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Spring Report 2003

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The Spring Report 2003 is an analytical explication of spring economic forecasts (April 2003). The Spring Report 2003 is based on data available up to and including 30 April 2003.

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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Foreword

Macroeconomic aggregates in this Spring Report are analysed on the basis of revised national accounts figures. On 10 March 2003, Slovenia's Statistical Office (SORS) published revised national accounts figures for 2000 and 2001 in current prices which were compiled with the new methodology. Figures for 2001 are also given in the new base year of 2000. The main purpose of this revision is to further harmonise estimates of current gross domestic product with the European System of Accounts (ESA 1995). Items assessed anew are imputed rent or dwelling activities of households and the consumption of fixed capital which is estimated by a perpetual inventory method for the general government sector. The exhaustiveness of gross domestic product estimates has also been improved, mainly in the areas of wages and salaries in kind. The revised value of gross domestic product for 2000 amounts to SIT 4,222 billion, 4.6% higher than the previous estimate of SIT 4,036 billion. Because of the revised balance of payments data, i.e. higher labour and capital incomes resulting from the new methodology of calculating reinvested earnings, and the revised gross domestic product, the value of gross national income is 5.2% higher than the previous estimate. **The revision of gross domestic product caused a break in the time series because national accounts figures for the years before and after 2000 are no longer comparable due to the differences in methodology.** The break in the time series is marked clearly in the statistical appendix, while national accounts figures in current prices and structural shares for 2002 are shown in both the new and old methodology in order to illustrate changes brought about by the revision. The higher value of gross domestic product expressed in current prices affected the shares of some macroeconomic aggregates relative to gross domestic product (general government revenue and expenditure, the current account balance etc). These changes are also shown for 2000 in the statistical appendix.

Another methodological change introduced by the SORS in 2002 concerns wages and employment for individual activities. As a result of changes to the Standard Classification of Activities, **enterprises for handicapped persons (sheltered workshops) were moved** from the activity of health and social work (N) to the **activity where they in fact operate**. Hence, figures broken down by activities for 2002 are methodologically incomparable with those for 2001. The most significant changes were seen in the activities of health and social work (N), manufacturing (D), and real estate, renting and business activities (K). In order to maintain the time series for wages and employment for individual activities and for the public and private sectors, allowing an analysis of actual economic developments, this **Spring Report presents figures for 2002 in the same way as before the statistical correction introduced in February and March 2002**. Wage and employment figures for individual activities which do not include these changes were calculated by the SORS, while the IMAD used these figures to compile aggregates for the private (activities A to K) and public (activities L to O) sectors.

Main findings of the Spring Report 2003

In 2002, economic growth was 3.2%, slightly stronger than the year before. With regard to the structure of gross domestic product growth, domestic demand intensified as expected, mainly thanks to the recovery of investment activity. The relative contribution of foreign demand fell over 2001; however, real growth in exports of goods and services remained robust despite the adverse conditions found in the international economic environment and even surpassed the expectations. This was primarily due to the strong export growth to the markets of former Yugoslavia, the former Soviet Union and CEFTA and partly due to the well-established position of Slovenian enterprises in the EU markets, where Slovenia's market shares grew for the second year running. The growing market shares in the EU point to some positive shifts in competitiveness, which was also reflected in the strong production volumes growth of highly export-oriented manufacturing industries generating the highest value added per employee. The balance-of-payments equilibrium turned into a relatively wide surplus. Even though almost half of this surplus was due to the improved terms of trade, we should note the lack and poor development of financial instruments to channel savings into investment, particularly in view of the favourable structure of inflows in the capital and financial account.

While preparing this Spring Report, the international economic environment suffered significant uncertainty that influenced the assumptions behind the forecasts of the main macroeconomic aggregates for 2003 and 2004. Uncertainties about oil price movements and the related economic shocks subsided markedly because the military operation in Iraq ended relatively quickly; however, what remained questionable is the pace and intensity of a recovery in foreign demand. The continuous delay in economic recovery of the main trading partners turned out to be the result of structural problems and rigidities, which were revealed and intensified by various world-wide factors and developments rather than caused by them. In view of the reasons for this subdued growth and the limited manoeuvring space of the euro zone policies to bring economic growth up to the average level of the past decade, the forecasts of international institutions show that economic growth recovery will come later and be less strong than expected in autumn last year.

The changed conditions in the international environment were the main reason for revising downwards the economic growth forecast for Slovenia for 2003 by 0.6 of a percentage point (from 3.7% to 3.1%). The relative importance of foreign demand is likely to decline over 2002. Exports to the EU should only strengthen slowly, while exports to Central, Eastern and South-east Europe will not maintain the high growth rates enjoyed in 2002, as suggested by figures for the first quarter of 2003. These dynamics are not surprising because it is difficult to maintain high export growth over any long period of time, particularly if this concerns markets with low purchasing power. Investment growth should maintain about the same level as in 2002 and should continue to be underpinned by motorway construction. Investment activity is still not expected to revive rapidly this year because housing construction will be relatively modest. Similarly, investment in machinery and equipment, which is closely linked to business confidence indicators in the domestic and international environments, is not likely to increase markedly because confidence indicators are

showing no clear sings of improvement. Private consumption growth is also expected to remain at last year's level, so the contribution of total domestic consumption to economic growth should stay roughly the same as in 2002. Even though the rate and structure of gross domestic product growth are expected to resemble those of 2002, there will be significant differences in the growth dynamics; an upward trend is expected in the second half of 2003, which should be strengthened further in 2004.

Only a gradual improvement is expected in the labour market, which suffered significant deterioration in 2002 compared to preceding years as a result of declining economic activity (particularly so in the textiles, food-processing and wood industries, mining and hotels and restaurants). Employment growth will be modest in 2003, up about 0.2%, while unemployment is expected to fall slightly. This will partly be facilitated by active employment policy measures aimed primarily at dealing with the problem of structural unemployment. Employment trends should be positively affected by a restrictive wages policy, which already helped re-establish the macroeconomic balance between wage and labour productivity growth in 2002. Wages policy also managed to keep wage growth in the public sector below the rate of wage growth in the private sector. This trend should be sustained in 2003 and therefore help to bring public and private-sector wages into equilibrium after having been severely slanted in the last few years to the benefit of the public sector.

Even though the economic growth forecast for 2003 is over one percentage point below the average level of the last medium-term period, it is still a solid two times higher than the projected growth for the EU. This is important because of real convergence and will enable Slovenia to catch up with the EU's development level relatively quickly.

In 2004, the strengthening of foreign and particularly domestic demand will bolster economic growth, which should again draw close to 4%. Assuming that international economic conditions stabilise and economic growth in the main trading partners accelerates, export growth should again intensify. Investment activity should strengthen even more, both investment in machinery and equipment and investment in housing construction, while the robust investment in infrastructure should be maintained. Private consumption should gain a cyclical momentum after two years of moderate growth; this should also be driven by funds released from the first National Housing Savings Scheme and the return to employment growth.

The IMAD has also prepared an alternative economic growth scenario for 2003 and 2004 because of the precariousness of economic recovery in Western Europe. This scenario presumes 0.6-0.8 of a percentage point weaker growth in EU member-states compared to the main scenario. Realisation of these assumptions would dampen not only export but also investment growth because of the increased uncertainty about global economic recovery. This would stifle private consumption growth indirectly and reduce government consumption growth through fiscal adjustment to less favourable economic conditions. Economic growth should be about 0.4 of a percentage point lower than projected in the main scenario in 2003 and about 0.5 of a percentage point lower in 2004.

2004 is important for Slovenia because of its accession with the European Union. The accession itself, which is of great significance for the Slovenian economy's long-term development, should not cause any major shocks in the short term since a large part of the economy, especially the tradable sector, is undergoing adjustment in the pre-accession period. This is providing a solid basis for the economy to face the competitive pressures encountered in the EU single market. Accession is also important because of subsequent integration with the EMU, which requires that the Maastricht convergence criteria be met. One area particularly important for Slovenia is the sustainable reduction of inflation to the EU level. So at the end of 2002 the government and the Bank of Slovenia committed themselves to use a balanced mix of measures to simultaneously address all factors that have pushed prices up and therefore bring price rises down to about 5% in 2003 and about 4% in 2004. The government's measures taken within fiscal policy (adjusting excise duties on liquid fuels) and administered prices policy (reducing rises in administered prices and improving their timing) significantly reduced year-on-year rises in consumer prices in the first four months of 2003. On the other hand, there were no marked changes in exchange rate policy up until April to slow the tolar's depreciation down, so the contribution of this policy to disinflationary efforts was lower than envisaged. Provided that fiscal policy measures are taken consistently and administered prices policy is tightened further, the forecast of a 5.1% year-end inflation rate could be realised. However, monetary and exchange rate policy will have to be involved more actively to cut inflation further. Some measures adopted by the Bank of Slovenia and presented in its Short-term Monetary Policy Framework (May 2003) are a step in this direction. If inflation is primarily curbed through fiscal policy measures, the fiscal deficit could expand; any additional check on administered price rises could lead to discrepancies in relative prices and, consequently, intensify pressures to increase these prices next year; as a result, the process of reducing price rises would become unmanageable which would undermine the effectiveness of the measures currently being taken by the government. The sustainable reduction of inflation in 2004 will require the co-ordinated operation of macroeconomic policies and removal of structural factors that cause inflation's structural rigidity. In addition to more restrictive policies, it will be necessary to continue the process of de-indexation and eliminate structural imbalances, mainly in those sectors where prices are regulated by the government, in the financial sector and in the labour market.

Another area set to be directly affected by EU accession is international trade because all free-trade agreements with the countries of former Yugoslavia will no longer apply after 1 May 2004. The impact on the volume of exports is estimated to be marginal in 2004, however, the process of the regional diversification of trade seen in the past three years is likely to come to an end because the main lever of export growth will become the expansion of sales to the EU-25 markets.

Part I

Economic Developments in 2002

Spring Economic Forecasts for 2003–2007

Economic developments in 2002

According to the revised figures, **real gross domestic product growth was 3.2% in 2002, the same as projected in the Autumn Report 2002**. Despite the continued downturn in the international environment, this meant a slight strengthening over 2001 when the 2.9% economic growth was below the average of the past medium-term period[1] chiefly due to the fall in investment activity and subdued economic growth in the main trading partners. There were significant changes in terms of the levers of economic growth. Over four-fifths of economic growth was underpinned by domestic consumption, whose contribution increased from 1 percentage point in 2001 to 2.6 percentage points in 2002 mainly thanks to the revived growth in gross fixed capital formation (up 3.1% in real terms). Investment activity was largely fuelled by the accelerated motorway construction. Private consumption growth was lower than in 2001 (up 2% and 2.6% in real terms, respectively), as was growth in government consumption (up 2.7% and 4%). Real growth in exports of goods and services was held back by deteriorated conditions in the international environment and further deceleration of gross domestic product growth in Slovenia's advanced trading partners, however, growth remained robust (6.1% in 2002 and 6.4% in 2001). This was largely due to sustained strong export growth to Central, Eastern and South-east Europe. However, the contribution of international trade to economic growth dropped from 1.8 percentage points in 2001 to 0.6 of a percentage point in 2002. This was primarily due to the stronger growth in imports of goods and services (4.8% in 2002 and 3.0% in 2001).

Value-added growth was roughly the same as in 2001 (up 3.4% in 2002 and 3.3% in 2001 in real terms). Unlike in 2001, growth intensified in basic industries[2] (from 3.5% in 2001 to 4.2% in 2002), but slowed down in services[3] (from 3.6% to 3%). The faster growth in basic industries was largely the result of intensified construction activity, where value added rose by 3.3% in real terms after the fall in 2001. Within construction, positive shifts were only seen in civil engineering. Value-added growth also strengthened in agriculture and mining, however, their shares in total value added are relatively small. With exports of goods decelerating, value-added growth eased off slightly in manufacturing (from 5.1% in 2001 to 4.6% in 2002); above-average performance was recorded in technology-intensive and highly export-oriented activities, the same as in previous years. The slowdown in the service sectors was the result of close to 1 percentage point lower growth in market-oriented services[4] (3.7% in 2001 and 2.8% in 2002), with significant falls being recorded in hotels and restaurants, transport, storage and communications, and real estate, renting and business services. The average value-added growth in public and mainly non-market-oriented services[5] remained roughly at the level of 2001 (3.5% in 2001 and 3.4% in 2002). With regard to public services, growth in value added only slowed

[1] The average economic growth in 1995-2000 was 4.3%, according to the SORS' provisional figures calculated in 2000 constant prices for the period before 2001.

[2] Activities A to F according to the Standard Classification of Activities (also see Chapter 2.3).

[3] Activities G to O according to the Standard Classification of Activities (also see Chapter 2.3).

[4] Activities G to K according to the Standard Classification of Activities (also see Chapter 2.3).

[5] Activities L to P according to the Standard Classification of Activities (also see Chapter 2.3).

down in the activity of public administration and compulsory social security, but increased slightly in all other activities. If we look at services as a whole, the strongest growth was seen in financial intermediation (9.3%), where bank profits surged last year, while real growth was also the result of lower interest rates and the improved quality of financial services.

Inflation recorded no marked falls in 2002 compared to the previous two years. As in 2001, **prices were mainly fuelled by internal factors**, contrary to 2000 when the main factors were external ones. Consumer prices climbed by 7.2%, 0.2 of a percentage point more than in 2001. The average inflation rate was on a downturn throughout the year and came in at 7.5% in December, 0.9 of a percentage point less than in December 2001. A breakdown by quarters shows that the 3.2% rise in consumer prices from the first quarter more than halved in the second quarter, while the gradual slowdown continued in the second half of the year. These dynamics were mainly the result of the concentrated increase in the tax burden and rises in prices under various regimes of regulation in the first four months of the year. Administered prices climbed by 9.2% in 2002 as a whole, with the biggest rises being recorded in local utility services, petroleum products and telephone services. They contributed 18% to inflation, significantly exceeding their share in the consumer price index (an estimated share of 14%). Fiscal factors – higher rates of value-added tax and excise duties on liquid fuels for transport, tobacco products and alcohol, and the introduction of environmental taxes on local utility services – accounted for almost a quarter of the total price rise in 2002. Like in previous years, about 50% of the total price rise was due the tolar's depreciation. Namely, the **Bank of Slovenia con-tinued to focus its efforts on managing the tolar's depreciation**, so the tolar depreciated by 4.0% against the euro in nominal terms in 2002. This policy led to a gradual real appreciation of the tolar against the euro, averaging 1.8% in the year as a whole (measured by the consumer price index). This, however, also pushed up growth in monetary aggregates. Nevertheless, M3 growth slowed down throughout the year, but this trend was interrupted by the increased inflow of foreign currency in the last quarter relating to the sale of equity in enterprises. Inflows totalled 8.3% of gross domestic product in 2002 after they represented just 2.6% of gross domestic product in 2001. The average M3 growth was 22.7% in the last quarter, just slightly weaker than in 2001 (23.9%) and way above the upper end of the target band set by the central bank as its operational goal. As prices rose faster than the exchange rate and banks' foreign exchange liquidity was favourable, **domestic banks' corporate loans in foreign currency surged** by 39% in real terms, while the volume of tolar corporate loans fell by 5.6% in real terms. Household loans rose modestly, up 0.6% in real terms which, coupled with the 7.1% real rise in household savings in banks, reduced household indebtedness measured as a ratio of loans to deposits. In December 2002, indebtedness was at its lowest since August 1995. Unlike the corporate sector, the government mainly took out tolar loans, going up by 26.1% in real terms, in line with its strategy of providing as much budgetary finance as possible from the domestic financial market. As in 2001, lending interest rates fell in 2002, with bigger falls being seen in short-term rates and those on corporate loans. Deposit interest rates dropped as well.

The indicators of **Slovenian manufacturing's price and cost competitiveness**, representing part of international competitiveness factors, worsened in 2002, while

the growing market share in the EU, which was achieved despite the unfavourable economic conditions in the region, meant a positive shift in competitiveness. The latter was also reflected in the sustained production volumes growth in highly export-oriented industries which tend to generate the highest value added per employee in manufacturing.

The **current account of the balance of payments**, which was brought back into equilibrium in 2001, turned into a relatively large surplus in 2002, totalling EUR 392.5 million (1.7% of gross domestic product compared to the 0.1% of gross domestic product in 2001), the largest since 1994. The surplus was mostly the result of the lower trade deficit, which dropped from EUR 689.6 million in 2001 to EUR 260.7 million in 2002 due to the sustained robust export growth and the improved terms of trade compared to 2001. The terms of trade, which mainly improved because of the euro's rise against the US dollar and partly due to higher export prices, helped reduce the trade deficit by around EUR 200 million. With growth in both exports and imports of services intensifying over 2001, the surplus in services trade increased slightly and totalled EUR 591.6 million. The income balance recorded a deficit of EUR 80.1 million as a result of higher capital expenditures (mostly because of the estimated reinvested earnings). The surplus in current transfers roughly remained at the level of 2001 (EUR 141.6 million).

The **capital and financial account** of the balance of payments recorded a net capital inflow of EUR 1,516 million (excluding international monetary reserves) compared to the EUR 1,343.8 million seen in 2001. The main source of inflows was foreign direct investment, amounting to EUR 1,949.5 million or 8.3% of gross domestic product, the highest level so far (2001 saw an inflow of EUR 562.4 million). These inflows included loans extended between affiliated foreign and domestic enterprises, which rose substantially in 2002. Net inflows of currency and bank deposits totalled EUR 481.8 million (2001 saw a net outflow of EUR 1,488.3 million), while net inflows of loans amounted to EUR 285.3 million (EUR 481.8 million in 2001), suggesting that corporate borrowing abroad was less than in 2001. If the loans of affiliated companies are included, net inflows of external loans were at about the same level as in 2001. As regards capital outflows, currency held by individuals represented the largest share, totalling EUR 591.2 million (2001 saw a net inflow of EUR 777.9 million because of the conversion of foreign currencies into euros). The second largest capital outflow was net commercial credits, totalling EUR 378.6 million (EUR 231.6 million in 2001), which was due to less favourable payment terms being achieved by exporters. A significant rise was also seen in loans extended to foreign entities by banks and enterprises, suggesting that enterprises in particular invested more of their gross operating surplus abroad. Against the background of the increased inflows in the capital and financial account and higher current account surplus compared to 2001, international monetary reserves rose by EUR 1,940.6 and totalled EUR 6,781.4 million at the end of 2002. External debt rose more slowly than foreign exchange reserves, which helped improve the coverage ratio of external debt by foreign exchange reserves. The World Bank's indebtedness indicators still put Slovenia in the group of **countries with low levels of indebtedness** in 2002.

The total number of persons in employment[6] fell by 0.7% in 2002 after it had climbed

[6] defined by the internationally harmonised labour force survey methodology

by 1.7% in each of the two preceding two years; the number fell by 0.1% according to the full-time equivalent (the national accounts methodology). Growth in the number of people in formal employment (employed and self-employed) slowed down substantially due to faltering economic growth (from 1.4% in 2001 to 0.6% in 2002). Broken down by activities[7], biggest growth was recorded in business services (4.8%), while falls were seen in mining, manufacturing, and hotels and restaurants (6.5%, 1.7% and 0.3%, respectively). Employment growth in enterprises and organisations decelerated from 1.8% in 2001 to 0.7% in 2002, while the number of people employed in the small business sector (working for the self-employed) dropped by 2.3% after having slowed down markedly in 2001. The number of people in informal employment also fell significantly and its share was the lowest in the last six years (below 14%). The average number of unemployed established by the labour force survey fell by 1,000 to 62,000, while the **average survey unemployment rate remained at the level of 2001, i.e. 6.4%**. The female survey unemployment rate, amounting to 6.8%, was lower than in 2001, but still higher than the male survey unemployment rate, coming in at 5.9%, the same as in 2001. The average number of registered unemployed (102,635 people in 2002) climbed by 0.8%, however, the average **registered unemployment rate** remained at the level of 2001 (**11.6%**) because the number of people in formal employment climbed by 0.6%.

The gross wage per employee climbed 2% in real terms in 2002 and lagged behind the 3.4% labour productivity growth by over one percentage point. The main **wages policy goal** was thus realised. After a long period (1999-2001), another wages policy goal was also achieved, namely, that the gross wage per employee in the public sector should rise below or up to the rate of private sector wage growth. The real gross wage per employee rose by **1.1%** in the **public sector** and by **2.3%** in the **private sector**[8]. Even though equal wage growth in the private and public sectors would be sustainable in the long run, a second wages policy goal was set to correct imbalances seen in the last few years which significantly favoured the public sector. From 1996 to 2002, the gross wage per employee climbed by 24.5% in real terms in the public sector and by 18% in the private sector.

In **2002**, the collection and calculation of **general government revenue** underwent some changes that altered its volume and structure.[9] Revenues from value-added tax climbed by 10.6% in real terms over 2001 (a solid half of this rise was due to the

[7] As a result of the new Standard Classification of Activities, sheltered workshops were moved from the activity of health and social work (N) to the activity where they in fact operate. Hence, figures broken down by activities for 2002 are methodologically incomparable with those for 2001. The biggest changes were seen in the activities of health and social work (N), manufacturing (D), and real estate, renting and business activities (K). In order to be able to analyse factual movements, we used figures that were compiled in the same way as before the statistical change.

[8] Figures for 2002 are compiled in the same way as before the statistical correction introduced in February and March 2002 (also see Chapter 5.2).

