURE	2.6	2.5	2.3	2.5	2.5	2.5	2.5
	CAPITAL TRANSFERS	1.6	1.7	1.8	1.8	2.5	2.5	2.5
III.	SURPLUS / DEFICIT (I. - II.)	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-1.4
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (consolidated)	1.9	1.7	1.6	1.6	1.6	1.6	1.8

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

Table 13: Population and labour force

- Thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
POPULATION, as at 30 June (in thousand)	**1987.5**	**1991.2**	**1986.8**	**1982.6**	**1985.6**	**1990.3**	**1992.0**	**1989.0**	**1988.3**	**1986.8**
% of total: aged:										
aged 0 - 14	18.4	17.8	17.2	16.8	16.4	15.9	15.6	15.4	15.1	14.8
aged 15 - 64	69.3	69.5	69.7	69.8	69.9	70.1	70.1	70.1	70.2	70.2
aged 65 and over	12.3	12.7	13.0	13.4	13.7	14.0	14.3	14.4	14.7	15.0
Fertility rate *	1.29	1.28	1.25	1.23	1.21	1.22	1.24	1.25	1.27	1.28
Life expectancy*:										
men	70.8	71.0	71.1	71.2	71.2	71.3	71.5	71.8	72.0	72.2
women	78.3	78.6	78.7	79.0	79.0	78.9	79.1	79.3	79.5	79.7
Infant mortality (per 1000)*	5.5	4.7	5.2	5.2	4.5	5.5	5.2	4.9	4.7	4.4
Working age population (15-64 years old, in thousand)	1377.2	1383.9	1385.3	1384.0	1388.1	1395.1	1397.0	1394.9	1394.4	1395.0
of whom: women	685.4	686.7	684.9	684.3	685.8	687.3	687.8	686.7	686.5	689.0
SURVEY LABOUR FORCE (by LFS, in thousand)	**952**	**946**	**978**	**978**	**959**	**968**	**979**	**979**	**987**	**996**
of whom: women (in %)	46.2	46.7	46.3	46.1	46.0	46.1	45.5	45.6	45.7	45.8
Survey participation rate (in % of working age population)	**69.1**	**68.4**	**70.6**	**70.7**	**69.1**	**69.4**	**70.1**	**70.2**	**70.8**	**71.4**
men	74.0	72.3	75.0	75.3	73.8	73.7	75.3	75.2	75.7	76.5
women	64.2	64.4	66.1	65.9	64.3	64.9	64.7	65.0	65.8	66.2
Persons in employment (by LFS, thousand)	**882**	**878**	**906**	**901**	**886**	**901**	**917**	**916**	**926**	**938**
Of whom (in %):										
in agriculture	10.4	10.1	12.7	11.4	10.2	9.9	9.6	9.4	9.2	8.9
in industry and construction	43.2	42.0	40.1	39.2	38.1	37.7	38.0	37.3	36.5	35.7
in services	46.3	47.3	46.8	48.8	51.2	51.4	52.4	53.3	54.4	55.4
in unformal employment (estimation)	17.4	18.0	21.9	20.9	16.8	17.3	17.6	16.4	16.2	16.0
Average working time (in % of full time)	93.5	93.0	89.7	90.2	92.8	92.3	91.3	91.9	91.9	91.9
Survey employment rate (in % of working age population)	**64.0**	**63.4**	**65.4**	**65.1**	**63.8**	**64.6**	**65.6**	**65.7**	**66.4**	**67.2**
men	68.4	67.0	69.7	69.5	68.3	68.8	70.9	70.7	71.3	72.2
women	59.7	59.9	61.0	60.6	59.2	60.2	60.1	60.5	61.4	62.1
Survey unemployed (by ILO standards, thousand)	**70**	**69**	**72**	**77**	**73**	**68**	**63**	**63**	**61**	**59**
of whom: women (in %)	44.3	44.9	48.6	46.8	47.9	47.1	50.4	49.5	48.8	48.3
Survey unemployment rate (in % of survey labour force)	**7.4**	**7.3**	**7.4**	**7.9**	**7.6**	**7.0**	**6.4**	**6.4**	**6.2**	**5.9**
men	7.6	7.5	7.0	7.8	7.3	6.9	5.8	6.0	5.8	5.6
women	7.0	7.0	7.7	8.0	7.9	7.2	7.1	7.0	6.6	6.2

Continued on next page.

Table 13: Population and labour force

- Thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
FORMAL LABOUR FORCE (in thousand)	**873.0**	**864.1**	**868.6**	**871.2**	**877.4**	**874.8**	**880.9**	**887.2**	**894.8**	**902.4**
women (in %)	47.7	47.6	45.8	45.9	45.9	45.8	45.5	45.7	45.9	46.0
foreigners (in %)	4.5	4.7	4.6	4.0	4.3	4.6	4.3	4.4	4.4	4.5
Formal participation rate (in % of working age population)	**63.4**	**62.4**	**62.7**	**63.0**	**63.2**	**62.7**	**63.1**	**63.6**	**64.2**	**64.7**
men	66.0	64.9	67.2	67.4	67.6	66.9	67.7	68.0	68.4	69.0
women	60.8	59.9	58.1	58.4	58.7	58.3	58.3	59.0	59.8	60.2
Persons in formal employment (by monthly employers surveys, in thousand)	**751.5**	**744.3**	**743.4**	**745.2**	**758.5**	**768.2**	**779.0**	**786.7**	**797.1**	**808.4**
Persons in paid employment **	642.0	634.7	651.2	652.5	671.0	683.0	694.8	701.3	710.4	720.1
Self-employed persons (the main source of income)	109.6	109.6	92.2	92.7	87.5	85.1	84.2	85.3	86.8	88.3
- in % of formal employment	14.6	14.7	12.4	12.4	11.5	11.1	10.8	10.8	10.9	10.9
Formal employment rate (in % of working age population)	**54.6**	**53.8**	**53.7**	**53.8**	**54.6**	**55.1**	**55.8**	**56.4**	**57.2**	**57.9**
Unformal employment rate (the difference to the survey employment rate)	9.5	9.7	11.7	11.3	9.2	9.5	9.8	9.3	9.3	9.3
Registered unemployed persons (in thousand)	**121.5**	**119.8**	**125.2**	**126.1**	**119.0**	**106.6**	**101.9**	**100.5**	**97.6**	**94.0**
of whom: women (in %)	46.7	48.1	48.8	49.9	50.6	50.7	50.8	50.2	49.8	49.5
Registered unemployment rate (in % of formal labour force)	**13.9**	**13.9**	**14.4**	**14.5**	**13.6**	**12.2**	**11.6**	**11.3**	**10.9**	**10.4**
men	14.2	13.8	13.6	13.4	12.4	11.1	10.4	10.4	10.1	9.7
women	13.6	14.0	15.3	15.7	15.0	13.5	12.9	12.5	11.9	11.2
Registered unemployment rate, end of the year	14.5	14.4	14.8	14.6	13.0	12.0	11.8	11.4	11.0	10.4
ANNUAL GROWTH RATES (%)										
Employment in full-time equivalent	**1.0**	**-1.0**	**-0.5**	**0.0**	**1.2**	**1.1**	**0.6**	**0.6**	**1.1**	**1.2**
Labour productivity (value added by employment in full-time equivalent)	**2.5**	**4.4**	**5.2**	**3.6**	**3.4**	**4.0**	**2.5**	**2.8**	**3.2**	**3.2**
Persons in formal employment	-0.1	-1.0	-0.1	0.2	1.8	1.3	1.4	1.0	1.3	1.4
Persons in paid employment **	-0.8	-1.1	2.6	0.2	2.8	1.8	1.7	0.9	1.3	1.4
Persons in employment by survey	3.6	-0.5	3.2	-0.6	-1.7	1.7	1.7	-0.1	1.1	1.2
Registered unemployed persons	-4.4	-1.4	4.5	0.7	-5.7	-10.4	-4.5	-1.3	-2.9	-3.7
Formal labour force	-0.7	-1.0	0.5	0.3	0.7	-0.3	0.7	0.7	0.9	0.9
Working age population	-0.1	0.5	0.1	-0.1	0.3	0.5	0.1	-0.2	0.0	0.0
Population	-0.1	0.2	-0.2	-0.2	0.1	0.2	0.1	-0.2	0.0	-0.1
Productivity in Slovenia, EU average =100	**36.0**	**36.5**	**39.7**	**42.2**	**43.6**	**44.3**	**44.5**	**45.0**	**45.7**	**46.4**
Full-time equivalent employment in % of formal employment	**109.7**	**109.7**	**109.3**	**109.0**	**108.5**	**108.3**	**107.4**	**107.0**	**106.8**	**106.6**