[9] The government raised the rates of value-added tax and excise duties on all products liable to excise duty and introduced new environmental taxes which not only affected general government revenue but also performed an important environmental protection function. It also raised the rate of employers' health insurance contributions, up by 0.2 of a percentage point relative to the wage bill; the rate of pensioners' health insurance contributions was also raised by the same percent. The threshold of payroll taxation was raised by one band, while taxation in higher bands was reduced by 0.2 of a percentage point. The rates of import taxes fell further as a result of the implementation of free-trade agreements and the Europe Agreement. A new source of general government revenue was registration taxes for motorcycles.

higher VAT rates), while revenues from excise duties were up by 8.9%. Wage-based revenues also climbed in real terms, while revenues from customs duties and import taxes fell. Total general government revenue from compulsory levies was 4.5% higher in real terms than in 2001. According to the consolidated balance of revenue and expenditure of the Ministry of Finance, general government revenue (excluding value-added tax and excise duties collected in January 2003) totalled **39.4% of gross domestic product**. **General government expenditure** shown in the balance of revenue and expenditure climbed by 2.6% in real terms and accounted for **42.4% of gross domestic product**. The biggest share was represented by the national budget, going up by 2.3% in real terms from 2001. This growth was mainly fuelled by wages and contributions for employees in government bodies and public institutions, transfers to the pension budget, and domestic interest payments. The national budget represented 24.9% of gross domestic product, 0.3 of a percentage point less than in 2001. The current **general government deficit** amounted to 1.5% of gross domestic product, according to preliminary figures. In 2002, the total national budget was realised with eleven months' revenues from value-added tax and excise duties (excluding revenues from value-added tax and excise duties collected in January 2003), so the fiscal year was aligned with the calendar year. As a result, the general government deficit also increased due to this 'compensatory deficit', totalling 1.5% of gross domestic product. The total deficit was therefore 3% of gross domestic product.

Autumn forecasts compared to the SORS' assessment of gross domestic product growth for 2002

Economic developments in 2002 were in line with the autumn projections. Statistical figures and autumn forecasts on gross domestic product growth are not fully comparable due to the methodological changes and the new base year introduced upon the revision of gross domestic product. These changes could not have been taken into account in the autumn forecasts. A substantive analysis nevertheless shows that investment consumption increased and the contribution of international trade to economic growth dropped as projected. The autumn forecasts anticipated a similar gross domestic product growth structure, the only exception being exports and imports: while the contribution of international trade roughly matched the forecasts, the projected real growth rates were lower than the actual ones.

Table 1: **Comparison of forecasts with the actual figures on economic growth and consumption aggregates for 2002**

Real growth rates, %	IMAD's autumn forecast (Oct. 2002) 1995 constant prices	SORS' figures (31 March 2003) 2000 constant prices
GROSS DOMESTIC PRODUCT	3.2	3.2
Exports of goods and services	4.9	6.1
Imports of goods and services	3.9	4.8
Private consumption	2.1	2.0
Government consumption	2.5	2.7
Gross fixed capital formation	2.9	3.1

Source of data: the IMAD.

Even though the gross domestic product growth rate for 2001 changed little after the revision and autumn forecasts did not diverge significantly from the revised figures for 2002 in terms of structure and factors of growth, the changed methodology and higher nominal value of gross domestic product importantly altered the starting point for the forecasts of national accounts for 2003-2007.

Spring economic forecasts

Assumptions about the international economic environment

The international environment has witnessed profound changes since the last autumn forecasts (October 2002), two of which should be pointed out:

1. Economic growth forecasts for Slovenia's main trading partners for 2003 have been revised downwards significantly, down by an average of one percentage point for the EU and by an average of 0.3-0.4 of a percentage point for other countries. The revision for the USA was not as strong (see Chapter 1).

The risk of a slow economic recovery, especially in Slovenia's advanced trading partners, was already pointed out in the autumn forecasts. Consequently, alternative forecasts were prepared for 2003 based on the assumption of about half of a percentage point weaker economic growth in the main trading partners compared to the original scenario. These assumptions, which seemed less likely at that time, would have led to about 0.3 of a percentage point weaker growth in Slovenia in 2003 relative to the 3.7% projected in the original scenario. International institutions' forecasts published subsequently confirmed these assumptions, so towards the end of 2002 the alternative scenario began to be more plausible than the original one.

Following uncertainty caused by the imminent military operation in Iraq, as well as structural rigidities and monetary and fiscal policy restrictions, preventing governments from taking additional economic policy measures to boost economic growth (especially in the EU), **international institutions further revised their economic growth forecasts downwards for Slovenia's main trading partners in the first three months of 2003**. These forecasts suggest a minor recovery in economic growth in the EU and the USA this year compared to 2002, while in 2004 economic growth should again come closer to potential growth provided that the global situation stabilises. The IMAD's assumptions about the international environment are based on the Consensus' March forecasts, which have been further reduced for the EU for the reasons given above. Similarly, Slovenia's exports to transition economies (former Yugoslavia and the Soviet Union and CEFTA) are assumed to grow about 40% less than in 2002 as a result of subdued growth. These assumptions, which are presented in the table below, were confirmed by the subsequently published spring forecasts of the European Commission and the IMF.

2. Both the original and alternative scenarios from the autumn forecasts took the average oil price of USD 25 per barrel and the unchanged USD/EUR exchange rate. The **price of oil began to rise** and the US dollar's exchange rate began to fall against the background of the **imminent military conflict in Iraq**, which is why two alternative scenarios were prepared in January this year, assuming a rise in the oil price to USD 33 per barrel and a further accelerated rise in the US dollar's exchange rate. We drew on various scenarios prepared by international institutions and took movements in oil prices and the dollar's exchange rate similar to those seen during the Gulf war in 1991. The actual movements in oil prices and the dollar's exchange rate recorded after the start of the war in Iraq led to a minor change in

Table 2: **Assumptions about the international economic environment used in the 2003 spring forecasts**

	Autumn forecasts (Oct. 2002)	Spring forecasts (April 2003)	
	2003	2003	2004
EU (real GDP growth, %)	1.8	1.1	2.2
USA (real GDP growth, %)	2.6	2.4	2.8
average oil price per barrel (Brent), USD	25.0	27.8	25.0

Source of data: the IMAD.

these assumptions. The spring forecasts assume an average oil price of USD 27.8 per barrel in 2003 – in the first quarter, the price was USD 31.5 per barrel, in the second and third quarters around USD 27 per barrel is expected, while the price should fall gradually to USD 25 per barrel towards the end of the year. We assumed that the US dollar's exchange rate would rise after the end of the military operation (albeit less than after the Gulf war), which should be followed by a further fall against the euro to about the average level of the first three months of 2003. The actual movements in oil prices and the dollar's exchange rate seen in the second half of March and early April were slightly more favourable than these assumptions, however, given the great uncertainty and possible volatility in oil prices and the exchange rate in the upcoming weeks and months, it is safer to take more conservative assumptions. In 2004, the average oil price should range at about USD 25 dollars per barrel, while the technical assumption of the dollar's exchange rate is its unchanged value against the euro (USD 1.05 for EUR 1).

Economic growth forecasts for 2003 and 2004

The **economic growth forecast for 2003** has been revised downwards from 3.7% to 3.1%. This was due to a downward revision of all consumption aggregates.

Compared to the autumn forecast, real growth in **exports of goods and services** has been corrected downwards by 0.3 of a percentage point. Taking into account the revised figures for 2002, an important change is the slowdown over 2002 contrary to the acceleration anticipated in autumn last year. This change in dynamics has resulted from the strong growth in exports to the markets of former Yugoslavia, CEFTA, the former Soviet Union, and EFTA in 2002; this growth was beyond all expectations is unlikely to be repeated this year. Given the weak recovery in EU economies and greater impact on transition economies than anticipated in autumn, as well as the high benchmark of 2002, the forecast of real export growth for 2003 is below the autumn forecast as well as below the actual figure for 2002.

The forecast of real **private consumption** growth for 2003 is 0.7 of a percentage point lower, amounting to 2.0%, the same as in 2002. Compared to the autumn forecast, a correction was made to the forecast of the number of employees, down 0.2 of a percentage point. Further, data on private consumption growth for 2002 and households' loan repayments do not suggest any marked upturn in the

Table 3: **Spring forecasts of gross domestic product, consumption aggregates and the labour market, and a comparison with the autumn forecasts for 2003 and 2004**

Real growth rates, %	2003	
	IMAD's autumn forecasts (Oct. 2002) constant prices 1995	The IMAD's spring forecasts (April 2003) constant prices 2000
GROSS DOMESTIC PRODUCT	3.7	3.1
Exports of goods and services	5.7	5.4
Imports of goods and services	4.7	4.5
Private consumption	2.7	2.0
Government consumption	2.8	2.4
Gross fixed capital formatiosn	4.8	3.2
LABOUR MARKET		
Employment according to the SNA	0.7	0.2
Unemployment rate by ILO	11.0	10.9
Employees' wages	6.2	6.3
Gross wage per employee	2.0	2.0

Source of data: the IMAD.

consumption cycle. Trends in some labour market segments are also worse than anticipated (farmers, the self-employed).

The biggest revision compared to the autumn forecast was seen in **gross fixed capital formation,** corrected downwards from 4.8% to 3.2%. The precarious international environment and the low confidence indicator seen in manufacturing in early 2003 should lead to a more modest revival of private sector's investment than anticipated in autumn. The weak investment activity is continuing in housing construction – according to provisional figures on building permits, the number of dwellings and their floor space were smallest after 1998 when the first figures were made available. Taking into account the revised national budget, the spring forecast of real growth in gross fixed capital formation projects a fall in public investment financing compared to the autumn forecast, however, this should not significantly affect the motorway construction programme. The volume of construction investment should increase by close to one-fifth compared to 2002.

The upward factor behind the forecast of **real growth in imports of goods and services**, coming in at 4.5%, was the latest figure for 2002 which had been underestimated in the autumn forecast, while the downward factors were lower forecasts of growth in domestic demand aggregates and exports. The forecast of real growth in imports of goods and services is 0.2 of a percentage point below the autumn forecast and 0.3 of a percentage point below the actual growth recorded in 2002.

Given the **employment** trends of 2002, which were less favourable than anticipated in autumn – employment in the full-time equivalent dropped by 0.1% according to the revised figures, while the autumn forecast was 0.2% growth – as well as increased

uncertainty and the corrected economic growth figure for 2003, the forecast of employment growth (0.2%) is lower than in autumn, however, a revival is expected in the autumn months of 2003 in line with economic growth recovery. In 2003, the real gross **wage** per employee (up by 2%) will continue to lag behind labour productivity growth by over one percentage point. Further, wages in the public sector will rise more slowly than wages in the private sector (up by 1.5% and 2.5%, respectively).

Economic growth is forecast to reach 3.9% in 2004. With international economic conditions stabilising and economic growth in the main trading partners accelerating, real growth in exports of goods and services should strengthen by close to one percentage point. Faster acceleration is expected in investment growth (7.0%). The private sector's investment is forecast to rise rapidly against the background of economic growth reviving in Slovenia's main trading partners. Investment should be further boosted by funds released from the national housing savings scheme, leading to accelerated housing construction, and by continued growth in investment in infrastructure. Funds from the first national housing savings scheme should also push private consumption up so the cycle of private consumption should turn upwards, while employment growth should also be stronger (0.8%). Hence, real private consumption growth should accelerate to 3.3% in 2004.

Factors of uncertainty behind the economic growth forecast (the alternative scenario) – The main risk factor is the instability of global economic conditions, concerning not only risks related to international security and oil prices but also the precariousness of fast recovery, especially in the EU. We have therefore prepared an alternative (modest) economic growth scenario based on the assumption of a slower recovery in the EU and a slightly higher world oil price this year and next year.

As a result of the labour market's rigidity and certain structural problems, economic growth in the EU should only be 0.5% in **2003** instead of the 1.1% envisaged by the original scenario, while the average oil price per barrel should rise about USD 2 above the price used in the original scenario. For **2004**, the average world oil price is raised from the USD 25 in the original scenario to USD 28 per barrel in the alternative scenario, meaning that the European Commission's worse scenario applies to the international environment. As a result of higher oil prices, the Commission expects ¾ of a percentage point weaker economic growth in both the EU and the USA.

Compared to the original scenario, realisation of these assumptions would lead to lower export growth as well as to lower investment growth resulting from the uncertainty of global economic recovery. Indirectly, this would dampen private consumption down and reduce government consumption growth through fiscal adjustments to less favourable economic conditions. **Economic growth in 2003 should be about 0.4 of a percentage point lower than that projected in the original scenario and about 0.5 of a percentage point lower in 2004.**

Inflation forecasts for 2003 and 2004

Price rises in the first quarter of 2003 – The 2.2% price rise seen in the first quarter, 0.4 of a percentage point higher than expected, was partly the result of more expensive liquid fuels which had already emerged in December 2002, but the SORS covered this in January's figure. As a result of the adjustment of excise duties on liquid fuels, inflation was lower by 0.6 of a percentage point but climbed by 0.3 of a percentage point as a result of raising excise duties on tobacco products and introducing the general VAT rate on wine. Administered prices climbed by 2.0% and added 0.3 of a percentage point to inflation. The only key policy of reducing inflation that remained unchanged was monetary policy, i.e. exchange rate policy. The continued pursuing of 0.3% monthly depreciation of the tolar contributed between 0.6 and 0.8 of a percentage point to inflation.

Assumptions underlying the inflation forecast for 2003 – The inflation forecast for the rest of 2003 was based on the four main assumptions:

- the restrictive policy of raising prices under various regimes of regulation should be pursued further; regulated prices should not rise by more than 5.1% by the end of the year while no particular rise should diverge significantly from this target. The contribution of administered prices to inflation should not exceed 0.6 of a percentage point this year;
- with the exception of higher excise duties on tobacco products, which had already been prescribed by law, all fiscal burdens with an inflationary impact should increase in line with the targeted rise in administered prices; provided that oil price volatility is within expectations (see International Economic Environment), fluctuations in liquid fuel prices should level out and therefore not contribute considerably to this year's prise rises. The contribution of increased fiscal burdens to inflation should not exceed 0.6 of a percentage point this year; and
- if the rate of the tolar's depreciation is about half of that laid down in the Bank of Slovenia's current policy, the contribution of the euro's appreciation to inflation should drop by 0.4 to 0.6 of a percentage point. As there were no changes in exchange rate policy in the first three months that might lead to a lower rate of depreciation, the current higher level of depreciation is expected to continue so exchange rate policy is not expected to help bring inflation down. One-off factors that could push prices up and higher rates of the tolar's depreciation against the euro will have to be offset by additional restrictions on rises in administered prices and additional fiscal measures, mainly the adjustment of excise duties.

Table 4: **Spring forecasts of inflation and a comparison with autumn forecasts for 2003 and 2004**

	Autumn forecasts (Oct. 2002)		Spring forecasts (April 2003)	
	2003	2004	2003	2004
Inflation rate (annual average, %)	5.5	4.3	5.5	4.3
Inflation rate (Dec/Dec, %)	5.1	4.3	5.1	4.3

Source of data: the IMAD.

The inflation forecast for 2003 – The breakdown of price trends seen in the first quarter shows that the 1 percentage point lower increase compared to the first quarter of 2002 was primarily the result of eliminating factors that had excessively pushed prices up last year (indirect taxes and simultaneous rises in different administered prices) and was not the result of co-ordinated changes in economic policies: fiscal policy measures (adjustments of excise duties on liquid fuels) and administered prices policy (lower and better distributed rises during the year) are not supported by any measures of monetary or exchange rate policy.

In the upcoming quarters of 2003, lower quarterly price rises could be achieved than in the first quarter, leading to a further slowdown in annual inflation provided that fiscal policy measures are taken consistently, administered prices policy is tightened further and there are no leaps in oil prices that cannot be neutralised by excise duties. Drawing on these assumptions, we expect **inflation to fall to close to 5.1% towards the end of the year, as projected in the Autumn Report 2002**. However, this reduction will be unbalanced and therefore unsustainable in the long run unless it is supported by monetary or exchange rate policy measures. If inflation is primarily curbed through fiscal policy measures, the fiscal deficit could expand; any additional check on rises of administered prices could lead to unbalanced relative prices and, consequently, intensify pressures to increase these prices next year; the process of reducing price rises would therefore become unmanageable which would maintain the relatively high price changes from month to month and undermine the effectiveness of measures currently being taken by the government.

The inflation forecast for 2004 – In order to bring inflation down in a sustainable way, the inconsistency between different policy measures should be eliminated in 2004 while removing the structural factors of inflation's rigidity. This is why **the consistent implementation of the given measures should be supported by more profound macroeconomic policy measures**, mainly in the areas of monetary or exchange rate policy and indexation. If the current monetary policy orientation remains the same, the tolar's depreciation against the euro will be 1.1% in 2004, instead of the 0.3% assumed in the spring forecasts for the end of the year, pushing inflation up by 0.4 to 0.6 of a percentage point. In conditions where inflation is expected to fall further, inflation's inertia would increase if the current indexation mechanisms continue to be used in the financial sector and wages because they allow the spilling over of price rises from previous months onto current inflation. In addition to more restrictive policies, it will be necessary to eliminate structural imbalances in order to bring inflation closer to the Maastricht criterion, mainly in sectors where prices are shaped by the government, the financial sector, and the labour market.

Factors of uncertainty behind the inflation forecast – The main risk factors involve different dynamics of oil price movements and the euro and US dollar's exchange rate trends than envisaged in the original scenario, as well as errors made in the previous forecasts of price trends. We estimate that the risks of inflation diverging from the original forecast are still unevenly distributed, as was the case during preparation of the Autumn Report 2002. If more than two-thirds of the given risk factors are realised, prices will rise rather than fall.

Table 5: **Spring forecasts of the main macroeconomic aggregates for 2003 and 2004, and figures for 2001 and 2002**

Real growth rates, % (unless otherwise specified)	2001	2002	2003	2004
	SORS		The IMAD's spring forecasts (April 2003)	
GDP - real growth rates, %	2.9	3.2	3.1	3.9
GDP in SIT million (current prices)	4,740,995	5,284,501	5,711,600	6,186,800
GDP in SIT million (constant 2000 prices)	4,342,994	4,481,132	4,617,810	4,800,210
INFLATION (Dec/Dec of the previous year, %)	7.0	7.2	5.1	4.3
INFLATION (Jan-Dec/Jan-Dec annual average, %)	8.4	7.5	5.5	4.3
GDP deflator, %	9.2	8.0	4.9	4.2
EXCHANGE RATE USD (BS)	242.7	240.2	221.8	223.0
EXCHANGE RATE EUR (BS)	217.2	226.2	232.5	233.9
EUR/USD exchange rate	0.89	0.94	1.05	1.05
EMPLOYMENT according to the SNA, % growth	0.9	-0.1	0.2	0.8
REGISTERED UNEMPLOYMENT RATE, %	11.6	11.6	10.9	10.4
UNEMPLOYMENT RATE BY ILO, %	6.4	6.4	6.3	5.9
PRODUCTIVITY (value added per employee)	2.5	3.4	3.1	3.5
GROSS WAGE PER EMPLOYEE	3.2	2.0	2.0	2.0
population as at 30 June, in thousands	1,992.0	1,995.7	1,996.0	1,996.8
EXPORTS OF GOODS AND SERVICES	6.4	6.1	5.4	6.3
- exports of goods	6.9	6.1	5.5	6.5
- exports of services	3.8	6.1	4.8	5.4
IMPORTS OF GOODS AND SERVICES	3.0	4.8	4.5	7.0
- imports of goods	3.2	4.3	4.2	7.1
- imports of services	1.4	8.6	6.0	6.5
CURRENT ACCOUNT BALANCE, EUR million	31	393	357	347
- as % of GDP	0.1	1.7	1.5	1.3
Balance of goods and services, EUR million	-130	331	381	320
- as % of GDP	-0.6	1.4	1.6	1.2
Balance of factor incomes, EUR million	17	-80	-170	-167
Balance of current transfers, EUR million	144	142	145	193
GROSS FIXED CAPITAL FORMATION	-0.8	3.1	3.2	7.0
- as % of GDP	23.9	22.9	22.8	23.5
PRIVATE CONSUMPTION	2.6	2.0	2.0	3.3
- as % of GDP	56.0	54.8	54.6	54.3
GOVERNMENT CONSUMPTION	4.0	2.7	2.4	2.8
- as % of GDP	20.6	20.5	20.6	20.2

Sources of data: SORS, Bank of Slovenia (BS), estimates and forecasts by the IMAD.

Economic growth forecasts for 2005-2007

A gradual acceleration of economic growth is expected in 2005-2007 to reach 4.5% in 2007. With the real gross wage per employee continuing to lag behind labour productivity growth, stronger productivity growth should enable faster wage growth, in turn leading to further growth in private consumption to about 3.5%. After a minor cyclical downturn in 2006, strong investment activity should be maintained (annual growth of some 7%) against the background of stable economic growth; investment activity should be concentrated on the private sector's investment in machinery and equipment. The latter is expected to raise the economy's competitiveness and maintain high export growth rates, so the increased domestic demand should not significantly reduce the current account surplus.