Source of data: SORS, IPDIS, IMAD's forecast.
Notes:
* 2000 and 2001 estimates by IMAD,
** up to and including 1996, excluding companies with 1-2 employees; since 1999: including unemployed working in public works.

Table 14: Labour force flows during the year

- 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	25.1	22.7
- low or no education	9.4	8.0	9.7	8.6	3.7
- vocational education	6.0	6.2	5.5	4.9	4.5
- finished secondary school	5.2	5.6	4.4	5.8	7.8
- graduates	5.1	5.8	5.9	5.8	6.6
Change in number of work permits for foreigners	2.6	0.2	-2.9	-0.5	2.6
- as % of formal labour force	0.3	0.0	-0.3	-0.1	0.3
Retirements (-)	11.5	14.8	15.1	14.8	14.8
- as % of formal labour force	1.3	1.7	1.7	1.7	1.7
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	-12.2	-14.6	-0.6	-9.9	4.3
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	74.1	86.5
Registered 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	2.6	0.2	-2.9	-0.5	2.6
Deaths and retirements (-)	10.0	12.2	12.4	12.2	12.1
Others who found employment (net)	3.4	18.8	19.8	14.9	32.8
- as % of formal employment	0.4	2.5	2.7	2.0	4.3
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
- registered unemployment rate, end year	14.5	14.4	14.8	14.6	13.0
- working permissions for foreigners	37.9	38.2	35.3	34.8	37.4
- as % of formal labour force	4.3	4.4	4.1	4.0	4.2

Continued on next page.