Forecasts of other institutions

The spring forecasts were presented to other domestic forecasting institutions (the Bank of Slovenia's Analysis and Research Centre, the Department of Economic Analysis and Economic Policy of the Chamber of Commerce and Industry) and compared to results of the quarterly model developed by the Economic Institute of the Faculty of Law and the model of leading indicators developed by the School of Business and Economics of the University of Maribor. The results of the latter, predicting a cyclical upturn in industrial production in the third quarter of 2003, were taken into account in the IMAD's forecasts. Spring forecasts were assessed as realistic, while some institutions expect stronger domestic consumption growth this year. There is a consensus that recovery of the world economy and oil prices are the main factors of uncertainty in 2003.

In early April, the European Commission and the IMF also published their economic growth forecasts for Slovenia for 2003 and 2004. The European Commission projected 3.4% and the IMF 3.2% economic growth for 2003, the latter being just 0.1 of a percentage point higher than the IMAD's forecast. For 2004, both institutions forecast slightly lower growth than the IMAD; the European Commission projected 3.7% and the IMF 3.8% growth. Differences are much smaller than in the autumn forecasts when estimates for 2002 alone varied significantly; the IMF projected 2.5% and the European Commission 2.6% economic growth, while the actual growth was 3.2%. The main difference between domestic and foreign forecasts for 2003 and 2004 appeared in domestic consumption; the European Commission projected higher growth for 2003 and lower growth for 2004 than the IMAD, while no details are available for the IMF's forecasts. Both the European Commission and the IMF forecast a higher average inflation rate in 2003 and 2004; the European Commission projected 6.0% in 2003 and 5.5% in 2004, while the IMF's respective figures were 5.7% and 5.0%. We believe this was due to an insufficient consideration of anti-inflationary measures. Both institutions stress the importance of a more restrictive exchange rate policy for realising the inflation target.

Part II

Analytical Explication of Spring Economic Forecasts

1. International environment – The expected upturn in economic activity in Slovenia's main trading partners again delayed

Since the autumn forecasts were prepared, some key changes have taken place in the international environment, forcing international institutions to downgrade their forecasts and pushing the expected economic upturn in Slovenia's main industrialised trading partners into the second half of 2003 and 2004. On one hand, the first three months of 2003 saw uncertainty about the war in Iraq and its consequences for oil prices and global economic growth. This uncertainty was considerably relaxed after the war, chiefly due to its relatively short duration, and the impact on oil prices was smaller than expected. On the other hand, uncertainty about the pace of economic upturn in EU member-states persisted, fuelled by structural rigidities and restrictions imposed on monetary and fiscal policy measures that could encourage economic growth. Another constant threat to the global economic revival is the undermined balance of payments and exchange rate imbalances on the global scale.[10]

According to the International Monetary Fund's (IMF, 2003) preliminary estimate, **global economic growth in 2002** somewhat exceeded their autumn forecasts, reaching 3%, which is still, for a second year in a row, below the 1990-2000 average of 4.1%. The forecasts were exceeded in a number of Asian countries, particularly in the ASEAN-4[11] (4.3%) and China (8%); Japan had 0.3% economic growth even though a fall in gross domestic product had been forecasted. Economic growth was also higher than expected in autumn in Turkey (7.8%), the Middle East oil exporters (4.4%), countries in transition (4.1%), states emerging from the Soviet Union (4.8%), and the USA (2.4%). Lower economic growth rates than forecast in autumn were seen in several EU member-states (1.1%), particularly in Germany and Italy (0.2% and 0.4%, respectively). Both the IMF and the European Commission downgraded their spring forecasts of global economic growth for **2003** by 0.5 of a percentage point to 3.2%. This was the result of a slow upturn in industrialised nations (the USA, the EU) and the modest growth seen in the first quarter of 2003. These countries still feel the consequences of a stock market crash, which affected them after the spring of 2000. According to the IMF and the European Commission, its intensity can be compared to the stock market crash in the period 1929-1932, although its impact on the economy was not as strong. International institutions have forecast the USA's economy, which has a 20% share in total world gross domestic product, to grow at a rate from 2.2% to 2.5% in 2003 and EU countries from 1% to 1.3%. This means that no major revival can be expected in 2003. Spring forecasts expect an upturn in the US economy in 2004, yet they vary a great deal (see Table 7). The EU's economy is also expected to recover only as late as 2004, when it should grow at 2.4%. Economic growth of EU acceding countries should exceed the 15 EU members' growth by some 2 percentage points in the period from 2003 to 2004. The IMF and the European Commission have downgraded their forecasts for Russia for 2003 (by 0.9 of a percentage point) to 4% and 3.4%, respectively; further

[10] Consequences of the Severe Acute Respiratory Syndrome (SARS) added to these uncertainties in spring, and are expected to primarily affect Asian countries.

[11] Indonesia, Malaysia, Philippines, Thailand

deceleration has been forecast for 2004, expecting the economy to rise by 3.5% (IMF) and 2.6% (European Commission). Both institutions maintain that higher economic growth rates would only be possible if a boost is given to a number of structural reforms (business sector, electricity infrastructure, banking etc), which is unlikely to happen due to this year's general elections and next year's presidential vote. In this period, according to the IMF's forecasts, some Asian countries are to grow fastest: 7.5% growth is expected in China in both 2003 and 2004 (although the SARS epidemic might erode this forecast), while India should grow at 5.1% in 2003 and 5.9% in 2004. The IMF expects the gross domestic product of Middle East oil exporters to grow by some 1.5 percentage points faster in 2003 (5.8%) than in 2002, while 2004 growth should be 5.3%. A 5% growth rate is expected for Turkey in both 2002 and 2003. The IMF's forecast for the 'Asian tigers'[12] is 4.1% for 2003 and 4.5% for 2004, lower than anticipated in the autumn forecasts.

Oil prices were relatively low in the first quarter of 2002, hitting an average of USD 21 per barrel (the average for Brent, Dubai and West Texas Intermediate), but increased through the rest of the year to reach an average of USD 26.7 per barrel in the last quarter. The rise was fuelled by demand and supply factors (a fall in supply from Venezuela; a cold winter in the northern hemisphere) and uncertainty regarding the political situation in Iraq. Consequently, oil prices amounted to an average of USD 31.3 per barrel in the first quarter of 2003. Moreover, contrary to what most market analysts expected, prices did not jump but rather fell upon the outbreak of the Iraq war, averaging around USD 25.5 per barrel during the attack (April 2003). Having completed their spring forecasts before the war ended, international institutions made different assumptions about oil prices. While the IMF anticipated oil prices to amount to an average of USD 31 per barrel in 2003 and USD 25 in 2004 (Brent, Dubai, WTI), the European Commission forecast somewhat lower prices, namely USD 27.6 and USD 23.5 per barrel (Brent)[13]. **Prices of other raw materials** are expected to keep rising after having fallen by 5.4% in 2001 and rising by around 4% in 2002. In 2003 alone, a rise of nearly 10% is expected, of which the

Table 6: **Forecasts of global economic trends**

	2001	2002	2003		2004
			April 2003	Sept. 2002	April 2003
World economic growth (real terms, %)	2.3	3.0	3.2	3.7	4.1
World trade volume (real growth, %)	0.1	2.9	4.3	6.1	6.1
World oil price* (growth, %)	-13.9	2.8	24.2	-0.8	-19.4
World prices of other raw materials** (rgrowth, %)	-5.4	3.8	9.4	5.7	2.3
6-month LIBOR*** interest rate on USD deposits (%)	3.7	1.9	1.7	3.2	3.5
6-month LIBOR*** interest rate on EUR deposits (%)	4.2	3.3	2.4	3.8	2.5

Source of data: IMF World Economic Outlook, April 2003.
Notes: * the average of oil prices of Brent, Dubai and West Texas Intermediate. ** Weighted average relative to shares in world exports. *** LIBOR - London interbank offered rate.

[12] Hong Kong, Korea, Singapore, Taiwan

[13] Our forecast is around USD 27.8 per barrel in 2003 and USD 25 in 2004.

largest share will be accounted for by a rise in agricultural non-food products, plus somewhat smaller rises in food and metals.

The **international foreign exchange market** was characterised by depreciation of the dollar, particularly in the second half of 2002. The trend continued in the first three months of 2003. The euro therefore appreciated by some 23% from March 2002 to March 2003. Besides, the average EUR/USD rate was by 5.2% higher in 2002 than in 2001. In 2003 the value of the euro against the dollar is expected to be above the 2002 average (0.94 USD per euro).

Contrary to the spring expectations from 2002, based on the forecast of a faster economic upturn, neither the US Federal Reserve nor the European Central Bank took any restrictive monetary measures in 2002. Following a sharp cut in 2001, the key interest rate in the USA was further cut to 1.25% in November 2002. Similarly, the eurozone saw a cut to 2.5% in March 2003 after the previous one had been made in December 2002. After a 14-month break, the English central bank reduced its key interest rate to 3.75% in February 2003. Key interest rates are expected to rise only as late as 2004.

1.1. Review of economic trends in individual countries

The **USA's** economic upturn at the end of 2001 lost some of its pace in the autumn of 2002. Nevertheless, and despite a fall in business investment, relatively high growth of 2.4% was recorded due to strong private consumption. While investment slightly revived in the last quarter of 2002, another drop followed in the first quarter of 2003 compared to the previous quarter. Private consumption was also relatively weak in the first three months of 2003 (the slowest growth after the third quarter of 2001), which was partly due to the high fuel prices which undermined the purchasing power of households. Moreover, the costs of the Iraq war have not yet been assessed nor are the consequences of the proposed tax cuts known. As a result, forecasts of the economic growth structure differ between institutions. With the growth rate ranging between 2.2% and 2.5%[14] in **2003**, the European Commission and the OECD estimate that growth will be fuelled by a rise in government consumption (7.2%, 5.3%, IMF 2.9%), while the IMF expects growth to be supported by a stronger upturn in gross fixed capital formation (2.9%, EC 2.0%, OECD 1.4%). The European Commission moreover anticipates private consumption to rise 0.4 of a percentage point more slowly than projected by the IMF and OECD (1.9%). The IMF, on the other hand, expects net exports to have a smaller negative contribution to gross domestic product. Differences in the structure of forecasts are even more pronounced in the figures anticipated for **2004**. The European Commission, the only one of the three to anticipate a cut in government consumption (by 1.4%), forecasts the lowest economic growth (2.5%). The trend of a widening general government deficit, which totalled 3.3% of gross domestic product in 2002, will continue and should reach,

[14] Since autumn, a major change in the average economic growth forecast was made only by the private agency Consensus Forecasts, which was the most optimistic in September (3.1%). Its March forecast (2.4%) is therefore very similar to the forecasts made in April by the IMF (2.2%), the European Commission (2.4%) and the OECD (2.5%), which have not changed their forecasts considerably compared to the autumn forecasts.

Table 7: **Economic growth in Slovenia's most important trading partners[2], in %**

	Share in Slov. exports, in %	Real growth in gross domestic product, in %								
	2002	2002	2003 forecast				2004 forecast			
			CONS Mar. 03	EC April 03	IMF April 03	OECD April 03	CONS Mar. 03	EC April 03	IMF April 03	OECD April 03
EU-15	59.4	1.1	1.4	1.3	1.3	1.2	2.2	2.4	2.4	2.4
Germany	24.8	0.2	0.7	0.4	0.5	0.3	1.8	2.0	1.9	1.7
Italy	12.1	0.4	1.3	1.0	1.1	1.0	2.2	2.1	2.3	2.4
Croatia[1]	8.7	5.2	4.0	N/A	4.2	N/A	4.5	N/A	4.5	N/A
Austria	7.1	1.0	1.3	1.2	1.5	1.1	2.2	2.0	2.4	2.0
France	6.7	1.2	1.3	1.1	1.2	1.2	2.2	2.3	2.4	2.6
BIH [1]	4.5	3.9	N/A	N/A	4.7	N/A	N/A	N/A	5.5	N/A
Serbia and Montenegro[1]	3.2	4.0	4.0	N/A	5.0	N/A	4.0	N/A	5.0	N/A
Russia[1]	2.9	4.3	4.0	3.4	4.0	N/A	4.0	2.6	3.5	N/A
Poland[1]	2.8	1.3	2.0	2.5	2.6	2.3	3.0	3.7	4.1	3.5
USA	2.7	2.4	2.4	2.4	2.2	2.5	3.7	2.5	3.6	4.0
Great Britain	2.4	1.8	2.1	2.2	2.0	2.1	2.5	2.6	2.5	2.6

Sources of data: Consensus Economics Inc. (CONS), March 2003, IMF World Economic Outlook, April 2003, WIIW Research Reports, February 2003.
Notes: [1] WIIW forecasts used instead of Consensus forecasts (February 2003); [2] the IMAD's spring forecast of international economic trends was based on Consensus' March forecast, which was then further downgraded due to the falling trend for the EU and the USA seen in the first three months (see Assumptions behind the Spring Economic Forecasts); N/A - not available.

according to the European Commission, 4.8% of gross domestic product in 2003 and 4.6% in 2004. Depreciation of the dollar in 2002 and the beginning of 2003 is still below its appreciation from 1995-2001, and is not helping to reduce the current account deficit. The deficit is expected to exceed 5% of gross domestic product in 2003 and 2004 (4.7% of GDP in 2002).

European Union countries finished 2002 with relatively low economic growth of 1.1%, due to a series of uncertainties on the global scale, as well as persistent structural problems and an inflexible labour market. All of this, together with restrictions imposed on economic policy measures, inhibits the EU's ability to efficiently respond to shocks in the economy. During the year growth did become more balanced and the contribution of domestic demand began to rise; however, it was international trade that boosted growth the most. Weak growth is also expected in the first half of **2003**, an expectation substantiated by the current trends in trade and poor confidence indicators of both consumers and companies. On a more positive note, industrial output began to rise in the first two months of the year. Fairly unanimously, international institutions and private agencies (IMF, EC, OECD, Consensus Forecasts) expect economic growth to rise modestly in the second half of the year. This forecast is based on the assumption that oil prices will fall and geopolitical tensions subdue before summer, which should improve the confidence indicators of consumers and companies. Despite this, gross domestic product is to grow at approximately the same rate as in 2002 in both the eurozone and the EU-15, ranging from 1.0% to 1.1% and 1.2% to 1.4%, respectively. The EU-15's growth is higher due to stronger growth expected in the United Kingdom, accelerating from 2.0% to

2.2%. While the spring forecasts for 2003 are over 1 percentage point lower than the autumn forecasts, economic growth projections for the eurozone and the EU-15 for **2004** were not downgraded as much. Average growth of 2.1% to 2.4% is expected, whereas the autumn forecast was 2.6% to 2.7%.

The structure of gross domestic product growth in the eurozone in 2003 and 2004 reveals (see Table 8) that grow will be fuelled by domestic demand. On the other hand, net exports are expected to contribute nothing to this growth or even undermine it against the background of the relatively low growth of international trade (for the eurozone this is also a consequence of its exports being less competitive because of the stronger euro). The European Commission has estimated that there is a great deal of pent-up private demand, which could amount to the strong response of household spending once the Iraqi war ends. This could, among other factors, give fresh impetus to industrial production and investment activity, both of which have decreased over the past two years. Since a great deal of production potential remains unused, gross fixed capital formation is to rise only a little this year (a slightly higher rise of 0.8% is forecast for the EU-15 owing to better forecasts for the United Kingdom). Besides, the poor economic outlook from the past two years and the stock market crash have affected companies' business results considerably. Compared to 2002 and 2001 when government consumption was the fastest-growing component of expenditure in the gross domestic product, 2003 and 2004 are expected to record much lower annual growth of some 1.5%. Subdued economic growth and the built-in stabilisers caused the general government deficit in the eurozone to go up to 2.2% of gross domestic product in 2002 (1.6% in 2001) and to exceed the allowed ceiling of 3% in Germany and France. According to the European Commission, the general government deficit is to exceed 3% in 2003 not only in Germany and France but also in Portugal, while in 2004 the 3% ceiling will be exceeded by Portugal, France and Italy.

With a drop in private consumption and a plunge in investment consumption, **Germany's** gross domestic product hardly grew in 2002 (a 0.2% rise). Its gross domestic product increased solely due to a higher contribution of net exports, which is, however, expected to be zero this year (European Commission) or even slightly

Table 8: **Expenditure structure of gross domestic product in the eurozone, and changes in forecasts**

	2001	2002	2003 forecast				2004 forecast			
			EC Nov. 02	Cons. Feb. 03	Cons. Mar. 03	EC Apr. 03	EC Nov. 02	Cons. Feb. 03	Cons. Mar. 03	EC Apr. 03
Gross domestic product	1.5	0.9	1.8	1.3	1.1	1.0	2.6	2.2	2.1	2.3
Private consumption	1.8	0.7	1.7	1.2	1.2	1.2	2.3	2.0	1.9	2.0
Government consumption	2.2	2.7	1.4	1.3	1.4	1.6	1.6	1.4	1.3	1.5
Gross fixed capital formation	-0.3	-2.3	2.0	0.4	0.2	0.3	4.0	2.9	2.8	3.2
Exports of goods and services	2.7	1.1	5.0	4.4	3.9	3.1	6.9	5.6	5.5	5.7
Imports of goods and services	1.5	-0.4	5.6	4.4	4.0	3.6	7.0	5.8	5.8	6.0

Sources of data: Consensus Forecasts (Consensus Economics Inc.February, March 2003), Economic Forecasts (European Commission, Autumn 2002, Spring 2003).

negative (OECD, IMF). In **2003**, a modest revival of domestic consumption will keep economic growth at a mere 0.4%, which is considerably below the autumn forecasts (European Commission 1.4%, IMF 2%). As seen in the case of the USA, forecasts differ a great deal as regards the main levers of economic growth. For example, the European Commission's forecast of private consumption growth is lower (0.2%) than that of the OECD or IMF (0.5% and 0.8%). While both the OECD and IMF expect a further decrease in gross fixed capital formation (-0.5%), the European Commission forecasts stagnation. After government consumption rose faster than expected in 2002, it is expected to rise by 0.5% (EC) and 0.8% (OECD) this year. The IMF, on the other hand, expects government consumption to drop by 1%. Industrial output forecasts have also been downgraded since last autumn. According to Consensus forecasts from March, industrial production should go up by a mere 0.2% in 2003. The same trend is revealed by the IFO business climate indicator, which dropped in March and April after having risen in the first two months of the year. Higher economic growth is expected in **2004**, forecast to achieve around 2% (forecasts again differ greatly in terms of structure). However, this growth is not likely to be strong enough to cut unemployment, which should settle at 8.9% after increasing in 2003. The structural reforms for the labour market presented by the German government in March 2003 also still have to be implemented (Agenda 2010).

Contrary to general trends in the EU, **Italy** achieved 0.4% economic growth in 2002, assisted solely by solid domestic demand, while the contribution of net exports was negative. A similar trend is also expected in **2003**. A deceleration in economic growth of around one percentage point (some 1%) from the autumn forecast is chiefly the result of the downgraded forecast of private consumption and gross fixed capital formation. Part of this investment was already carried out in 2002 since tax incentives for investment only applied until the end of 2002. Economic growth forecast for **2004** (somewhat above 2%) is around 0.3 of a percentage point below the autumn forecast, chiefly owing to the slower growth rates of all components of domestic demand.

Austria's gross domestic product in 2002 (1.0%) increased somewhat more (by 0.3 of a percentage point) than forecast by the European Commission in November 2002. A much greater than expected drop in gross investment was largely compensated for by the larger positive contribution of net exports. While imports of goods and services stagnated (a 1.8-percent drop was expected), contrary to expectations, exports increased chiefly thanks to a rise in demand from countries of Central and Eastern Europe. In **2003**, economic growth is expected to be 1 percentage point below the autumn forecast (1.1% to 1.5%; see Table 7) and should only be fuelled by domestic demand, unlike in 2002. Similarly, in **2004** the international trade balance is expected to have a neutral effect on the anticipated 2% economic growth.

The **nine countries** expecting to become members of the **European Union** in **May 2004**, including Slovenia, managed to keep relatively high economic growth rates in 2002 despite the poor economic trends in their main trading partners, i.e. EU member-states. The sharpest rise in gross domestic product (6%) was noted in the Baltic states, whereas four Central European countries[15] only grew at 2.1%, primarily

[15] Czech Republic, Slovakia, Hungary, Poland.