Table 14: Labour force flows during the year

- Thousand

	2000	2001	2002	2003	2004
			Forecast		
Inflows into formal labour force (net)	**-7.5**	**13.3**	**5.2**	**7.1**	**7.3**
New first-time job seekers	26.5	25.8	27.3	26.3	26.5
- low or no education	6.2	6.1	6.5	5.9	5.5
- vocational education	6.2	5.7	5.3	5.0	4.6
- finished secondary school	7.6	6.4	8.0	6.7	7.4
- graduates	6.6	7.6	7.4	8.6	9.0
Change in number of work permits for foreigners	2.9	-6.4	1.3	1.4	1.5
- as % of formal labour force	0.3	-0.7	0.1	0.2	0.2
Retirements (-)	14.5	14.5	14.5	14.6	14.8
- as % of formal labour force	1.7	1.6	1.6	1.6	1.6
Deaths (-)	2.7	2.7	2.8	2.8	2.8
- as %o of formal labour force	0.3	0.3	0.3	0.3	0.3
Other net inflows into formal labour force	-19.8	11.1	-6.1	-3.3	-3.1
Change in registered unemployment (net)	**-9.8**	**-0.3**	**-2.5**	**-3.4**	**-4.0**
Redundancies	61.8	65.8	62.9	63.8	64.7
- as % of formal employment	8.1	8.4	8.0	8.0	8.0
New unemployed first-time job seekers	20.5	21.9	20.8	18.1	16.4
- as % of the generation	77.2	84.9	76.3	68.7	61.8
Registered unemployed who found employment (-)	60.2	52.7	55.7	59.1	62.7
- as % of formal employment	7.8	6.8	7.1	7.4	7.8
Unemployed struck off the register (-)	31.9	35.3	30.6	26.2	22.3
- as % of registered unemployment	29.9	34.6	30.4	26.8	23.7
of whom: deaths and retirements	7.3	7.9	8.0	8.0	8.1
Change in formal employment (net)	**2.3**	**13.6**	**7.7**	**10.5**	**11.3**
Net inflow from registered unemployment	-1.7	-13.1	-7.3	-4.7	-2.0
Net inflow of foreigners	2.9	-6.4	1.3	1.4	1.5
Deaths and retirements (-)	9.8	9.3	9.3	9.4	9.5
Others who found employment (net)	10.9	42.4	22.9	23.1	21.2
- as % of formal employment	1.4	5.4	2.9	2.9	2.6
FORMAL LABOUR FORCE, year-end	**873.1**	**886.4**	**891.6**	**898.6**	**905.9**
- formal employment	768.5	782.1	789.7	800.2	811.5
- registered unemployment	104.6	104.3	101.8	98.4	94.4
- registered unemployment rate, end year	12.0	11.8	11.4	11.0	10.4
- working permissions for foreigners	40.3	33.9	35.3	36.7	38.2
- as % of formal labour force	4.6	3.8	4.0	4.1	4.2

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

Table 15: Pensioners

- Thousand

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Forecast		
TOTAL	**460.3**	**463.3**	**468.2**	**472.4**	**476.4**	**482.2**	**492.5**	**503.3**	**507.7**	**512.3**
- in % of population	23.2	23.3	23.6	23.8	24.0	24.2	24.7	25.3	25.5	25.8
Persons in formal employment on one pensioner	1.63	1.61	1.59	1.58	1.59	1.59	1.58	1.56	1.57	1.58
- old age pensions	259.3	262.1	266.9	271.5	276.3	282.0	287.9	292.0	296.1	300.1
- disability pensions	96.1	96.9	97.4	97.5	97.4	97.8	97.7	97.6	97.5	97.4
- survivors' pensions	81.7	83.1	84.5	85.6	86.6	87.6	88.9	90.1	91.4	92.9
- farmers' pensions	17.7	15.8	14.1	12.5	11.1	9.7	8.6	7.5	6.6	5.8
- army pensions	4.9	4.8	4.8	4.7	4.6	4.5	4.5	4.4	4.3	4.2
- state pensions and accounts	0.6	0.6	0.5	0.5	0.5	0.5	5.0	11.7	11.8	12.0
ANNUAL GROWTH RATES (%)										
Total	***0.5***	***0.7***	***1.1***	***0.9***	***0.9***	***1.2***	***2.1***	***2.2***	***0.9***	***0.9***
- old age pensions	*0.8*	*1.1*	*1.8*	*1.7*	*1.8*	*2.1*	*2.1*	*1.4*	*1.4*	*1.3*
- disability pensions	*1.3*	*0.8*	*0.5*	*0.1*	*-0.1*	*0.4*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
- survivors' pensions	*1.2*	*1.7*	*1.7*	*1.3*	*1.2*	*1.1*	*1.4*	*1.4*	*1.4*	*1.6*
- farmers' pensions	*-9.5*	*-10.6*	*-10.5*	*-11.4*	*-11.8*	*-11.9*	*-12.2*	*-12.3*	*-12.4*	*-12.5*
- army pensions	*-1.1*	*-1.6*	*-1.1*	*-1.3*	*-1.9*	*-1.8*	*-2.0*	*-2.0*	*-2.0*	*-2.0*
- state pensions							*8976.0*	*148.7*	*1.4*	*1.3*