Table 9: **Economic growth, inflation and the international trade balance in EU acceding countries (as a % of GDP)**

	Real gross domestic product growth					Inflation, annual average					Current account as a % of GDP				
	2002[1]	2003		2004		2002[1]	2003		2004		2002[1]	2003		2004	
		EC April	IMF April	EC April	IMF April		EC April	IMF April	EC April	IMF April		EC April	IMF April	EC April	IMF April
Cyprus	2.0	2.0	2.2	3.8	4.3	2.8	4.3	4.3	2.2	2.0	-5.3	-4.3	-5.0	-3.5	-4.0
Czech Rep.	2.0	2.8	1.9	3.9	3.3	1.4	1.5	1.1	2.8	3.0	-3.1	-4.1	-5.8	-2.4	-5.3
Estonia	5.6	4.9	4.9	5.1	5.2	3.6	3.5	3.6	4.0	2.9	-12.3	-10.3	-5.0	-7.5	-5.1
Latvia	6.1	5.5	5.5	6.0	6.0	1.9	2.5	3.0	3.0	3.0	-7.8	-8.5	-8.5	-8.6	-7.1
Lithuania	5.9	4.5	5.3	5.0	5.7	0.3	1.0	2.1	2.5	2.5	-4.4	-3.0	-5.8	-2.6	-5.4
Hungary	3.3	3.7	3.6	4.1	3.9	5.3	5.0	5.3	4.5	4.8	-4.1	-4.4	-4.8	-3.5	-4.6
Malta	3.0	3.1	2.8	3.7	3.3	2.2	2.7	2.0	2.4	2.0	-4.7	-4.9	-6.5	-4.2	-6.5
Poland	1.3	2.5	2.6	3.7	4.1	1.9	1.1	1.1	2.3	2.4	-3.6	-4.2	-3.7	-4.3	-4.0
Slovakia	4.4	3.7	4.0	4.5	4.2	3.3	8.8	8.8	7.4	7.5	-8.2	-6.9	-6.6	-6.2	-6.3
Bulgaria	4.3	4.5	5.0	5.0	5.5	5.8	4.5	3.0	4.0	4.1	-4.5	-5.0	-5.5	-4.4	-4.6
Romania	4.9	4.9	4.9	5.0	5.0	22.5	16.0	16.2	11.8	11.6	-3.4	-3.7	-4.5	-3.5	-4.5
Turkey	7.8	3.7	5.1	4.5	5.0	45.0	25.9	24.7	18.0	14.5	-0.8	-1.4	-1.8	-1.8	-1.1
Slovenia	**3.2**	**3.4**	**3.2**	**3.7**	**3.8**	**7.5**	**6.0**	**5.7**	**5.5**	**5.0**	**1.8**	**1.4**	**1.9**	**1.3**	**1.7**

Sources of data: European Commission, Economic Forecasts for the candidate countries, Spring 2003; IMF, World Economic Outlook, April 2003.
Note: [1] the source of data for 2002 is the European Commission.

as a result of the poor performance seen in the Czech Republic and Poland. Although forecasts for the acceding countries have been downgraded by around 1 percentage point since last autumn, their economies are to grow by 2 percentage points faster in 2003 and 2004 than the current EU members. Given that some of the acceding countries are still anticipated to have relatively high inflation rates (Slovakia, Hungary) and sizeable general government deficits, the adjustment to nominal Maastricht criteria (nominal convergence) required for EMU membership remains a principal goal.

Croatia's 5.2% growth in gross domestic product in **2002** substantially exceeded the forecasts. Growth was driven by a robust real rise in gross fixed capital formation (10.1%) and a rise in private consumption (6.6%), which had an important impact on imports of goods and services (8.8% in real terms). With a minor increase in exports of goods and services (1.2% in real terms) and despite an 11% rise in net tourism receipts (denominated in USD), the current account deficit went up from 3.8% of gross domestic product in 2001 to 6.9% in 2002. As the inflow of foreign direct investment decreased (USD 980.5 million in 2002 compared to USD 1,559.4 million in 2001), the country's foreign debt jumped to 67.9% of gross domestic product. In line with the anticipated, more restrictive, monetary and fiscal policies and weak global outlook, Croatia's economy is expected to slow down in **2003** to 3.6% (Zagrebačka Banka et al., 2003) or 4.2% (IMF). However, the current account deficit is expected to drop to 6.2% of gross domestic product (Zagrebčka Banka et al., 2003) for two main reasons: a slower rise in imports resulting from a drop in domestic demand, and exports growing faster than imports. Inflows of foreign direct

investment are again anticipated to somewhat exceed the level of 2002 (around USD 1 billion; the majority is expected to come from the privatisation of the INA oil company). Croatia's economy is expected to accelerate in **2004**, growing at 4.5%. This forecast is based on the anticipated upturn in most of its main trading partners, leading to an acceleration of export growth.

Fuelled by a further rise in industrial output and an increase in the volume of bank loans, economic growth in **Bosnia and Herzegovina** in **2002** was stronger than expected, achieving 3.9% according to preliminary estimates (4.7% in the Muslim-Croat Federation and 1.5% in the Republic of Srpska). According to the IMF, major progress was made in implementing the set economic programme, particularly in consolidating public finance and instituting structural reforms (privatisation of the banking sector and small and medium-sized enterprises is nearly finished). Expecting the reforms to be further implemented in **2003**, the IMF upgraded its economic growth forecast from 4.1% to 4.7%. On the other hand, Bosnia and Herzegovina had the lowest level of foreign direct investment of all former Yugoslav countries in 2002, according to the Vienna Institute for International Economic Studies (WIIW). While its foreign direct investment stood at USD 700 million, Croatia had USD 7,700 million, Serbia and Montenegro USD 1,600 million and Macedonia USD 900 million. The WIIW expects the country to have the same inflow of foreign direct investment in 2003 as in 2002, namely USD 200 million, most of which is to come from privatisation, whereas the volume of greenfield investment is anticipated to be low. Investors will also be encouraged by new shorter registration procedures – from 80 down to 30 days in the Federation and from 31 to 23 in the Republic of Srpska.

In **2002**, the economy of **Serbia and Montenegro** was marked by a 1.7% rise in industrial output, a further drop in consumer prices (16.6% average inflation in 2002 after it reached almost 90% in 2001) and a strong increase in private consumption boosted by real wage increases. According to early figures, gross domestic product increased by 4% in real terms. Moreover, a real increase in the net wage per employee (up by an average of close to 25% in 2002) is expected to give a further impetus to economic activity in 2003 as well. A significant increase in imports of goods (calculated in USD) and a slight rise in exports of goods caused the trade deficit to rise by 38% in 2002 from 2001. The current account deficit widened again, to 15.2% of gross domestic product in 2002 from 5.9% in 2001. After 1997, when the first statistical figures were available, privatisation attracted the largest number of foreign investors in 2002, putting the number at USD 400 million (274 companies privatised in Serbia). The WIIW expects an even higher inflow of foreign direct investment in 2003, namely that of USD 500 million. The IMF forecasts 5% economic growth for **2003** and **2004**, while the estimate of the WIIW is somewhat lower, 4%[16]. While the current account deficit is expected to narrow in this period, it will still remain at over 10% of gross domestic product.

[16] February forecast, based on a 3-percent estimate of economic growth for 2002.

2. Economic growth in 2002–2004

2.1. Gross domestic product – In 2003 dynamics and structure match those of 2002, domestic consumption should grow in 2004

2.1.1. Expenditure structure of gross domestic product

According to the SORS' figures published at the end of March 2003, real gross domestic product grew by **3.2% in 2002** compared to the previous year. This growth was largely fuelled by the 2.9% real rise in domestic consumption, which contributed 2.6 percentage points to economic growth (compared to one percentage point last year). Within domestic consumption, the share of investment increased, whilst the relative shares of private and government consumption dropped because each recorded lower growth than in 2001. Private consumption increased by 2.0% (2.6% in 2001) and government consumption by 2.7% (4.0% in 2001). Gross fixed capital formation climbed by 3.1% following the 0.8% drop in 2001; this increase largely resulted from accelerated motorway construction. Net international trade contributed considerably less to gross domestic product growth than in the previous year (0.6 of a percentage point against 1.8 percentage points in 2001, a result of the higher growth of goods and services imports (4.8%) compared to 2001 (3.0%). In spite of the unfavourable conditions in the international environment, goods and services exports increased similarly as in 2001 (6.1% compared to 6.4% in 2001).

Box 1: Revised estimates of gross domestic product for 2000 and 2001

In March 2003, the Statistical Office of the Republic of Slovenia (SORS) published the revised national accounts for 2000 and 2001. The main purpose of this revision is to further harmonise current gross domestic product estimates with the European System of Accounts (ESA 1995). The data for 2000 and 2001 are published in current prices, while data for 2001 are also given in prices of the new base year of 2000.

The revised value of gross domestic product for **2000 equals SIT 4,222 billion** and is **4.6% higher than the previous estimate**. The main reasons for this increase are the new methodology used in estimating imputed rent or the dwelling activities of households (1.5% higher GDP), the consumption of fixed capital estimated by a perpetual inventory method for the general government sector (0.8% higher GDP), and improvements in the exhaustiveness adjustments of gross domestic product (2.3% higher GDP). Improvements in the exhaustiveness adjustments include units and activities previously not covered, corrections to wages and salaries in kind (private use of business cars, food and beverages on business trips), tips in restaurants and other personal services, student work, garden production by non-agricultural households, and other methodological improvements and statistical corrections. The revised estimate of gross domestic product does not yet include illegal production (drugs, prostitution, smuggling etc).

Box 1: Revised estimates of gross domestic product for 2000 and 2001 - *continued*

In the revised estimate of gross domestic product for 2000, total value-added exhaustiveness adjustments amount to SIT 290 billion (6.9% of gross domestic product). The **most important adjustments are in the household sector**, amounting to SIT 169 billion (4% of GDP), followed by the non-financial sector, where the revised value added is SIT 106 billion higher (2.5% of GDP). Adjustments in other sectors are smaller.

Following the Bank of Slovenia's revision of the balance of payments data, Slovenia's **gross national income (GNI)** for 2000 is **0.1% higher than its gross domestic product** (according to the previous estimate, gross national income was 0.4% lower than gross domestic product). This difference is due to the higher estimate of labour and capital incomes, resulting from the changed methodology for calculating reinvested earnings (see Box 5, Autumn Report 2002).

The revised estimates of gross domestic product and balance of payments reveal 5.2% higher gross national income compared to the previous estimate. The revised estimate of gross domestic product for **2001** amounts to SIT 4,741 billion, leading to 12.3% nominal and 2.9% real growth from the year before (the previous estimate made in 1995 prices produced 3.0% growth).

A new estimate was also made for **people in employment** using the national accounts method (the full-time equivalent). It shows 7.6% more employed people in 2000 than the previous estimate. The main reason for the higher number of people in employment (according to data from the labour force survey) was the new estimate of people employed in agriculture.

Even though the rate of real gross domestic product growth for 2001 has not essentially changed after the revision, macroeconomic forecasts for the next medium-term period will be significantly influenced by changes in methodology, and the new structure and a higher nominal value of gross domestic product for 2000.

2000	Before revision	After revision	Difference (absolute figures)
GDP in SIT million (current prices)	4,035,518	4,222,404	186,887
GNI in SIT million (current prices)	4,020,577	4,228,413	207,836
Employment (in '000)	831.8	895.2	62.4
2001			
GDP in SIT million (current prices)	4,566,191	4,740,995	174,804
GDP, real growth rate in %	3.0	2.9	-
GDP deflator	9.9	9.2	-
GNI in SIT million (current prices)	4,548,676	4,744,682	195,996
Employment (in thousands)	836.8	902.9	66.1

Source of data: SORS, the IMAD's calculations.
Note: real growth rates before the revision were calculated using constant 1995 prices, after the revision constant 2000 prices were used.

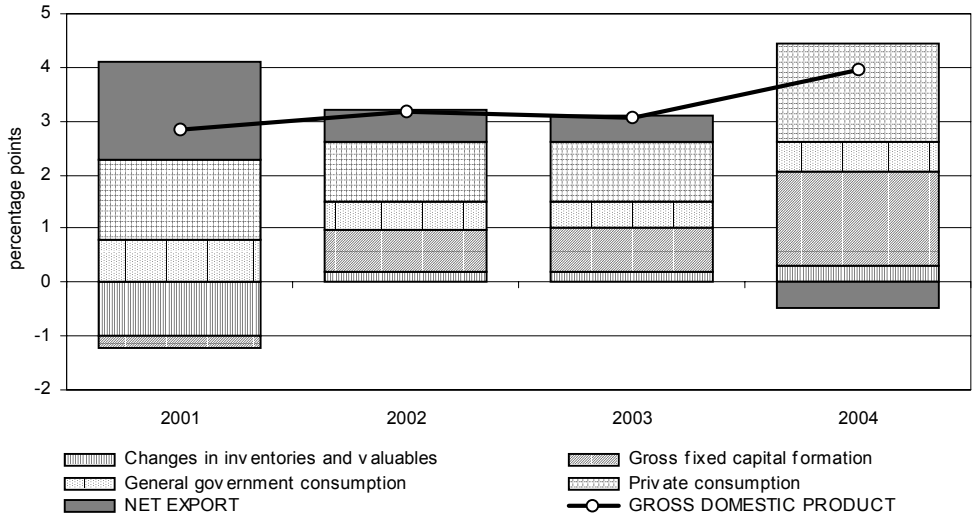
The subdued revival of economic growth in the international environment, an assumption that was taken into account in the alternative scenario of the autumn forecasts, started to show at the end of 2002. From autumn 2002 to March this year, economic growth forecasts for Slovenia's main trading partners for 2003 were reduced considerably (mostly for the EU, down by an average of around one percentage point; see Chapter 1). Export growth in 2003 (5.4%) should be lower than last year (6.1%) and lower than expected in autumn (5.7%) chiefly because of the slower growth in imports of the EU than estimated in autumn. In addition, the high growth rates in exports to the countries of former Yugoslavia, Soviet Union, and CEFTA achieved in 2002, which considerably exceeded the expectations, mean that exports to these markets are expected to grow more slowly in 2003 on average than last year (also see Chapter 2.2.1). Reduced exports will reduce the growth of intermediate consumption (3.4%) relative to the autumn forecast (3.9%). Downward discrepancies from the forecast will occur in all categories of domestic consumption. In accordance with the proposed revised national budget adopted by the government in May 2003, the forecast of government consumption growth for 2003 (2.4%) is lower than last year's growth (2.7%). Considering that the gradual pick-up of economic activity is only expected in the second half of the year, the deteriorated business confidence seen in early 2003 will result in slower employment growth (by half a percentage point) and, consequently, in lower private consumption growth (2.0%) than expected in autumn (2.7%; see Chapter 2.2.2.). A considerable discrepancy from the autumn forecasts will be seen in investment (4.8% growth anticipated in autumn) where no significant strengthening is expected, except for motorway construction. Gross fixed capital formation (3.2%) will therefore grow at about the same pace as last year (3.1%; see Chapter 2.2.3). Drawing on the expected trends in domestic and international environments, economic growth in **2003** should achieve **3.1%**, while the individual consumption aggregates should display similar growth dynamics as in 2002. As a result, economic growth in 2003 will largely be based on domestic consumption, which should account for 2.5 percentage points of total gross domestic product growth. Among the main categories of domestic consumption, gross fixed capital formation should add 0.8 of a percentage point to economic growth, while the contributions of private and government consumption

Table 10: **Growth in demand components**

	Real growth in % (constant prices 2000)			
	2001	2002	2003	2004
			forecast	
Total aggregate demand	3.5	3.6	3.4	4.7
of which:				
Foreign demand (export)	6.4	6.1	5.4	6.3
Domestic demand	2.7	2.9	2.9	4.2
- intermediate consumption	3.3	3.4	3.4	4.3
- private consumption	2.6	2.0	2.0	3.3
- government consumption	4.0	2.7	2.4	2.8
- gross fixed capital formation	-0.8	3.1	3.2	7.0

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

Picture 1: **Gross domestic product components and their contribution to real growth**



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

should be the same as in 2002. The net contribution of international trade should fall slightly from 0.6 of a percentage point in 2002 to 0.5 of a percentage point in 2003.

In **2004** economic growth is expected to climb to **3.9%.** All domestic demand components should record real growth, in particular gross fixed capital formation which should reach 7%. In addition to the ongoing infrastructure building, investment growth should be underpinned by residential building construction and faster growth in private investment (see Chapter 2.2.3). A new cycle of spending on durable goods

Table 11: **Expenditure structure of gross domestic product**

	Structure in %, current prices			
	2001	2002	2003	2004
			Forecast	
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0
Foreign goods & services balance (exports-imports)	-0.6	1.4	1.6	1.2
Total domestic consumption	100.6	98.6	98.4	98.8
- Private consumption	56.0	54.8	54.6	54.3
- Government consumption	20.6	20.5	20.6	20.2
- Gross fixed capital formation	23.9	22.9	22.8	23.5
- Changes in inventories and valuables	0.2	0.3	0.4	0.8

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

is expected (empirical research suggests that every cycle lasts about five years), which should stimulate private consumption growth (3.3%). Increased purchases should also be encouraged by the release of funds from the first National Housing Savings Scheme. These funds will be partly spent on consumption, either directly or indirectly through the purchases of housing related equipment or other durable and semi-durable goods (see Chapter 2.2.2). Following the revival of economic growth in the international environment, export growth should be higher (6.3%; see Chapter 2.2.1). In view of these developments, the contribution of domestic consumption to economic growth is expected to climb to 4.4 percentage points. The contributions of gross fixed capital formation (1.7 percentage points) and private consumption (1.8 percentage points) should increase the most. However, the net contribution of international trade should be negative (-0.5 of a percentage point) because of strong imports resulting from the robust domestic consumption.

In addition to changes in gross domestic product, gross national income measures shifts in the purchasing power of income resulting from changes in the terms of trade[17]. **Gross national income** increased by 4.7% in real terms in 2002 against the background of 3.2% economic growth (improved terms of trade). Given the estimated 3.1% economic growth in 2003, gross national income is expected rise by 2.7% in real terms (deteriorated terms of trade). Differences in the growth rates of these two aggregates show that changes in international economic conditions and the national economy's purchasing power have a significant impact on income and the operation of domestic economic entities. This impact is all the more significant because the volume of international trade, the degree of internationalisation, and the significance of imports and exports are particularly relevant for Slovenia.

2.1.1.1. Investment-saving gap

The share of gross saving in gross domestic product, which was relatively stable in 2000 and 2001 (24.1% and 24.2% respectively), increased considerably in 2002 (24.9%) because of modest growth in private consumption, while the share of gross fixed capital formation dropped to 22.9% (25.7% in 2000 and 23.9% in 2001[18]). The surplus of gross saving over gross investment, i.e. the current account surplus, which amounted to 1.7% of gross domestic product in 2002, was the highest after 1994 (see Chapter 3.2.). Slovenian enterprises financed their foreign partners through commercial credits (deteriorated payment discipline in the countries of former Yugoslavia and extension of credit terms with the EU) and other loans and direct investment (see Chapters 3.2 and 3.3). In line with the expected trends in the current account (see Chapter 3.2) and investment, which should rise more than saving, the investment-saving gap will be slightly narrower in 2003 than in 2002 and should amount to 1.5% of gross domestic product. Following the increased investment activity, the share of gross fixed capital formation should increase to 23.5% of gross

[17] The real incomes of residents not only depend on domestic production growth but also on the relative changes in export and import prices. If resident producers achieve higher prices in exports than in imports, they enjoy better terms of trade and these are reflected in higher real incomes or in a higher purchasing power of their income compared to the rest of the world.

[18] In 2001 this share fell because of the reduced investment activity, while in 2002 it fell mainly because of the lower investment consumption deflator compared to the gross domestic product deflator.

Table 12: **Supply and use of gross national disposable income**

	Structure in % GDP, current prices				
	2000	2001	2002	2003	2004
			estimate	forecast	
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0
Net primary income from the rest of the world	0.1	0.1	-0.3	-0.7	-0.6
GROSS NATIONAL INCOME	100.1	100.1	99.7	99.3	99.4
Net current transfers from the rest of the world	0.6	0.7	0.6	0.6	0.7
GROSS NATIONAL DISPOSABLE INCOME	100.8	100.7	100.3	99.9	100.1
Final consumption	76.6	76.5	75.4	75.2	74.5
GROSS SAVINGS	24.1	24.2	24.9	24.7	25.6
Surplus of the nation on current transactions	-2.8	0.1	1.7	1.5	1.3
GROSS CAPITAL FORMATION	27.0	24.1	23.2	23.3	24.3
of which: gross fixed capital formation	25.7	23.9	22.9	22.8	23.5
Fixed capital consumption	18.0	18.1	18.3	18.3	18.3
NET CAPITAL FORMATION	9.0	6.0	5.0	5.0	5.9

Source of data: SORS; IMAD's estimate and forecast.

domestic product and, given the expected stronger growth in private consumption, the surplus of gross saving over gross investment is expected to fall to 1.3% of gross domestic product.

According to data available for 2001, the majority of saving was created by the (non-financial and financial) **corporate sector** as a gross operating surplus (74.3% of gross saving), including depreciation (25.6% of gross saving), but excluding profit taxes, paid dividends, interest etc. The corporate sector's own gross saving was the main source of finance for its gross capital formation (corporate sector investment was estimated at 53.5% of total gross fixed capital formation). The corporate sector's saving and investment balance were influenced by many factors such as business confidence, relative changes in the prices of investment goods, movements in interest rates and other costs related to investment financing, and the depreciation rate used. In the upcoming years, we expect the corporate sector's investment to accelerate: in addition to a higher level of domestic saving of the corporate sector, the relatively high inflows of foreign capital in the form of direct and portfolio investment are expected to remain robust. This will increase the corporate sector's available funds and facilitate restructuring of the economy towards improved competitiveness (also see Chapter 2.2.3).

Since 2001, national accounts estimates have shown significant shifts towards saving in the structure of disposable **household income**. This development has been associated with the repayment of loans taken out in 1999 (before the introduction of VAT), the high level of equipment with durable goods, the creation of institutional saving mechanisms (pension and housing savings schemes etc), the development of financial markets outside the banking sector and, finally, with deposits of foreign

currencies with domestic banks resulting from the conversion of twelve EU currencies into euros. In the following years, the share of household saving in gross domestic product is expected to decrease because private consumption should strengthen, interest rates should drop, while tax should be imposed on interest (also see Chapters 2.2.2. and 7.2).

2.1.2. Production structure of gross domestic product

In **2002** value added rose by 3.4% in real terms, recording approximately the same rate of increase as the year before (3.3%). Unlike in 2001, when growth in basic industries (A to F) and service sectors (G to O) was nearly equal, value-added growth in basic industries strengthened (from 3.5% in 2001 to 4.2% in 2002), but slowed down slightly in service sectors (3.6% in 2001, 3% in 2002). The faster growth in **basic industries** was largely the result of boosted activity in *construction*, where after the drop in 2001 value added increased by 3.3% in real terms. However, this positive shift was limited to civil engineering and was underpinned by increased construction of motorways. In building construction the unfavourable trends of the previous year continued. Higher growth than in 2001 was also recorded in *agriculture and mining* (see Table 13), but these are relatively minor activities in terms of their share in total value added. Along with subdued growth of goods exports (see Chapter

Table 13: **Growth and structure of value added**

	Real growth rates in %, constant prices 2000				
	2000	2001	2002	2003	2004
				Forecast	
TOTAL VALUE ADDED	-	3.3	3.4	3.4	4.3
1. Agriculture, forestry, fishing (A+B)	-	0.5	1.1	0.6	0.5
2. Industry and construction (C+D+E+F)	-	3.7	4.5	3.5	5.2
- industry (C+D+E)	-	4.9	4.7	3.7	4.9
- construction F	-	-2.2	3.3	2.5	7.0
3. Services (G…O)	-	3.6	3.0	3.4	3.8
FISIM	-	10.8	6.5	2.0	2.0
	Structure in %, current prices				
	2000	2001	2002	2003	2004
				Forecast	
TOTAL VALUE ADDED	100.0	100.0	100.0	100.0	100.0
1. Agriculture, forestry, fishing (A+B)	3.5	3.3	3.3	3.2	3.1
2. Industry and construction (C+D+E+F)	37.2	36.9	36.8	36.6	36.6
- industry (C+D+E)	30.9	31.0	31.0	30.9	30.8
- construction F	5.5	5.1	5.0	5.0	5.1
3. Services (G…O)	62.2	62.2	62.3	62.5	62.6
FISIM	13.5	13.2	13.5	13.3	12.9

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

2.2.1) value-added growth in *manufacturing* slightly fell (from 5.1% in 2001 to 4.6% in 2002). Most manufacturing industries recorded lower value-added growth than in 2001; similarly as in previous years above-average results were achieved in technology-intensive, predominantly export-oriented activities (see Chapter 2.3.). In *electricity, gas and water supply* real value-added growth fell slightly, but continued to be at a relatively high level (5.6%).

The slowdown in value-added growth in **service activities** was mainly the result of close to one percentage point lower growth in market-oriented services (activities G to K; 3.7% in 2001 and 2.8% in 2002), whilst the average growth in public and non-market activities (activities L to P) maintained the level of the previous year (3.5% in 2001, 3.4% in 2002). Among market-oriented services, value-added growth fell considerably in hotels and restaurants (from 6.3% in 2001 to 1.7% in 2002), transport, storage and communications (from 3.9% to 0.8%), and in real estate, renting and business services (from 4% to 1.9%). The lower value-added growth in *hotels and restaurants* resulted from subdued domestic private consumption and from foreign tourists' reduced consumption: Compared with the previous year, growth of the number of overnight stays fell (see Chapter 2.3). In *transport, storage and communications* the worst results were achieved in road transport, while in *real estate, renting and business services* (K) the worst performing were other business services (see Chapter 2.3). The highest value-added growth in service sectors was recorded in *financial intermediation* (9.3%), where profits of the banking sector increased considerably last year: lower interest rates and the higher quality of financial services also stimulated real growth through the lower deflator. In *public services* value-added growth slowed down only in the public administration and compulsory social security (see Chapter 2.3), but intensified in the other activities (see Table 13).

In **2003 value added** is expected to **increase at approximately the same rate as in 2002 (3.4%)**, but the shares of basic industries and service sectors should be more level. Data on production activity for the beginning of this year indicate that the weakened production volumes growth in *manufacturing*, which marked the end of last year, continued in the first quarter of this year. A turnaround in the production cycle, facilitated by the anticipated stronger growth in goods exports in the second half of the year, is expected in the autumn months. This year's real value-added growth in manufacturing (4.1%) should be around half a percentage point lower than in 2002. A more significant slowdown of around one percentage point is expected in **industry** as a whole (from 4.5% in 2002 to 3.5% in 2003). After last year's relatively high value-added growth in *mining* and *electricity, gas and water supply,* growth will approximately remain at last year's level (0.5% real growth). In **construction,** the unfavourable trends seen in construction building, which started last year, are expected to continue. As a result, value-added growth in this industry will chiefly derive from civil engineering, which will however slow down slightly compared to last year and drop to 2.5% (from 3.3% in 2002). In the **service sectors**, real value-added growth should climb to 3.4% (3% last year). After last year's slowdown, stronger value-added growth is again expected in the *predominately market-oriented services (G-K)*, especially in trade, hotels and restaurants, transport and business services. Because of the relatively low level of development, above-average growth rates (compared to the total economy) are still expected in financial

intermediation. In *public services* (L-P), real value-added growth is estimated to slow down due to the lower growth in employment in health and social work, whilst the other activities are expected to maintain approximately the same growth levels as last year.

After three years of roughly unchanged growth rates, value-added growth is expected to intensify in **2004** by around one percentage point (to 4.3%). The anticipated revival of the EU economy should stimulate value-added growth in *manufacturing* (to 5.5%) through the higher growth of merchandise exports. A strong upturn should be recorded in construction (7.0% real growth), mainly resulting from the expected revival of housing construction and the ongoing robust motorway construction. Total real value-added growth in industry and construction is expected to reach 5.2%, 1.7 percentage points more than in 2003. Following the strengthened production activity and private consumption, higher growth rates are also expected in *predominantly market-oriented services*. Unlike market-oriented services, value-added growth in *public services* – given the expected slowdown of employment and wage growth – will remain at the same level as in 2003. Total value added in the service sectors is expected to increase by 3.8% in real terms (3.4% in 2003).

2.1.3. Cost structure of gross domestic product

In 2002, real growth in the compensation of employees (2.4%) lagged behind real gross domestic product growth (3.2%). As a result, the share of total labour costs (compensation of employees) in gross domestic product dropped to 52.1%. Within this, wages and salaries increased by 2.3%, employers' social security contributions by 3.2% because of the higher contribution rate for compulsory health insurance. The estimate of the compensation of employees for 2003 has been revised downwards compared to the autumn forecast (from 2.8% to 2.7%) owing to the expected slowdown in employment and the unchanged forecast of the gross wage per employee (2% growth), and will be lower than gross domestic product growth (3.1%). As a result of the expected worsened terms of trade, the share of total labour costs in gross domestic product should rise slightly (by 0.1 of a percentage point). The forecast of real growth in the compensation of employees for 2004 (3.1%) draws on the new wage system in the public sector, which is expected to make the wage system more transparent whilst ensuring that the total wage bill is manageable (also see Chapter 5.2). Given the expected lagging of nominal labour costs behind economic growth, labour costs relative to gross domestic product should fall to 51.9% in 2004.

Taxes on production and imports stood at SIT 878 billion or 16.6% of gross domestic product in 2002. If we take into account the assumptions about macroeconomic aggregates that affect the dynamics and volume of these taxes, their share in gross domestic product is expected to remain roughly the same in 2003 (16.5%) provided that VAT rates remain unchanged (20% and 8.5%) and excise duty revenues are slightly lower.

In 2003 and 2004, subsidies will remain at the level of the past two years, that is 1.4% of gross domestic product. Their structure will, however, change towards a higher share of measures aimed at bolstering competitiveness and restructuring the economy. These were neglected in the past, mainly as a result of the fast increases

Table 14: **Cost structure of gross domestic product**

	Structure in %, current prices			
	2001	2002	2003	2004
		estimate	forecast	
1. COMPENSATION OF EMPLOYEES	52.7	52.1	52.2	51.9
2. TAXES ON PRODUCTION AND IMPORTS	16.3	16.6	16.5	16.3
3. SUBSIDIES	1.4	1.4	1.4	1.4
4. GROSS OPERATING SURPLUS AND GROSS MIXED INCOME (4=5+6)	32.4	32.7	32.7	33.3
5. Consumption of fixed capital	18.1	18.3	18.3	18.3
6. Net operating surplus	14.3	14.4	14.4	15.0
7. GROSS DOMESTIC PRODUCT (7 = 1+2-3+4)	100.0	100.0	100.0	100.0

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

in subsidies to agriculture. Based on projections of the cost structure of gross domestic product, the share of gross operating surplus in gross domestic product is expected to remain at the level of 2002 and should start gradually increasing in the following years.

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

2.2.1 Export-import flows

In **2002, international trade** contributed 0.6 of a percentage point or 19% to economic growth, considerably less than in 2001 when it reached 1.8 percentage points (62%). Growth in 2002 was indeed mainly based on domestic demand, and imports of goods and services therefore also increased. According to national accounts statistics published by the SORS, **real growth of exports of goods and services in 2002 (6.1%)** slowed down only slightly compared to 2001 (6.4%), and the slower growth of goods exports (6.1%, in 2001 6.9%) was offset by the higher growth of services exports (6.1%, in 2001 3.8%). In terms of quarterly trends, exports picked up in the second half of the year.

The regional composition of trade shows that the high growth rates of **goods exports** to the countries of Central and Eastern Europe have been maintained. The biggest growth was recorded by exports to CEFTA countries, 15.4% in real terms, adding 1.2 percentage points to total goods exports (in 2001 0.6 of a percentage point). Broken down by purpose, goods exports to these countries saw the biggest rise in investment and consumer goods; broken down by the Standard International Trade Classification (SITC), exports of electrical machinery and equipment and medical and pharmaceutical products prevailed. In these markets Slovenia's market share notably increased (see Chapter 3.1). The high growth of exports to transition economies partly offset the slowdown in export growth to the EU markets which

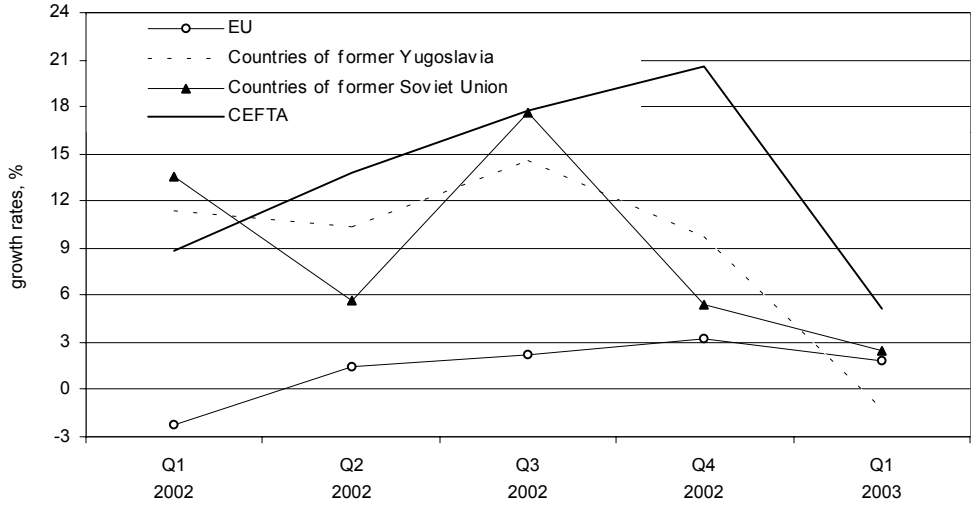
Table 15: **Regional composition of goods exports (share in %)**

	2000	2001	2002
EU	63.8	62.2	59.4
Countries of the former Soviet Union	3.3	4.5	4.6
Countries of former Yugoslavia	15.7	16.9	17.8
CEFTA	7.9	8.0	8.7
Others	9.3	8.4	9.5

Source of data: SORS.

had started in 2001 and resulted from lower demand from EU industrial producers for intermediate goods from Slovenia. Goods exports to these markets rose by only 1.4% in 2001, adding 0.9 of a percentage point (compared to 2.6 percentage points in 2001) to the real growth of total exports. Last year, the share of exports to EU markets fell below 60% for the first time and, as in previous years, road vehicles, electrical machinery and equipment, and furniture were the main export products. Amongst exports to the territory of former Yugoslavia, which saw 11.7% real growth, the main export products were electrical machinery and equipment, paper, cardboard and cellulose products, metal products, and medical and pharmaceutical products; in exports to the markets of the former Soviet Union, which increased 10.8% in real terms, medical and pharmaceutical products, and equipment for telecommunications prevailed. Together, exports to these two markets added 2.5 percentage points (in 2001 3.9 percentage points) to the total growth of exports. Here, too, Slovenia increased its market share. Exports to EFTA countries (their share in total goods

Picture 2: **Growth of goods exports in 2002 (quarterly figures compared to the same periods last year, expressed in euros)**



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

exports, 1.9% in 2002, is of minor significance) recorded very high growth (55%), mainly on account of exports of electrical energy to Switzerland, which represented almost one-third of total exports to that country (in 2001 7.1%).

Real growth of **services exports** strengthened in 2002 compared to the previous year (3.8%), reaching the same level as the real growth of goods exports (6.1%). The highest increase was recorded by exports of financial and communication services, the lowest by travel. The trend whereby the share of services in total exports of goods and services drops every year, as has been the case since 1996, was thus halted but the share of services is still modest compared to some other countries in transition (see Chapter 3.2).

Given the relatively high levels of export flows and higher domestic demand, the real growth of **imports of goods and services in 2002 (4.8%)** was stronger than in 2001 (3%). Broken down by purpose, **goods imports** recorded the biggest increase in imports of products for intermediate consumption, mainly due to boosted production of investment goods and consumer goods, because they include a high share of raw materials and intermediate goods. In line with the gradual revival of domestic investment activity, a real increase was recorded by imports of investment goods, whilst imports of consumer goods stagnated due to the modest growth of private consumption and the higher prices of imported consumer goods. Goods imports increased most in the second half of the year as the result of robust exports and increased investment activity. **Services imports** rose by 8.6% in real terms – the highest growth rate among all the components of foreign trade. The biggest contributions to growth came from communication, computer and information services, reflecting Slovenia's growing needs for information-society services.

The available balance of payments statistics about the trends of export-import flows in the **first two months of 2003** show that, compared to the same period last year, goods exports expressed in euros rose by 3.9% while goods imports, on the other hand, grew by 5.4%. Exports to non-European OECD member-states increased considerably, in particular to the USA (by 101.6%)[19], and a slight increase of exports to EU countries was also recorded, whilst exports to Russia and the countries of former Yugoslavia decreased. The faster growth of import flows than export flows was partly the result of the higher value of imports of oil and oil derivatives (the average price of Brent crude oil in the first two months of this year was USD 32 barrel, in the comparable period of last year it was only USD 19.9 barrel), and a one-off transaction of higher value - the purchase of a civil aircraft. It is therefore estimated that without this transaction the increase of goods imports would have been 0.6 of a percentage point lower. Broken down by end-use product groups, the biggest increase was recorded by imports of investment goods (by 16%), and among products for intermediate consumption by imports of mineral fuels, which was heavily affected by the high prices of crude oil (by quantities, imports of crude oil and oil derivatives were slightly lower in the first two months of this year than in the comparable period last year). Growth in services trade was lower than in goods trade in the first two months of this year, because services exports dropped (by 1.6%) in nominal terms compared to the same period last year, while services imports rose by 1.5%.

[19] Involving a surge in medicine exports

Exports of goods and services are expected to **rise by 5.4% in 2003** and this means a slowdown compared to 2002 (6.1%). In line with the anticipated revival of economic growth in the EU countries in the second half of the year, which will stimulate demand in these markets, year-on-year export growth rates will be boosted in the third and fourth quarters. Given the feeble expectations of economic growth in countries in transition and last year's high exports, which represent a high benchmark, goods exports to the markets of former Yugoslavia, Soviet Union and CEFTA, will drop on average by about 40%. This reduced growth of goods exports will also slightly slow down the growth of services exports, which the forecast sets at 4.8%. Real growth in **imports of goods and services (4.5%)** is estimated to be 0.3 of a percentage point lower than in 2002 owing to the lower growth of exports and, consequently, reduced demand for imported goods for intermediate consumption. The relatively high domestic investment demand will have a positive impact on import growth. As the slowdown of international trade will be more pronounced in exports, the contribution of foreign trade to economic growth will decrease slightly and reach, according to the forecast, about 0.5 of a percentage point.

Given the expected faster revival of economic growth in the main trading partners and the higher growth in foreign demand, **real growth of exports of goods and services** will reach **6.3% in 2004.** In real terms, goods exports will rise by 6.5%, services exports by 5.4%. Slovenia's accession to the EU will increase the volume of interregional trade and push the real growth of exports to these markets up to 6.3%. Exports to the markets of former Yugoslavia, on the other hand, will see a further slowdown because the free-trade agreements with these countries will expire. Boosted exports will increase the demand for imports of intermediate goods and the stronger growth of private investments will stimulate imports of the investment goods required for the technological modernisation of operations. Further, the stronger growth of private consumption stimulated by termination of the First National Housing Savings Scheme (see Chapters 2.2.2. and 2.2.3.) will cause higher **import demand,** which is estimated to increase by 7%**.** The contribution of foreign trade to economic growth will thus be negative (-0.5 of a percentage point).

2.2.2. Private consumption

In **2002,** private consumption was 2.0% higher in real terms than the year before and very close to the IMAD's autumn estimate (2.1%). It was largely the result of movements in real disposable household income which saw estimated growth of 2%, less than in 2001 (3.4% compared with 2.6% consumption growth). The real gross wage per employee rose by 2% (in 2001 by 3.2%), and slower growth than in 2001 was also recorded last year by total social transfers from general government budgets (by 0.5 of a percentage point). Conditions in the labour market were also worse than in 2001 because growth in the number of people in formal employment more than halved, and growth in the number of people in paid employment even dropped from 1.7% to 0.4%; after three years of falling figures, the number of registered unemployed people increased for the first time. Consumer confidence was lower last year than in 2001 and, with the exception of the first month and last two months, it was continuously below the average of the past six years, although it started to improve gradually.

Last year's composition of consumption growth by individual groups of goods is estimated to have been similar to that in 2001, when the most rapid increase was recorded by consumption of semi-durable goods and services, slower growth by non-durable goods and a fall in real terms by consumption of durable goods[20]. The Bank of Slovenia's data on foreign currency inflows and outflows from travel suggest that the consumption by resident households abroad increased slightly more than that of non-residents in Slovenia. Slovenia's households indeed spent nominally 7.9% more funds last year on travel abroad than the year before, while the consumption of foreigners in Slovenia was just 1.8% higher in nominal terms in the same period.

Household savings with banks saw moderate growth last year; the year-on-year real growth was 7.1% (in 2001 28.1%[21]), but household savings in mutual funds increased much faster (also see Chapter 7.2.). At the same time, last year again recorded very limited household borrowing; throughout the year the year-on-year real growth of total household borrowing was at its lowest level in the past ten years (December's growth was 0.3%). In line with modest growth in household savings and reduced demand for banks' household loans, the net household indebtedness (the ratio between loans and deposits) fell slightly last year, from 0.30 at the beginning of the year to 0.29 at the end of the year. Households' loan burden (the ratio of the average stock of bank loans to average registered monthly income) fell slightly last year (from 2.9 in the first quarter to 2.8 in the last quarter). However, as a result of the high indebtedness from 1999 and the maturity of loans taken out then, the ratio was still relatively high (see Table 16).

Table 16: **Ratio between loans and income and between loans and household deposits**

Period	Average stock of household bank loans (SIT billion)	Average registered monthly household income (SIT billion)	Loans/ income	Average annual increase of loans / average annual increase of income	Average stock of bank loans/ average stock of bank deposits
1992	16.0	38.4	0.42	N/A	0.14
1993	38.5	60.9	0.63	1.00	0.19
1994	73.8	74.6	0.99	2.58	0.24
1995	123.9	88.9	1.39	3.50	0.28
1996	192.9	106.4	1.81	3.94	0.34
1997	224.6	119.8	1.87	2.35	0.33
1998	272.7	131.8	2.07	4.02	0.33
1999	390.2	146.5	2.66	8.00	0.40
2000	472.1	164.3	2.87	4.60	0.40
2001	516.8	181.6	2.85	2.60	0.35
2002	558.2	201.1	2.78	2.12	0.30

Source of data: Bank of Slovenia, calculations by IMAD.
Note: N/A - not available.

[20] Most likely still resulting from the major purchases of durable goods seen in 1999.

[21] The reasons for lower growth are not so much the reduced volume of household savings as, above all, the conversion of foreign currencies into euros due to which the 2001 figures were a high benchmark, and the 2002 inflows showed much lower growth than the year before. The second reason is lower deposit interest rates, which caused some deposits to move from banks to other forms of investment (especially to mutual funds).