Source of data: IPDIS; calculations and forecast: IMAD

Table 16: Indicators of international competitiveness

- Growth in %

	1995	1996	1997	1998	1999	2000	2001	2002
							Forecast	
Effective exchange rate [1]								
Nominal	-0.5	-9.7	-5.4	-2.6	-5.5	-8.1	-5.8	-3.8
Real [2]	10.3	-2.8	0.7	3.9	-0.7	-2.1	-0.3	1.3
Unit labour cost in total economy								
In SIT nominal	13.7	6.4	6.4	5.1	5.6	7.4	10.1	7.7
In the basket of currencies - relative [5]	11.1	-4.9	0.5	2.2	-1.2	-2.0	1.7	2.4
Unit labour cost in manufacturing [3]								
In SIT nominal	9.8	6.9	7.3	5.9	7.3	4.2	8.5	6.5
In the basket of currencies [4]	9.3	-3.5	1.5	3.1	1.4	-4.2	2.2	2.4
In the basket of currencies - relative [5]	9.0	-4.9	4.0	5.5	1.2	-2.5	0.1	1.5
Components [4]:								
Compensation of employees - real [6]	4.9	3.9	3.4	3.4	2.9	2.6	1.8	2.1
Net wages and other remunerations	6.8	7.7	4.3	3.1	2.5	1.9	0.8	1.8
Tax burden on wages [7]	-0.6	-2.6	-0.5	0.6	0.4	0.6	0.6	0.2
Labour productivity	8.4	6.7	4.5	5.4	1.8	7.2	1.7	3.2
Prices / effective exchange rate	12.9	-0.8	2.5	5.1	0.3	0.1	2.1	2.9

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

Table 17a: Gross capital formation

- Current prices, SIT million

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

Continued on next page.

Table 17a: Gross capital formation

- Structure in % (current prices)

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

Source of data: SORS.

Table 17b: Gross capital formation

- Constant 1995 prices, SIT million

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

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Table 17b: Gross capital formation

- Change in volume in % (constant prices 1995)

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

Source of data: SORS.
Note: * Volume changes in inventories are shown as per cent of GDP.

Table 18a: Business results of commercial companies

- in SIT million

		1995	1996	1997	1998	1999	2000	2001	*2001
1.	TOTAL REVENUES	5,000,198	5,675,134	6,515,716	7,087,515	7,842,728	9,093,265	10,138,431	9,759,110
1.1.	Operating revenues	4,656,188	5,313,406	6,069,739	6,641,894	7,374,225	8,535,744	9,531,629	9,166,754
	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	6,761,538	6,431,169
	- 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	2,645,567	2,626,245
1.2.	Financial revenues	192,396	197,669	235,546	219,307	254,966	317,585	361,007	355,294
1.3.	Extraordinary revenues	151,614	164,059	210,431	226,314	213,537	239,936	245,795	237,062
2.	TOTAL EXPENSES	5,010,131	5,717,271	6,497,855	7,026,553	7,691,869	8,936,870	10,394,327	9,600,469
2.1.	Operating expenses	4,671,862	5,321,870	6,019,222	6,575,573	7,276,498	8,402,439	9,745,294	9,001,604
	in which:								
	- Costs of goods, materials and services	3,526,450	4,026,663	4,560,282	4,986,685	5,512,068	6,463,224	7,180,646	6,915,327
	- Labour costs	835,872	906,553	1,002,793	1,093,716	1,206,412	1,355,366	1,519,841	1,476,131
	Wages and salaries	582,871	642,920	712,350	776,846	856,076	960,749	1,073,764	1,043,220
	Social security	131,251	118,816	125,876	139,608	155,406	175,364	198,168	190,676
	Other labour costs	121,750	144,817	164,567	177,262	194,930	219,253	247,909	242,235
	- Depreciation	229,653	293,875	330,089	378,718	411,554	460,265	885,674	459,544
	- Current assets write-offs	45,070	52,814	61,742	59,713	59,256	57,995	63,711	63,146
	- Long-term provisions	23,463	22,918	30,137	24,912	40,020	38,730	37,189	35,841
	- Changes in the value of inventories of products and work-in-progress	-21,136	-21,842	-10,732	-19,314	-11,058	-39,468	-18,044	-19,623
2.2.	Financing expenses	246,547	279,345	337,645	298,763	295,081	421,541	484,293	478,429
2.3.	Extraordinary expenses	91,722	116,056	140,988	152,217	120,290	112,890	164,740	120,436
3.	TOTAL PROFIT	127,918	139,976	198,855	233,607	290,018	341,998	380,887	380,597
4.	TOTAL LOSS	137,850	182,112	180,995	172,644	139,159	185,603	636,783	221,956
5.	TAXES ON PROFIT	15,006	18,281	21,729	24,426	31,339	38,875	43,547	43,547
6.	NET PROFIT	112,956	121,764	177,258	209,269	258,786	303,288	337,564	337,274
7.	NET LOSS	137,893	182,181	181,126	172,733	139,266	185,768	637,007	222,180
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	-24,937	-60,417	-3,868	36,536	119,520	117,520	-299,443	115,094
9.	NUMBER OF EMPLOYEES	484,602	467,238	460,376	459,094	463,481	468,677	473,447	463,032
10.	NUMBER OF COMPANIES	33,609	35,786	36,717	37,585	37,553	37,695	37,210	37,195