Box 2: Household disposable income

In **2002,** household disposable income is estimated to have increased by 2.0% in real terms, and its growth was largely contributed to by movements of the biggest aggregates in the structure of household income, especially by the moderate growth of total wages and social transfers to households. The gross wage per employee increased last year by 2% in real terms and, together with the 0.4% growth in the number of people in paid employment, the compensation of employees rose by 2.4%. According to preliminary data from the Ministry of Finance (MF), social security transfers to households were nominally 10.8% higher last year. Total pensions, the second largest income source of households, were nominally 10.3% higher, mainly the result of the increased average number of pensioners and the adjustment of pensions. Family benefits and parental allowances are estimated to have increased by 7.3% nominally, and unemployment compensation was down for the fourth consecutive year (by 21.2% nominally, according to the MF's data). The latter largely resulted from the stricter criteria for being eligible for compensation, but also from the changed policy of treating passive and active forms of unemployment care. The amendments to the Social Security Act, on the other hand, considerably increased welfare allowances (aimed at covering the minimum costs of living and no longer indexed by the guaranteed wage) last year, pushing them up 32.6% in nominal terms. Owing to subdued savings and lower interest rates, household inflows from interest increased at a slightly slower pace last year, as did indemnities from non-life insurance. As far as household expenditures are concerned, income taxes increased slightly less than in 2001 (2.8% real growth), and so did various current transfers and loan interest.

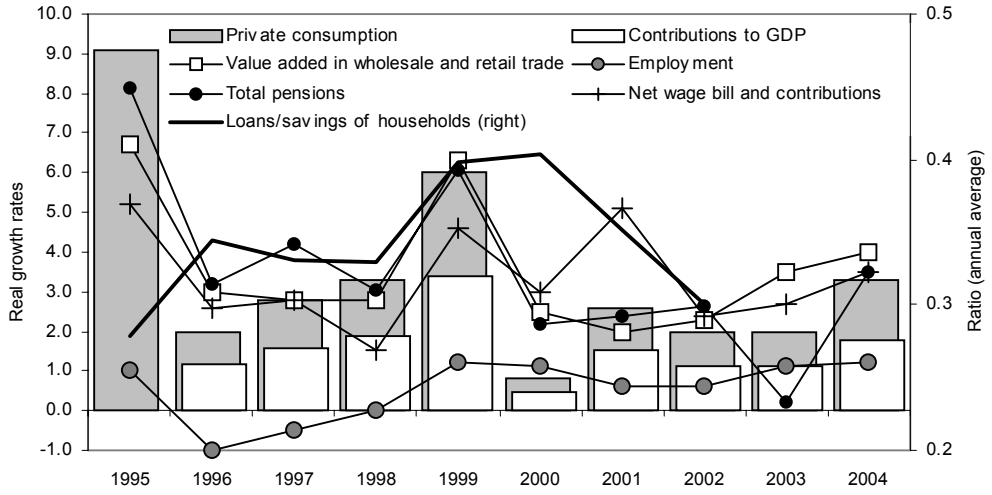
In **2003**, household disposable income is expected to record the same growth as last year (2%), while the propensity to save should decline slightly[22] (last year's estimate was 14.6%). Total compensation of employees is to increase slightly faster this year, especially because of the faster growth (by 0.3 of a percentage point) in the number of people in paid employment. Total social transfers should increase by 7.6% in nominal terms, but total pensions should rise by only 5.7% meaning that pensions will see almost no increase in real terms this year[23].

In **2004**, after two years of modest growth, household disposable income is expected to rise strongly, up by about one percentage point compared to 2003. Growth should mainly be underpinned by faster employment growth (the number of people in paid employment will rise by 1.1%) and social transfers from government budgets, which are expected to rise one percentage point more in real terms than in 2003.

[22] The ratio of gross savings to household gross disposable income.

[23] The reasons for the low growth are the adjustments of pensions, which are expected to be lower than last year, and the lower estimated growth in the number of recipients.

Picture 3: **Private consumption trends and related aggregates**



Sources of data: SORS, BS, MF, AP, the IMAD's forecasts for 2003 and 2004.

In **2003, private consumption growth** will be modest and reach last year's level, that is **2.0%.** The estimate is based on the growth of household disposable income which is set to rise by the same percentage this year. The real growth of gross wage per employee (2.0%) is expected to be the same as last year, and at the same time the subdued employment growth[24] will continue (also see Chapter 5.1). The real growth in social transfers to households will be lower than last year (2%), especially that of pensions.

The estimated private consumption growth is lower than the autumn forecast (2.7%) for a variety of reasons. Growth in 2002 was slightly lower than estimated and, in addition, deteriorated trends in the labour market continued, causing growth in the number of people in paid employment since autumn to be corrected downwards (by 0.2 of a percentage point). This lower growth has a major impact on the total compensation of employees and, consequently, on household disposable income. In autumn, stronger household loan repayments were expected as well as a more pronounced cyclical effect on private consumption growth, but this development obviously still has to start. Data on modest household borrowing underpin this development (also see Chapter 7.2.) and so do other short-term indicators. The increased uncertainty in the international environment caused the forecast of private consumption growth to be reduced, as it was in most European countries.

The short-term indicators available when this analysis was prepared suggest a modest level of optimism. On one hand, imports of consumer goods increased slightly year on year in the first three months (data from foreign trade statistics) and, according to the Tax Administration's data on value-added tax charged to final consumers,

[24] The growth in the number of people in paid employment (0.7%) will be higher than last year (0.4%), but the growth in the number of people in formal employment will be lower, largely because of the feeble trends in certain labour market segments (self-employment, farmers, industry).

household consumption was at about the same level in real terms in the first two months of this year as in the same period last year. The number of new car registrations in Slovenia, on the other hand, is encouraging (positive growth in the first three months for the first time since 1999[25]) and so are the figures on consumer confidence, which was above the average of the past six years during the first four months of 2003.

For the first time in four years, **robust real private consumption growth (3.3%)** is expected in **2004**, but the forecast is nevertheless half a percentage point lower than in autumn, mainly because of the expected slower (by half a percentage point) growth of the gross wage per employee. Real growth in household disposable income is estimated at 3.1% (see Box 2). Consumption growth should be additionally stimulated by funds released from the first National Housing Savings Scheme in mid-year (see Box 4, Autumn Report 2002), households' repayment of loans[26] and their new borrowing (see Autumn Report 2002, Box 3).

Box 3: Structure of household final consumption expenditure

Total household consumption, i.e. household final consumption expenditure in the domestic market, can be broken down into individual groups of consumer goods and services, either by durability or by purpose. Judging from the first data published for 2001, the structure of household consumption by **durability** of purchased goods has remained nearly unchanged over the past ten years. Household consumption mainly involves non-durable products (slightly over 40%) and services (slightly below 40%), the shares of durable and semi-durable goods are both around 10%. In the reference period (see Table 17), services saw the highest increase in their share (by slightly below 4 percentage points), reducing the share of all other groups of products (the biggest drop was recorded by semi-durable goods, 1.9 percentage points, and minor reductions by non-durable and durable goods -1.5 percentage points and 0.3 of a percentage point, respectively).

A breakdown of household expenditure by purpose can be made on the basis of the Classification of Individual Consumption by Purpose (COICOP), which roughly distinguishes 12 groups of consumption expenditure and shows that Slovenia's households on average spend the most on food, housing and transport[27]. The share of food[28] continued to be the biggest expenditure in the structure of household consumption in 2001 (22%), though it has dropped considerably over the past ten

[25] It is however possible that these figures conceal the actual trend because they include cars registered for a couple of days which were most likely exported and which are not part of domestic final consumption.

[26] The latter is connected with the extensive purchases of cars, which increased household indebtedness with banks highly, before the introduction of the tax reform in 1999. Five years later, this particular indebtedness should be in its final phase.

[27] The order is similar around the world because the listed groups are among the most basic consumer goods.

[28] Group 01-Food and non-alcoholic beverages and group 02-alcoholic beverages combined.

Box 3: Structure of household final consumption expenditure- *continued*

Table 17: **Composition of household final consumption expenditure in the domestic market**

		Slovenia			Other countries in transition*	Western European countries		
		1991[1]	2001	Δ 91-01	2001	1991**	2001***	Δ 91-01
01	Food and non-alcoholic beverages	21.9	17.1	-	24.4	17.0	13.4	-
02	Alcoholic beverages and tobacco	4.1	4.9	+	6.8	4.5	3.9	-
03	Clothes and footwear	6.7	6.4	-	5.9	7.9	6.5	-
04	Rent, water, energy	21.8	20.3	-	18.1	18.6	21.2	+
05	Furniture, household equipment & maintenance	5.4	6.2	+	5.4	7.3	6.6	-
06	Health	1.1	3.2	+	3.0	3.2	3.4	+
07	Transport	16.5	15.6	-	12.6	13.0	13.0	=
08	Communications	1.7	2.3	+	3.3	1.6	2.7	+
09	Recreation and culture	8.5	9.7	+	6.9	9.0	9.4	+
10	Education	1.6	0.9	-	1.1	1.0	0.9	=
11	Hotels and restaurants	6.3	6.4	+	7.1	8.9	9.6	+
12	Miscellaneous products and services	4.4	7.0	+	5.5	8.0	9.3	+

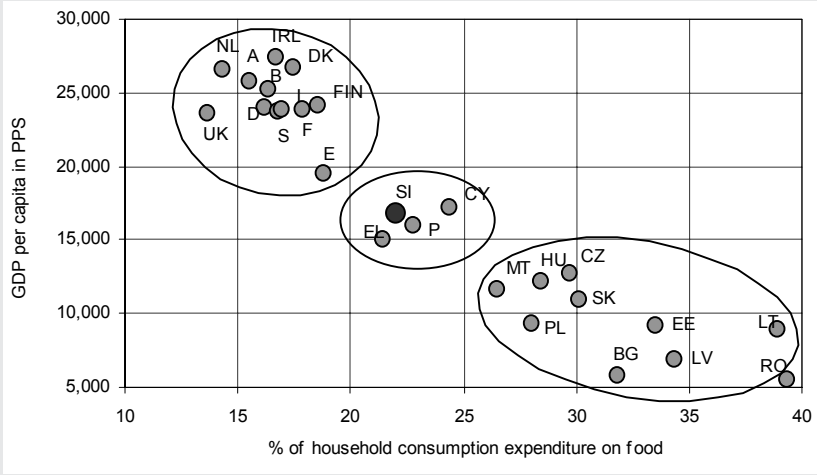
Source of data: Eurostat New Cronos Database; National Accounts Data.
Notes: [1] The 1991 data are not fully comparable with those for 2001 because the SORS revised the national accounts in 2002 (see Box 1). *Non-weighted average of eleven applicant- and candidate-countries for accession to the EU, for which data were available (Cyprus, Czech Republic (2000), Bulgaria (2000), Estonia, Hungary, Lithuania, Latvia (2000), Malta, Poland, Romania, Slovakia), **Non-weighted average of 12 countries, for which data were available (Denmark, Germany, Greece, France, Italy, Ireland, Netherlands, Austria, Portugal, Finland, Great Britain and Iceland ***Non-weighted average of 14 countries: the first eleven countries under **, joined by Belgium, Spain, and Sweden (1999).

years. Compared to member-states of the European Union, where the comparable share is on average slightly over 17%, Slovenia's share is quite high. Among the applicant-countries and candidate-countries, Slovenia records the lowest share (in 2001 the average share in these countries was 31.2%). In 1991-2001 the shares of the other two biggest groups of expenditure, housing and transport[29], also decreased in Slovenia, while the relative significance of expenditure on communications, health, recreation and culture, and miscellaneous products and services increased (see Table 17). The structure of expenditures changed similarly in the EU countries, and only expenditures on housing and furniture moved in the opposite direction. In general, the composition of the consumer basket of Slovenian households is quite similar to the average basket in Western Europe; the correlation between the two is 0.95; the correlation with the consumer basket of the applicant-countries and candidate-countries is 0.91. In 2001, in the latter countries the composition of household final consumption expenditure differed from that of Slovenia mainly in food, rent, transport, recreation and culture (upwards in food, downwards in the other three groups).

[29] The shares of clothes and, quite surprisingly, education also dropped.

Box 3: Structure of household final consumption expenditure- *continued*

Picture 4: **Share of food in household final consumption expenditure and GDP per capita, 2001**



Source of data: National Accounts, New Cronos Database.
Note: Bulgaria and Latvia: 2000 data; Malta: 1999 data on GDP.
Acronyms of Countries: A-Austria, B-Belgium, BG-Bulgaria, CZ-Czech Republic, CY-Cyprus, DK-Denmark, D-Germany, E-Spain, EE-Estonia, EL-Greece, F-France, FIN-Finland, HU-Hungary, I-Italy, IRL-Ireland, LV-Latvia, LT-Lithuania, MT-Malta, NL-Netherlands, P-Portugal, PL-Poland, RO-Romania, S-Sweden, SI-Slovenia, SK-Slovakia UK-United Kingdom.

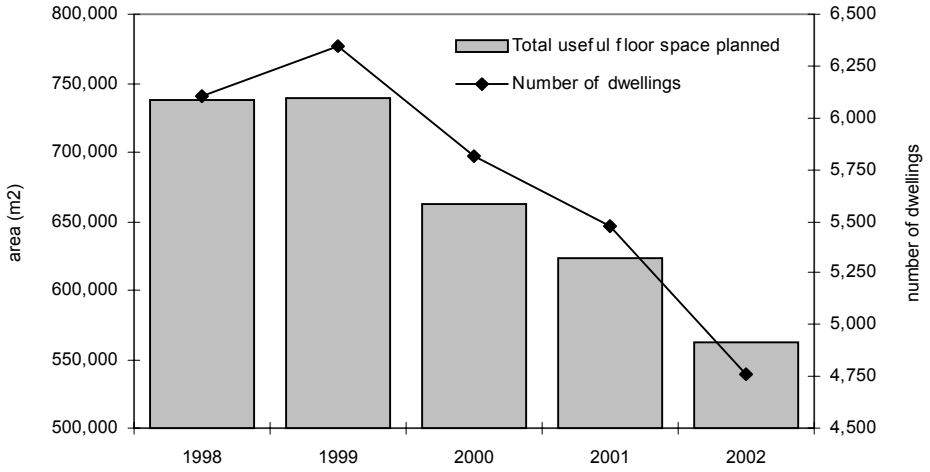
Picture 4 illustrates the connection between the share of household final consumption expenditure spent on food and the standard of living, measured by gross domestic product per capita by purchasing power. The correlation between the two variables is strongly negative (-0.94) and indicates that the share of food in household consumption drops as the standard of living increases. According to both criteria, Slovenian households are closest to those in Greece, Portugal and Cyprus.

2.2.3. Investment

After dropping in 2001 (by 0.8% in real terms), gross fixed capital formation increased in **2002** by 3.1%[30]. The revival largely resulted from motorway construction which, after the slowdown in 2001, picked up last year, especially in the second half of the year (according to data on the value of construction put in place, construction in civil engineering increased in this period by 24.8% year on year in real terms). Based on data on investment outlays and VAT declarations, investment activity seems to have slowed down last year, particularly in manufacturing. Taking into account manufacturing's export-oriented nature, the slowdown is connected

[30] According to data on the technical structure of investment, in **2001** investment activity fell in residential building construction (by 2.2%) and other structures and buildings (by 8.3% as a result of the slowdown in motorway construction). Data on growth in investment in equipment and machinery (up 4.1%) and intangible fixed assets (up 12.1%) are more favourable. Within the equipment and machinery group, growth in investment in computers and office machines (up 40.8%) stood out.

Picture 5: **Number of dwellings and the useful floor space planned in building permits**



Source of data: SORS.

with the unfavourable conditions seen in the international environment, whereas investment in market services strengthened (especially in distributive trades, financial intermediation, and real estate). In view of the data on building permits issued (see Picture 5), which indicate that since 1999 fewer housing facilities are built every year, subdued investment activity in new housing facilities is estimated to have continued last year[31].

According to data available on investment outlays and VAT declarations, investment activity in the corporate sector recorded in 2002 continued into the first months of **2003**. Investments in distributive trades and financial intermediation strengthened, while investment in manufacturing stagnated. Given the relatively high growth of investment activity achieved in market services last year and this year, growth is expected to slow down in the rest of the year. Considering the anticipated improvement of conditions in the international environment, investment activity in manufacturing should strengthen in the second half of the year. Investment will be favourably influenced by the increase of public finance sources for investment, nominally by 8.4% according to the proposed rebalance of the 2003 budget (in 2002 these sources stood for 17.9% of gross fixed capital formation). Given the expected higher borrowing by the Slovenian Motorway Company, motorway construction is expected to be boosted (due to the relative low base in the first half of last year, the year-on-year growth of these investments will be higher in particular in the first and second quarters). Investment activity growth will also be positively influenced by the construction of the first hydroelectric power plant on the lower Sava river, and investment in environmental protection infrastructure will also see growth. The latter will be partly financed by EU funds as Slovenia has to meet the EU's environmental standards by 2009. Based on preliminary data on the issue of building permits, investment in non-residential building will remain at the level of last year in 2003, or increase only slightly. In residential building construction, the

[31] In 2000 and 2001, the share of housing investment outlays in total gross fixed capital formation was 14.5%.

unfavourable trends of recent years are expected to continue in 2003. Preliminary figures for 2002 show that the number of building permits issued for residential building construction and the useful floor space fell for the third year in a row (see Picture 5). Taking into account increased demand for dwellings upon the termination of the first five-year National Housing Savings Scheme in mid-2004, residential building construction is expected to increase by the end of 2003, but a real boost of investment in new residential facilities is predicted for 2004. Based on these trends, gross fixed capital formation will record lower growth than forecast in autumn (4.8%) and reach about **3.2%**.

The strengthened investment activity of manufacturing should continue in **2004** in line with the improvement of economic conditions in Slovenia's main trading partners. Further, the release of funds from the first National Housing Savings Scheme in mid-2004 is expected to stimulate growth in residential housing investment (see Autumn Report 2002, Box 4). In order to meet the expected demand for housing, the Housing Fund of the Republic of Slovenia should be more actively involved in construction as a co-investor (by the end of 2007, the Fund is to build 5,200 new dwellings, providing over half of the required funds). In 2004, growth is also expected to continue in investment in economic infrastructure (motorways, power stations, telecommunications and environmental protection infrastructure) as well as in public services infrastructure (Oncology Institute, Paediatric Clinic, students' halls of residence). The growth of gross fixed capital formation in 2004 is thus to reach **7.0%** and will be mainly stimulated by investment in new housing facilities.

2.2.4. General government consumption

In **2002, general government consumption** rose by 2.7% in real terms. As in previous years, **collective general government consumption** – administrative, defence, economic, research & development, and other non-market government services – grew faster (by 3.3% in real terms) than total general government consumption, while **individual government consumption** on government non-market services in education, social care, culture, sports, and on market products and services like medicines, orthopaedic aids, concession rights to the private sector, and health resort services recorded a slower rise (by 2.2% in real terms). Total general government consumption was 0.2 of a percentage point higher than estimated by the autumn forecast (2.5%). The autumn forecast was based on the adopted revised budget for 2002, the Health Insurance Institute's revised financial plan, and the assessed expenditure of local government budgets for that year. In reality, 2002 saw slightly faster growth of intermediate consumption and calculated wages than predicted in the plans of public finance budgets, and this marginally increased general government consumption compared to the autumn forecast[32].

[32] The calculations of government consumption at constant prices were made on the basis of the SORS' (recommended) methodology, which not only uses the consumer price index for converting all structural elements into constant prices, but uses the government consumption deflator which consists of different deflators for individual categories within the government expenditure structure. So, in estimating government consumption, the deflator used for intermediate consumption is the predicted growth of consumer prices and, for the part referring to wages, it is the gross wage growth index (average labour costs). This means that wage growth in the public sector, which has an important share in the structure of government services, increases the deflator of government consumption and decreases its real growth when wages increase faster than inflation.

Table 18: **General government consumption (individual and collective)**

	2000	2001	2002	2003	2004
				Forecast	
Real annual growth (in %)					
Total general government consumption	-	4.0	2.7	2.4	2.8
Individual consumption	-	3.1	2.2	2.3	2.7
Collective consumption	-	5.2	3.3	2.6	2.9
Share in GDP (in %)					
Total general government consumption	20.0	20.6	20.5	20.6	20.2
Individual consumption	11.7	12.0	12.0	12.0	11.8
Collective consumption	8.3	8.6	8.5	8.6	8.4

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

The share of general government consumption in gross domestic product reached 20.5% in 2002, or 0.1 of a structural point less than the year before; the share of individual general government consumption in gross domestic product was 12%, and that of collective general government consumption 8.5%.

Real growth of general government consumption in **2003** is estimated to reach 2.4% and has been corrected downwards slightly compared to the autumn forecast (2.8%). Namely, the government revised the 2003 budget, intervening in the volume and structure of expenditure (see Chapter 6.2). Additional pressure on budget expenditure came from budget commitments adopted last year and carried over to this year. In addition to changes to national budget expenditure, the forecast of total general government consumption was influenced by the amended financial plan adopted by the Health Insurance Institute and by amendments to the financial plan of the Pension and Disability Insurance Institute. Local government expenditures, which also contribute to total general government consumption, were reassessed. General government consumption growth will lag behind the estimated growth of gross domestic product in 2003; compared to the previous year, the gap will even expand. The volume of general government consumption is not only restricted by anticipated general government revenues, but also by other public finance expenditures (especially transfers to households – social benefits and pensions, interest, subsidies and investment expenditure), which are financed from revenues together with the components of general government consumption.

In **2004**, general government consumption growth is expected to increase slightly. The entering into force of the Public Sector Wages Act will slow wage growth down, which should then strengthen real general government consumption growth (see Note 34). Taking into account the anticipated expenditures on compulsory health insurance and pension insurance, and the estimated local government expenditures, general government consumption should rise by 2.8% in real terms, which still means a major lagging behind the estimated growth of gross domestic product. The share of general government consumption in gross domestic product will fall from 20.5% in 2002 to 20.2% in 2004.

2.3. Economic developments and forecasts broken down by sectors

The greatest amounts of value added in Slovenia's economy are generated by the services sectors (activities G to P). Following their fast growth in the past decade, their share in total value added has settled at around 62% in recent years (see Table 19). Industry's share, too, has stabilised at about 31% of value added since 2000. Agriculture's share continues to decline slowly (from 3.5% in 2000 to 3.3% in 2002), while that of construction has also decreased in recent years after having grown in the second half of the 1990s (from 6.3% in 2000 to 5.8% of value added in 2002). In both 2003 and 2004 the significance of the services sectors is expected to strengthen further (up to 62.6% in 2004), especially on account of the falling shares of agriculture (3.1% in 2004) and industry (30.8% in 2004), while construction's share should stabilise at 5.8% of total value added in the future. A detailed analysis

Table 19: **Growth and structure of value added by sectors**

		Real growth in %, constant prices 2000				Structure in %, current prices				
		2001	2002	2003	2004	2000	2001	2002	2003	2004
				Forecast				Est.	Forecast	
A	Agriculture, forestry, fishing	0.5	1.1	0.5	0.5	3.0	2.9	2.8	2.8	2.7
B	Fishing	1.4	-6.5	2.0	1.0	0.0	0.0	0.0	0.0	0.0
C	Mining	-5.3	6.9	0.5	0.5	0.6	0.5	0.5	0.5	0.5
D	Manufacturing	5.1	4.6	4.1	5.5	23.6	23.7	23.5	23.6	23.8
E	Electricity, gas and water supply	6.4	5.6	0.5	1.0	2.5	2.7	2.7	2.6	2.5
F	Construction	-2.2	3.3	2.5	7.0	5.5	5.1	5.0	5.0	5.1
G	Wholesale, retail, trade, repair	1.8	2.5	3.2	3.5	10.0	10.2	10.2	10.2	10.3
H	Hotels and restaurants	6.3	1.7	3.5	4.3	2.3	2.2	2.2	2.3	2.3
I	Transport, storage, communications	3.9	0.8	2.8	4.0	6.4	6.3	6.3	6.3	6.4
J	Financial intermediation	5.4	9.3	6.5	7.0	4.4	3.9	4.0	4.1	4.2
K	Real estate, renting and business activities	4.0	1.9	2.5	3.8	12.9	13.1	13.0	13.0	13.1
L	Public administration, defence and compulsory social security	5.9	4.3	4.5	4.2	5.4	5.7	5.8	5.8	5.8
M	Education	2.1	2.6	2.5	2.5	4.9	5.0	5.0	5.0	4.9
N	Health and social care	2.5	3.5	2.8	2.8	4.4	4.5	4.5	4.5	4.4
O	Other community and personal activities	2.7	3.1	3.0	3.2	3.0	3.0	3.0	3.0	3.0
P	Private households with employed personnel	12.2	-10.7	0.0	0.5	0.0	0.0	0.0	0.0	0.0
	FISIM	10.8	6.5	2.0	2.0	-2.5	-2.1	-2.1	-2.0	-2.0
1.	VALUE ADDED (A ... O + FISIM) in basic prices	3.3	3.4	3.4	4.3	86.5	86.8	86.5	86.7	87.1
2.	NET CORRECTIONS (taxes on goods and services - subsidies)	-0.3	1.9	0.8	1.4	13.5	13.2	13.5	13.3	12.9
3.	GROSS DOMESTIC PRODUCT (3 = 1+2)	2.9	3.2	3.1	3.9	100.0	100.0	100.0	100.0	100.0

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

of economic developments by individual activities in 2002 and projections of value-added growth for 2003 and 2004 are presented below.

Value added increased in **agriculture, hunting and forestry (A)** by 1% in real terms **in 2002**. The first estimates indicate that, after the very unfavourable weather conditions experienced in 2001, total agricultural production rose again. The highest increase was recorded in crop production – arable crops as well as fruit growing and wine growing – while the production of all types of livestock (excluding poultry) was slightly higher than the year before. Milk production, which is crucial for the income of the average farm, was about 4% higher. The total value of statistically registered purchased products increased by 2.5%.

Unless exceptional weather conditions occur, in 2003 total agricultural production is expected to remain at the level of 2002. This estimate is underpinned by data on the number of livestock at the end of 2002: the number of beef was approximately the same as in the same period of the previous year, the number of pigs had increased by 9%, and that of poultry had fallen by 5%. As in previous years, farmers' income will benefit from higher state subsidies that are to compensate for revenues lost due to lower purchase prices for their produce. In forestry, the annual removal is to increase in line with the ten-year plans of the regional forestry units. Given these developments, real value-added growth in agriculture, hunting and forestry is estimated to reach around **0.5% in 2003 and 2004**.

After having fallen for two consecutive years, value added in **mining (C)** recorded a major boost in **2002**, up by 6.9% in real terms. The highest contribution to this growth, 17.3%, came from the increased production of lignite (4,046,000 tonnes) resulting from the higher demand of the thermal power plants. Production of brown coal fell by 6.8% (639,000 tonnes), partly as a result of the enforcement of the Act Regulating the Gradual Closure of the Trbovlje-Hrastnik Mine. According to the SORS' data, production in non-energy mining dropped by 3.1%. In line with the first drafts of the Energy Balance of the Republic of Slovenia, coal production is set to be reduced this year by a few percent. In the meantime, however, an agreement has been reached with Croatia about the renewed distribution of half the electrical energy produced in the nuclear power plant at Krško; the agreement came into force in April this year. The resulting large shortage of electricity will probably require higher production in domestic capacities (including thermal power plants), leading to a slight increase in demand for domestic coal. Value-added growth in mining in **2003** is therefore estimated at **0.5%**, while **similar growth** is to be achieved in **2004**.

Growth in production volumes and value added in **manufacturing (D)**, the most export-driven sector of the Slovenian economy[33], is heavily influenced by developments in the international economic environment. In EU countries, whose share in Slovenia's goods exports is about 60%, economic activity slowed down

[33] Manufacturing generates 99.7% of Slovenia's goods exports and has a 49.7% share in the expenditure structure of GDP. According to data from the Agency for Payments (AP) for 2001, eleven out of fourteen subsectors in manufacturing generate more than half their total operating income in foreign markets, and in the entire sector exports account for 57.0% of total net sales revenues.

further in 2002 over the year before[34]; in the countries of Central and Southeast Europe economic activity maintained the same level as in 2001 on average. In **2002**, these developments were reflected in subdued growth in goods exports and lower real value-added growth in manufacturing (4.6% compared to 5.1% in 2001). Similar dynamics are indicated by production growth, going up by 2% and lagging behind that of 2001 by 0.8 of a percentage point. The year-on-year growth rates show that production activity nearly stagnated in the first quarter (0.4% growth), climbed by a modest 1.3% in the second quarter, while growth strengthened in the third quarter (3.8%) to slow down again in the last quarter (2.0%). These developments were also reflected in the trend rate of total production growth, which turned downwards in December.

For the second year in a row, subdued production activity caused a major drop in employment in manufacturing[35] (down 2.8% in 2002 and 0.6% in 2001). A downward trend has been recorded throughout the period since Slovenia's independence. The falling trend in the number of people in employment was particularly obvious in the first half of 2002, and the decline was only halted in the second half of the year. As a result, labour productivity (measured as output per employee) improved; its average level rose by 4.9% in 2002 (in 2001 by 3.4%). Positive trends were also recorded in stock levels, which fell by an average of 2% compared to 2001 (in 2001 they increased by 4.9%), while stocks per unit of production were down by 3.9%.

The highest production growth was recorded by predominantly export-oriented sectors[36] which increased their production volumes by an average of 7.5%. Among them, the highest increase was seen in machinery and equipment (11.4%) and chemicals and chemical products (5.9%). In recent years, the latter sector has also recorded above-average results in return on assets, generating the highest value added per employee in manufacturing[37]. The analysis of merchandise exports in terms of factor inputs (see Development Report 2003, IMAD) confirms that the share of exports of technology-intensive products is increasing and that, broken down by technological complexity, the share of high-technology activities is climbing slowly (8.2% in 2001). Moderately export-oriented industries[38] recorded a 1% fall in production activity. As in 2001, major falls occurred in labour-intensive industries such as the manufacture of textiles and leather products, which saw their production volumes drop by 12.5% and 15.1%, respectively. Domestic-market-oriented industries[39]

[34] In Germany, Slovenia's most important trading partner, to which 26% of total goods exports went in 2002 , GDP increased last year by only 0.2%, and the level of industrial production fell by 1.7% (Consensus, March 2003)

[35] The figure refers to companies with 10 or more employees.

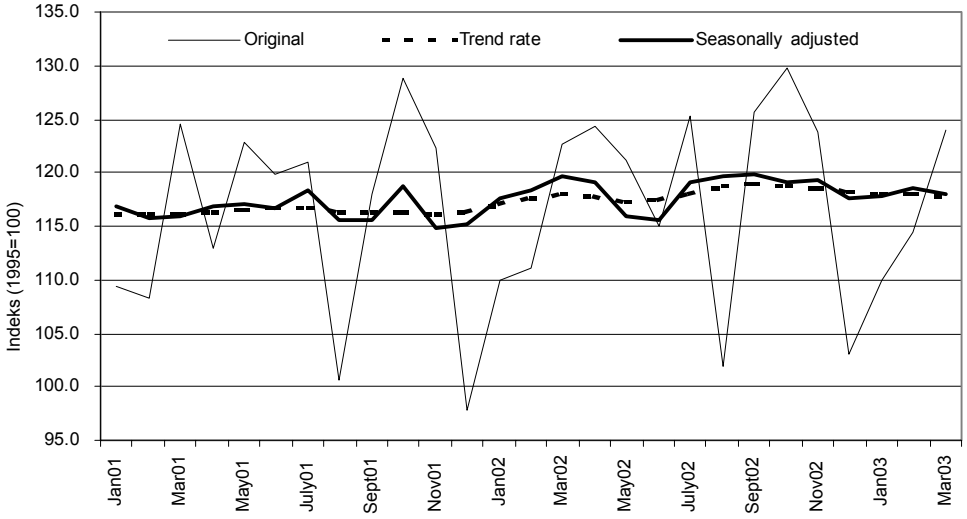
[36] The most export-driven sectors are those subsectors of manufacturing which, based on the statistical data from their balance sheets and profit and loss accounts (AP), generate over 70% of their net sales revenues in foreign markets: chemical products, machinery and equipment, vehicles and vessels, coke, oil derivatives, and nuclear fuel.

[37] Companies producing chemicals and chemical products generated on average SIT 9.657 million in value added in 2001, while the average value in manufacturing was SIT 4.627 million per employee.

[38] Their average share of net sales revenues generated in foreign markets in total net sales revenues is between 50% and 70%: textiles, textile and fur products, leather and leather products, wood production and processing, rubber and plastics industries, metals and metal products, electrical and optical equipment, and furniture.

[39] Their average share of net sales revenues generated in foreign markets in total net sales revenues is below 50%: food and beverages, fabrics, paper and publishing, non-metallic mineral products.

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



Source of data: SORS, calculations: the IMAD, method applied: TRAMO-SEATS.

increased their production volumes by an average of 0.6%, with the highest contribution coming from the 5.4% rise in paper production and publishing. After stagnating in 2001, food and beverages saw a 1.6% drop in their production volumes, meaning that the contribution of the food-processing industry to manufacturing's value added continued to decline, a development typical of the second half of the 1990s.

Production volumes data for the first three months of 2003[40] show that the low level of production activity continued from the end of 2002. From January to March, production volumes climbed by just 1.3% compared to the same period of 2002, while the trend rate, which revealed stagnation, reflected a similar development (see Picture 6).

The continuing uncertainty is reflected in the level of corporate optimism which improved in January and February, but worsened again in March. According to the SORS' data on business trends in manufacturing, March's composite confidence indicator (composed of total orders books, stock levels and production expectations) again recorded a negative value[41] and drew very close to last year's monthly average (-3.8). The high volatility of the confidence indicator and business expectations about export growth and total orders for the following three to four months suggest that business people are not quite convinced that the business climate will actually improve.

[40] At the time this forecast was prepared, data were available only for the first two months and they indicated stagnation as well as a falling trend in manufacturing's production volume.

[41] In March 2003, the number of company-respondents in the survey expecting a deterioration of the business climate exceeded the number of companies expecting an improvement by 3.0 percentage points.

Following the anticipated revival of European economies (see Chapter 1) and increased growth in Slovenia's merchandise exports in the second half of the year, the low production volumes growth from the beginning of 2003 is expected to continue in the second quarter. An upturn in the production cycle should occur in the autumn months[42]. In **2003**, the average real value-added growth is expected to be slightly lower than last year and should reach **4.1%**. Given the anticipated strengthening of merchandise exports, production activity is set to grow fast in **2004** and push value added up to **5.5%**.

In **electricity, gas and water supply (E)** relatively high real value-added growth continued in 2002 for the second year in a row (6.4% in 2001, 5.6% in 2002). Both years were characterised by a drop in electricity production in hydroelectric power plants and a rise in production in thermal power plants. In 2002 the low water levels (especially in the first half of the year) caused production in hydroelectric plants to drop by 13.0%. These shortfalls were offset by 6.8% higher production in conventional thermal power plants (13.7% higher compared to the forecast in the Energy Balance of the Republic of Slovenia for 2002) and 5.4% higher production in the nuclear power plant. As regards other activities, the draft Energy Balance for 2003 estimates that gas consumption dropped by 2.7% in Slovenia last year while the consumption of district heating fell by 1.8%.

In 2003, the renewed distribution of half of the electricity generated by the nuclear power plant to Croatia, beginning in April, will probably cause the total electricity production in Slovenia to rise slightly compared to 2002. Production in thermal power plants should remain at about the same level as last year, while normal water levels should enable the hydroelectric power plants to increase their production. The consumption of gas and district heating would then drop slightly. Value added in electricity, gas and water supply is forecast to grow by **0.5% in 2003** and by **1.0% in 2004** provided that electricity consumption continues to increase.

After a decline in 2001, value added in **construction (F)** increased by 3.3% in 2002, while the value of construction put in place by companies and organisations employing 10 or more workers climbed by 5.5% in real terms. The revival of construction chiefly resulted from boosted activity in civil engineering (15.4% real growth) because of accelerated motorway construction[43], which mainly took place in the second half of the year (24.8% year-on-year real growth in civil engineering output). In building construction the value of construction put in place fell by 2.5%; it was down 2.6% in non-residential building construction and 2.1% in housing construction. According to data on building permits issued[44], housing construction in the segment not included in statistics on construction put in place (small companies, sole proprietors and individuals) is also estimated to have declined.

[42] A similar development is predicted by the study "The leading indicator system and trend analysis", carried out at the beginning of this year by the Institute for Economic Diagnosis and Prognosis (Faculty of Economics and Business, Maribor).

[43] Motorway construction, on the other hand, slowed down in 2001, and had a negative impact on construction activity growth.

[44] According to these data, the number of building permits issued for housing construction in single houses (largely built by small companies or individual persons) and their planned useful floor areas have been falling since 1999.

According to figures on the value of construction put in place, the robust activity in civil engineering continued in January and February 2003, while building construction was still below the level of the same period last year (by 7%). According to the Draft Annual Motorway Construction and Maintenance Plan and the proposed revision of the national budget for 2003, favourable trends are expected to continue in civil engineering. Drawing on the preliminary data on building permits issued for non-residential buildings (last year the number of permits issued was 12.4% lower than in 2001, while the planned useful floor space was 4.8% larger), only a minor revival is expected in this sector. In residential building construction, the unfavourable trends are expected to continue because the number of building permits issued for dwellings and their total useful floor space fell for the third consecutive year. Value added in construction is therefore estimated to see just **2.5% real growth in 2003**. In 2004, further strengthening is expected in infrastructure building, while the termination of the first five-year National Housing Savings Scheme should boost residential building construction (the Housing Fund of the Republic of Slovenia is also expected to play a major role in construction in 2004). Real value-added growth is estimated to climb to about **7% in 2004**.

After declining by 1.8% in 2001, value added in **wholesale and retail trade, repair of motor vehicles, personal and household goods (G)** increased by 2.5% in real terms in **2002**. According to figures from the SORS' quarterly TRG-ČL[45] survey, turnover rose in both retail and wholesale. In retail trade, the biggest turnover growth was recorded in food, beverages and tobacco and was mainly fuelled by higher sales in non-specialised shops selling mostly food. In wholesale trade, turnover was bolstered by the revival of construction activity and the sustained activity in manufacturing. Turnover in wholesale trade indeed saw the highest rise in non-food stores and an above-average rise in stores selling machinery and equipment for construction, industry, agriculture and trade, wood and construction materials as well as agricultural products and live animals. Sales of motor vehicles increased towards the end of 2002: according to the SORS' data, the number of new car registrations rose by 7% from September to the end of 2002 compared to the same period of the previous year.

Figures on the number of new car registrations for the first quarter of 2003 suggest that the sales of motor vehicles will rise in 2003 for the first time after 1999. Favourable trends should continue in food stores, stimulated by the opening of new shopping centres in the domestic market and abroad. However, no rise in private consumption is expected in 2003, while construction activity is estimated to slow down slightly. Following these developments, real value-added growth in wholesale and retail trade should be about **3.2% in 2003**. In **2004**, wholesale and retail trade should be boosted by private consumption growth and strengthened activity in manufacturing and construction. Real value-added growth should come in at about **3.5%**.

After rising sharply in 2002 and relatively strongly in 2001 (6.3%), value added in **hotels and restaurants (H)** declined considerably in **2002** and rose by just 1.7%.

[45] The data of the TRG-Čl survey refer only to that part of a company's activity that deals with trade and therefore also includes trade as performed by non-trade companies.

These poor results were mainly due to the low revenues of companies involved in catering (they represent about half the total revenues), which dropped by 7.2% in real terms from 2001. The number of overnight stays climbed, albeit less than in 2001[46]. In spite of this, revenues of companies providing accommodation remained at the level of 2002, which also resulted from a different structure of overnight stays by type of accommodation. The number of overnight stays in cheaper types of accommodation (camping sites, private rooms) indeed increased more than in hotels. Real growth in revenues was only recorded in bars (by 2.8%), but the share of these establishments in total revenues was only 10%. Total revenues in hotels and restaurants were therefore 3% lower in real terms than in 2001.

The favourable winter season in 2003 helped increase the number of overnight stays of both domestic and foreign tourists. We assume that fewer Slovenians travelled abroad on skiing holidays, as suggested by data from the Bank of Slovenia: in the first two months, Slovenian households spent nearly 20% less on travel abroad in real terms than in the same period last year. Trends in tourism should be bolstered by implementing the Strategy for Slovenia's Tourism for 2002-2006 (more and higher quality services, higher investment in hotels and restaurants). **Value added** in hotels and restaurants is expected to increase by **3.5%** in real terms **in 2003** and by **about 4.3% in 2004**.

Value added in **transport, storage and communications (I)** rose by just **0.8%** in real terms in **2002**, one of the lowest annual growth rates seen in this sector in recent years. According to the SORS' data, the sharpest drop within *freight transport* was recorded by road transport (down 15.3%) measured by tonne kilometres. International road freight transport fell by a fifth, while domestic freight transport only dropped by a few percent. The 8.6% rise in railway freight transport, on the other hand, was encouraging and, if sustained, would enable the faster rehabilitation of Slovenian Railways. In railway transport, international freight transport increased by 10%, but domestic freight transport showed a sharp decline of around 8%. Maritime transport shrank by 13.3%, but transhipment in harbours rose by 11.7%. The total volume of loading and unloading, including that in harbours, increased by 5.6%. As in freight transport, *passenger transport* saw the highest decline in road transport (down 24.7%), mainly involving inter-city bus transport. In urban passenger transport, the number of passengers declined much more moderately (1.6%) than in 2001, when the number fell by nearly a fifth. Year-on-year growth rates in air and airport transport only turned upwards in the last quarter of 2002, suggesting that the recession in this sector may have come to an end. This sector, however, faces strong competition from abroad (low-rate carriers, alternative regional airports). *Postal services* received and dispatched 11.4% more letters and parcels, and in *telecommunication services* business results are estimated to have been slightly better than in 2001.

Given that export-import flows and total domestic production are expected to stay roughly the same, a minor improvement in road freight transport is expected in 2003. Railway transport should increase gradually, while air and airport passenger

[46] In 2001 the number of overnight stays rose by 6.1%, in 2002 by 2.7%. The total rise in overnight stays in 2002 resulted entirely from the higher number of visiting foreign tourists (by 6.9%), who recorded over 4 million overnight stays in Slovenia for the first time since 1991.

transport should rise thanks to flexibility and adjustment to competition. Following the less favourable trends in the past few years, telecommunication services should improve but this sector will be marked by sharp competition in mobile and fixed telephony (because of the expected entry of new operators). Slightly worse business results are expected for travel agencies owing to unstable conditions around the world. In **2003**, value-added growth in transport, storage and communications should be **2.8%** and should intensify to **4.0% in 2004**, provided that domestic production activity and export-import flows again rise fast.