Source of data: Agency for Payments, Statistical data from profit and loss statements of companies for 1995, 1996, 1997, 1998, 1999, 2000 and 2001.
Note: * 2001 - total figures exclude 15 companies from the mining and electricity sectors.

Table 18b: Business results of commercial companies

- Indices in %

		1995/94	1996/95	1997/96	1998/97	1999/98	2000/99	2001/00	*2001/00
1.	TOTAL REVENUES	116.6	113.5	114.8	108.8	110.7	115.9	111.5	107.3
1.1.	Operating revenues	117.2	114.1	114.2	109.4	111.0	115.8	111.7	107.4
	in which:								
	- net revenues from sales on the domestic market	119.3	114.4	111.9	108.8	113.5	112.1	110.2	104.8
	- net revenues from sales on the foreign market	112.0	113.3	122.1	110.8	104.2	127.5	115.9	115.1
1.2.	Financial revenues	103.7	102.7	119.2	93.1	116.3	124.6	113.7	111.9
1.3.	Extraordinary revenues	117.1	108.2	128.3	107.5	94.4	112.4	102.4	98.8
2.	TOTAL EXPENSES	116.1	114.1	113.7	108.1	109.5	116.2	116.3	107.4
2.1.	Operating expenses	117.2	113.9	113.1	109.2	110.7	115.5	116.0	107.1
	in which:								
	- Costs of goods, materials and services	117.6	114.2	113.3	109.4	110.5	117.3	111.1	107.0
	- Labour costs	115.6	108.5	110.6	109.1	110.3	112.3	112.1	108.9
	Wages and salaries	114.5	110.3	110.8	109.1	110.2	112.2	111.8	108.6
	Social security	114.1	90.5	105.9	110.9	111.3	112.8	113.0	108.7
	Other labour costs	122.7	118.9	113.6	107.7	110.0	112.5	113.1	110.5
	- Depreciation	118.4	128.0	112.3	114.7	108.7	111.8	192.4	99.8
	- Current assets write-offs	121.5	117.2	116.9	96.7	99.2	97.9	109.9	108.9
	- Long-term provisions	96.1	97.7	131.5	82.7	160.6	96.8	96.0	92.5
	- Changes in the value of inventories of products and work-in-progress	97.2	103.3	49.1	180.0	57.3	356.9	45.7	49.7
2.2.	Financing expenses	102.7	113.3	120.9	88.5	98.8	142.9	114.9	113.5
2.3.	Extraordinary expenses	105.9	126.5	121.5	108.0	79.0	93.8	145.9	106.7
3.	TOTAL PROFIT	134.8	109.4	142.1	117.5	124.1	117.9	111.4	111.3
4.	TOTAL LOSS	115.0	132.1	99.4	95.4	80.6	133.4	343.1	119.6
5.	TAXES ON PROFIT	130.0	121.8	118.9	112.4	128.3	124.0	112.0	112.0
6.	NET PROFIT	135.4	107.8	145.6	118.1	123.7	117.2	111.3	111.2
7.	NET LOSS	115.0	132.1	99.4	95.4	80.6	133.4	342.9	119.6
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	68.4	242.3	6.4	-944.6	327.1	98.3	-254.8	97.9
9.	NUMBER OF EMPLOYEES	102.0	96.4	98.5	99.7	101.0	101.1	101.0	98.8
10.	NUMBER OF COMPANIES	108.6	106.5	102.6	102.4	99.9	100.4	98.7	98.7

Source of data: Agency for Payments, Statistical data from profit and loss statements of companies for 1995, 1996, 1997, 1998, 1999, 2000 and 2001.
Note: * 2001 - total figures exclude 15 companies from the mining and electricity sectors.

Table 18c: Business results of commercial companies

- Structure in %

		1995	1996	1997	1998	1999	2000	2001	*2001
1.	TOTAL REVENUES	100.0	100.0	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	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	66.7	65.9
	- net revenues from sales on the foreign market	22.4	22.4	23.8	24.2	22.8	25.1	26.1	26.9
1.2.	Financial revenues	3.8	3.5	3.6	3.1	3.3	3.5	3.6	3.6
1.3.	Extraordinary revenues	3.0	2.9	3.2	3.2	2.7	2.6	2.4	2.4
2.	TOTAL EXPENSES	100.2	100.7	99.7	99.1	98.1	98.3	102.5	98.4
2.1.	Operating expenses	93.4	93.8	92.4	92.8	92.8	92.4	96.1	92.2
	in which:								
	- Costs of goods, materials and services	70.5	71.0	70.0	70.4	70.3	71.1	70.8	70.9
	- Labour costs	16.7	16.0	15.4	15.4	15.4	14.9	15.0	15.1
	Wages and salaries	11.7	11.3	10.9	11.0	10.9	10.6	10.6	10.7
	Social security	2.6	2.1	1.9	2.0	2.0	1.9	2.0	2.0
	Other labour costs	2.4	2.6	2.5	2.5	2.5	2.4	2.4	2.5
	- Depreciation	4.6	5.2	5.1	5.3	5.2	5.1	8.7	4.7
	- Current assets write-offs	0.9	0.9	0.9	0.8	0.8	0.6	0.6	0.6
	- Long-term provisions	0.5	0.4	0.5	0.4	0.5	0.4	0.4	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	-0.2	-0.2
2.2.	Financing expenses	4.9	4.9	5.2	4.2	3.8	4.6	4.8	4.9
2.3.	Extraordinary expenses	1.8	2.0	2.2	2.1	1.5	1.2	1.6	1.2
3.	TOTAL PROFIT	2.6	2.5	3.1	3.3	3.7	3.8	3.8	3.9
4.	TOTAL LOSS	2.8	3.2	2.8	2.4	1.8	2.0	6.3	2.3
5.	TAXES ON PROFIT	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
6.	NET PROFIT	2.3	2.1	2.7	3.0	3.3	3.3	3.3	3.5
7.	NET LOSS	2.8	3.2	2.8	2.4	1.8	2.0	6.3	2.3
8.	NET DIFFERENCE BETWEEN NET PROFIT AND NET LOSS	-0.5	-1.1	-0.1	0.5	1.5	1.3	-3.0	1.2

Source of data: Agency for Payments, Statistical data from profit and loss statements of companies for 1995, 1996, 1997, 1998, 1999, 2000 and 2001.
Note: * 2001 - total figures exclude 15 companies from the mining and electricity sectors.

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