In **2002**, real value-added growth in **financial intermediation (J)** was 9.3% (5.4% in 2001). This high growth resulted from a variety of factors. The business results of *banks* (profits, net commissions), which stand for over two-thirds of value added in the financial sector, increased nearly threefold in real terms. Given that deposit interest rates fell faster than lending interest rates, net interest revenues surged by 25.2% in real terms. Because of the transfer of accounts from the Agency for Payments to banks, the net commissions of banks saw a significant rise of 20.5% in real terms. Higher profits in banks also resulted from changes to the Slovenian Accounting Standards (abolishing the indexation of capital, fixed assets and equity investment). In *insurance companies*, premiums went up by 8.7% in real terms, with the highest rise being recorded in the claims ratio (15.2%), that is the ratio of gross claims incurred to gross premiums written. Beside these factors, real value-added growth in financial intermediation was boosted by lower interest rates, the higher quality of financial services and, consequently, the lower deflator in this sector. The number of employees in financial intermediation increased at a slower pace for over a year; the average growth was 2.4% in 2002 and 2.9% in 2001.

Slovenia's financial sector is poorly developed compared to both advanced European countries and some EU candidate-countries (Development Report 2003, IMAD). Value-added growth in the financial sector is therefore expected to be higher than economic growth in the following years (stimulated by the introduction of new banking services, information technologies in business processes, and rationalisation of employment). In 2003, favourable inflation trends and the gradual transition to long-term nominal interest rates will help reduce interest rates. This will stimulate the banks' lending activity, while in 2004 the volume of loans will be additionally boosted by the release of funds from the National Housing Savings Scheme. Provided that the pension reform continues to be implemented, relatively high growth can be expected in the insurance sector. Value added in financial intermediation is estimated to rise by **6.5% in real terms in 2003** and by **7% in 2004.**

In **real estate, renting and business services (K)** real value-added growth dropped from 4.0% in 2001 to just 1.9% in **2002**. Considering that the housing stock is estimated to have increased by approximately the same rate as in 2001 (see construction), *gross rent* recorded about the same real value-added growth as in 2001 (0.9%)[47]. This means that the slowdown must have occurred in *other business services*, where value added is estimated to have increased by 2.9% in real terms (against 7.4% in 2001). Growth in the number of people employed in real estate,

[47] In the structure of value added in the K group, a major share is contributed by the gross rent of households living in dwellings they own (imputed rent) (50.7% in 2001).

renting and business services was higher in 2002 than in the previous year, reaching 8% (6.1% in 2001), but this mainly occurred in activities which generate relatively low value added per employee (investigation activities, industrial cleaning, other miscellaneous business services). In more productive business services, growth in the number of people in employment slightly declined (especially in the second half of the year); in real estate, the year-on-year growth was 10.8% (against 16.1% in 2001), in computer services it dropped to 14.3% (from 16.3% in 2001), in legal, tax, and business consultancy to 8.8% (from 10.6% in 2001), in advertising to 2.6% (from 15.7% in 2001), and in architectural and technical consultancy the number of people in employment shrank by 0.3% (after rising by 3.6% in 2001).

Owing to the termination of the first five-year National Housing Savings Scheme in 2004, growth in real estate and in architectural and technical consultancy is expected throughout the year. In other business services, a positive turn is not expected to materialise before the autumn months of 2003. In **2003,** real value-added growth in real estate, renting and business services is estimated to be slightly higher than last year, going up by **2.5%**. These positive trends should strengthen in 2004, while the anticipated boost in residential building construction should help expand the housing stock. In **2004**, real value-added growth could therefore reach **3.8%**.

Real value-added growth in **public services**[48] reached 3.4% in **2002**. Compared to 2001 (3.5%), the growth structure was better because growth declined in public administration, defence and compulsory social security and rose in education, health and social work and other public and personal services. The slowdown in *public administration, defence and compulsory social security (L)* was due to the slower wage growth (see Chapter 5.2) and restrictions on new employment in accordance with the proposal of planned jobs for 2002 and 2003. The number of people in employment rose by 2.3%, the lowest growth seen in the past four years (3.8% in 2001). Most of the new employment was connected with the formation of a professional army and establishing the new Schengen border. In *education (M)* growth in the number of people in employment was 1.8% (2% in 2001). Compared to the previous year, employment in pre-school and primary education slowed down slightly (1.2% against 1.4% in 2001). Faster employment growth than in the previous years was recorded in secondary education (1.7% against 1.4% in 2001). The introduction of new programmes and the growing number of students again strengthened employment in higher education, which reached its highest level in the past three years (4.1% against 3.3% in 2001). In market-oriented adult and lifelong education, growth in the number of persons in employment dropped to 4.3% in 2002 after the relatively high growth in 2001 (7.9%). In *health and social work (N)* employment rose considerably in health, going up by 2.2% (against 1.1% in 2001 and 0.6% in 2000). This growth mainly consisted of employment in hospitals (2.0% against 1.1% in 2001 1.1%), general clinics (1.2% against 0.5% in 2001) and specialised clinics (8.4%, primarily in private specialised clinics according to the estimate; 2001 recorded a 1.8% drop). After declining for several years, the number of people employed in public health care institutions rose for the second year running, while private practice and the network of public health services based on mixed

[48] The public services group includes the sectors L to P of the Standard Classification of Activities in accordance with the Eurostat methodology.

public and private financing[49] expanded. Methodological changes to the Standard Classification of Activities[50] caused the number of people employed in social work to fall by 48.3% and that in total health and social work by 19.3%. In *other public, community and personal services (O)*, employment saw an upward trend in the second half of 2002, especially in recreation, culture and sports activities[51] (4.3% growth in 2002 and 2.5% growth in 2001). They are market-oriented activities and achieve high levels of value added per employee.

Drawing on the anticipated wage growth (see Chapter 5.2) and the proposed planned jobs for 2003 and 2004[52], real value-added growth in public administration, defence and compulsory social security is expected to intensify slightly in 2003 and slow down marginally in 2004. In education, the current growth dynamics should be maintained in higher education in the following two years, while the increased significance of lifelong learning should lead to gradual growth in adult education in 2004[53]. The relatively high employment growth in the public health sector seen in 2002 will probably slow down. In other public, community and personal services (activity O), accelerated growth is expected in 2004, when higher household consumption (see Chapter 2.2.2) should primarily boost market-oriented services in recreation, culture and sports. Real value-added growth in public services should therefore reach **3.3% in 2003** and **3.2% in 2004**. According to this estimate, real value-added growth in public services will lag behind total value-added growth in the economy in 2003 (3.4%), while the share of public services in total value added will fall slightly in 2004.

[49] According to the Medical Chamber of Slovenia, the total share of private doctors (physicians and dentists, including specialist trainees), with or without a concession, was 20.3 at the end of 2002.

[50] At the beginning of 2002 the Standard Classification of Activities (SCA) was changed to the effect that sheltered workshops (10,859 employees) were transferred from social care to the activities which are actually carried out in these enterprises (mostly manufacturing).

[51] Recreation, cultural, and sports activities (SCA 92) held the highest share of value added in the O group in 2001 (61.3%).

[52] In 2003 the new employment of 1,383 persons is planned, most of them for the new Schengen border, the formation of a professional army, and through transfers from the Agency for Payments to administrative bodies; however, because of the rebalance of this year's budget and austerity measures, the number will probably be slightly lower. In 2004, 1,106 more people should be employed, again mostly to protect the southern border and in the army (see *Poročevalec*, no. 96/VIII).

[53] A draft "National Adult Education Programme" is in preparation and will be considered by the Expert Council for Adult Education in the near future.

3. International economic relations

3.1. International competitiveness – In 2002 Slovenia's market share increased but its price and cost competitiveness fell

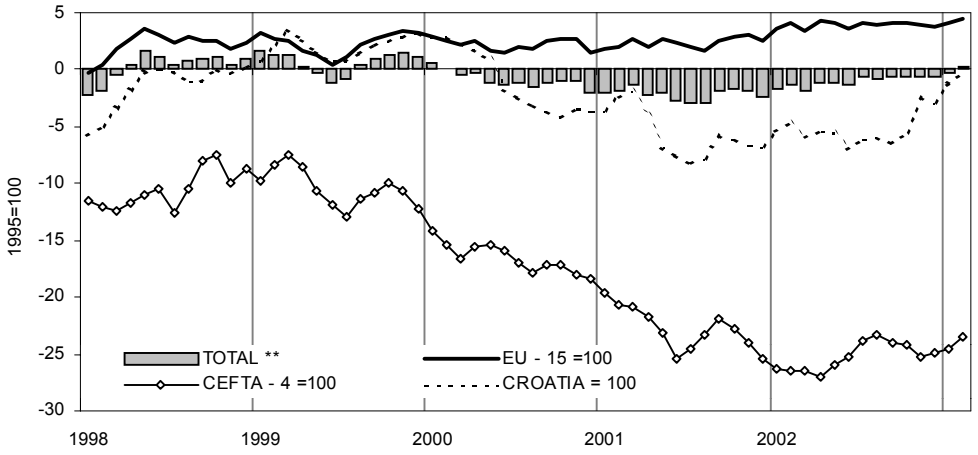
The Slovenian economy's long-term competitiveness crucially depends on the creation of knowledge in both the corporate sector and society as a whole. The corporate sector's competitiveness is measured by the indicators of competitiveness, structural changes (investment activity, exports broken down by factor inputs, exports generated by technology-intensive industries, and the share of innovative enterprises) and internationalisation (the shares of inward and outward foreign direct investment). The indicators of competitiveness comprise labour productivity, one of the main determinants of an economy's competitive strength, unit labour costs, and the market share, showing whether export growth was the result of improved export competitiveness or the expansion of export markets. This chapter focuses on the exchange rate and relative unit labour costs because they are important elements for a small and open economy like Slovenia and also affect market share growth. The analysis of structural and internationalisation indicators is available in the Development Report 2003 (IMAD, 2003).

In **2002**, the tolar's nominal depreciation against the basket of OECD currencies (the euro, the US dollar, the pound sterling, and the Swiss franc)[54] slowed down to 2.9% on average. Throughout the year, the Bank of Slovenia buffered the impact of net foreign exchange supply on exchange rate movements by setting the intervention rate of exchange (see Chapter 7.1). The tolar depreciated 3.7% against the euro and appreciated 1.3% against the US dollar in nominal terms. The latter was due to the dollar's fall in international foreign exchange markets after it had climbed steadily for six years. The tolar's nominal depreciation against the average of CEFTA-4 currencies (the Czech koruna, the Hungarian forint, the Polish zloty, and the Slovak koruna) and the Croatian kuna was more moderate than in 2001, but still strong at 7% and 4.4%, respectively.

Because domestic prices stayed the same or decelerated disproportionately compared to foreign prices, the tolar appreciated strongly in real terms against the basket of OECD currencies. As a result, **price competitiveness** relative to advanced trading partners dropped more strongly than in 2001. The tolar appreciated by 2.7% in real terms on the basis of relative consumer prices, by 2% on the basis of relative producer prices, and by 2.4% on the basis of relative prices of exported goods. The fall in price competitiveness was about 1 percentage point weaker compared to the average of the euro-area trading partners and about 5 percentage points stronger compared to partners from the US dollar area. The tolar appreciated by 0.5% in real terms against the Croatian kuna when measured by relative consumer prices and by 0.9% when measured by relative industrial producer prices, meaning that the two-year trend of improving price competitiveness came to a halt last year. Slovenia's price competitiveness continued to rise slowly as against the CEFTA-4 countries, with the tolar appreciating by 3.1%, and 2.1% in real terms. However, price competitiveness relative to CEFTA-4 fell when measured by relative prices of

[54] In the foreign exchange market.

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



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

exported goods, down by an estimated 1.9%.

The tolar's real appreciation against the basket of OECD currencies, when measured by relative unit labour costs, shows that the **cost competitiveness** of both **manufacturing** and the economy as a whole continued to **decline** rapidly as against the advanced trading partners, falling 1.7% and 2.6%, respectively. Given that the exchange rate increasingly lagged behind the domestic inflation rate, the fall in manufacturing's cost competitiveness was due to the accelerated rise in the real compensation of employees (up by 6.5% when deflated by the nominal exchange rate; up by 4% in 2001), while the nominal rise in the compensation of employees only slowed down slightly (by 0.6 of a percentage point). Labour productivity growth increased from 1.7% in 2001 to 3.5% in 2002, however, this only offset a solid half of the impact of the higher costs and exchange rate on international competitiveness. The gradual slowdown in the real compensation of employees came to a halt last year as a result of the accelerated real rise in net wages (up by 2.5% in 2001 and 2.2% in 2002 in real terms when measured by consumer prices). The falling trend in other remuneration continued moderately (down 3.4% in 2001 and 1.1% in 2002). The tax burden on wages eased off because the threshold of payroll taxation was raised by one band and taxation in higher bands was reduced. The employers' contribution rate for health insurance was raised by 0.2 of a percentage point. Acceleration in labour productivity growth was solely due to the resumed fall in employment, going down by 1.4% as against the 1% rise in 2001[55]. The trend of decelerating production growth continued in 2002 (from 7% in 2000, through 2.8% in 2001 to 2% in 2002), which was due to the slowing economic activity seen in the main trading partners, especially the EU. The trend of improving cost competitiveness relative to CEFTA-4 continued slowly, partly owing to the lower wage growth in Slovenia and partly due to the tolar's depreciation against the CEFTA-4 currencies.

[55] Employment figures cover enterprises and organisations employing 3 or more people (ZAP-M).

As a result, the relative unit labour costs of Slovenian manufacturing compared to CEFTA-4 dropped by 4.1% (down 5.2% in 2001), while those of the Slovenian economy fell by 6.2% (down 7.6% in 2001).

The relationship between the price and cost of exported goods achieved by Slovenian manufacturing compared to foreign competitors indicates that the **relative profitability of Slovenian exports of goods** continued to improve in 2002. The relative prices of exported goods rose faster than the relative unit labour costs, so the share of unit labour costs fell in the value of exported goods. The relative profitability of the Slovenian economy also kept rising, as indicated by the falling share of labour costs in gross domestic product (also see Chapter 2.1.3).

Slovenia's market share in the main trading partners[56] increased from an average of 0.510% in 2001 to 0.544% in 2002. This significant market share growth in advanced economies was primarily the result of ongoing growth in the German, French and Austrian markets, and resumed growth in the Italian market after having shrunk for four years. In the Central and Eastern European markets, Slovenia's market share rose markedly in CEFTA-4, but fell in Croatia and Russia. As before,

Table 20: **International competitiveness indicators**

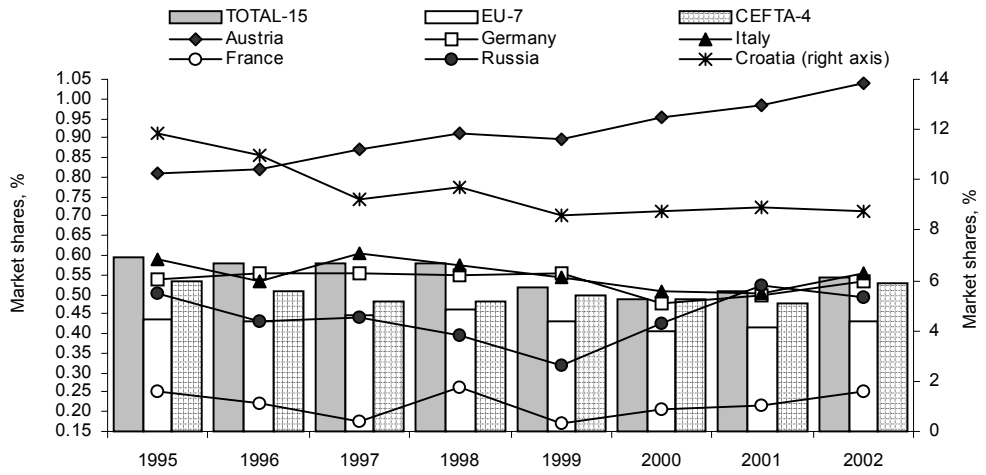
- Annual growth rates in %

	2000	2001	2002	2003
			Estimate	Forecast
Tolar's effective exchange rate [1]				
Nominal	-8.1	-5.8	-2.9	-0.9
Real [2]	-1.9	-0.1	2.7	2.9
Unit labour costs in manufacturing [3]				
SIT, nominal terms	4.2	8.5	6.1	4.1
Against the basket of currencies [4]	-4.2	2.2	3.0	3.2
Against the basket of currencies, relative terms [5]	-3.3	0.7	1.7	2.3
Components [4]				
Compensation of employees - real terms [6]	2.6	1.8	2.1	2.1
Net wages and other remuneration	1.9	0.8	1.6	1.7
Tax burden on wages [7]	0.6	0.6	0.2	0.2
Labour productivity	7.2	1.7	3.5	3.5
Prices / effective exchange rate	0.1	2.1	4.3	4.6

Sources of data: AP, BS, SORS, OECD, EC, calculations by the IMAD.
Notes:
[1] growth in the index value denotes appreciation of the tolar and vice versa;
[2] measured by relative consumer prices;
[3] applies to enterprises and organisations employing three or more workers (ZAP-M);
[4] domestic factors only;
[5] relative to growth in unit labour costs of the seven main OECD trading partners;
[6] deflated by consumer prices;
[7] gross wage and employers' contributions relative to net wages.

[56] Germany, Austria, Italy, France, the UK, Belgium and the Netherlands (EU-7); the USA and Switzerland; Hungary, Poland and Slovakia (CEFTA-4); Croatia and the Russian Federation.

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



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

Slovenia's market share growth in the EU was weaker than that in the Czech Republic, Hungary, Poland and Slovakia. In the countries of former Yugoslavia, which are not incorporated in the aggregate market share, Slovenia's market share increased in Serbia and Montenegro for the fourth year running (from 4.9% in 2001 to 5.8% in 2002) and in Macedonia for the second year running (from 7.8% to 8%). No data are available for Bosnia and Herzegovina, where Slovenia's market share increased in 2001 for the third year in a row and expanded from 15.9% in 2000 to 16.9%.

In the **first three months of 2003**, the tolar's nominal depreciation against the euro slowed down slightly within the framework of the tolar's managed float (see Chapter 7.1), in both monthly and annual terms (0.2%[57] and 3.6% in March, respectively). Because of the US dollar's fall against the euro, the tolar appreciated by 0.2% in nominal terms against the basket of OECD currencies in March over December and depreciated by just 0.3% in the first three months year on year. On the basis of relative consumer prices, the tolar appreciated markedly in real terms against the basket of OECD currencies: by 1.6% in March and 4.1% in the first three months (by 0.6% and 0.9% against the euro). On the basis of relative producer prices, which fell in the first three months and decelerated significantly compared to the same period last year, the tolar's real effective exchange rate dropped by 1.2% in March over December and climbed by just 0.6% year on year in the first three months. In the first two months, the tolar appreciated in real terms both against the Croatian kuna and CEFTA-4 currencies. Hence, Slovenia's price competitiveness was 2.6% lower than in December and 4.3% lower than in the same period last year compared to Croatia, and 1.9% and 3.3% lower compared to CEFTA-4.

[57] In the foreign exchange market.

The trend rate and year-on-year rise in unit labour costs against the basket of OECD currencies, which climbed by 1.1% and 4.2% in the first two months, indicate a longer-term fall in the cost competitiveness of Slovenian manufacturing. This stemmed from the tolar's nominal appreciation and the slowdown in its year-on-year depreciation. After falling in the last quarter of 2002, labour productivity's trend rate rose slightly again this year, while year-on-year labour productivity growth slowed down slightly from 3.7% in the last quarter of 2002 to 3.5% in the first two months of this year. The trend rate of the real compensation of employees roughly stagnated at December's (high) level, while its year-on-year rise decelerated from 4.5% in the last quarter of 2002 to 1.7% this year. According to seasonally adjusted figures, unit labour costs against the basket of currencies dropped by 3.0% from December to February because of the fall in the real compensation of employees and labour productivity growth, while the tolar's nominal value was higher.

In **2003 as a whole**, the **price and cost competitiveness of Slovenian manufacturing** and the economy should **fall** slightly more than in 2002. The tolar's nominal depreciation should slow down to around 2.7% against the euro and 0.9% against the basket of OECD currencies because of the US dollar's fall. Given the expected rise of 3.9% in relative consumer prices, the tolar's real effective exchange rate should climb by 2.9%. Labour productivity growth will climb to 3.5% as a result of the expected recovery of output in the second half of the year, but the real compensation of employees will increase gradually by 2.1% when measured by the consumer price index. As the exchange rate is expected to lag behind the domestic inflation rate by about 4.4 percentage points and unit labour costs in advanced trading partners are expected to slow down, relative unit labour costs should rise by about 2.3% in Slovenian manufacturing and by 2.7% in the economy as a whole.

3.2. Balance of Payments – In 2002 the current account surplus totalled 1.7% of gross domestic product; foreign direct investment inflows intensified

The **current account surplus** increased to EUR 392.5 million in 2002, or 1.7% of gross domestic product (from 0.1% of gross domestic product in 2001), the highest since 1994. This increase was largely **due to a considerably narrower trade deficit** than in 2001 (down from EUR 689.6 million to EUR 260.7 million), which was a result of the sustained high export levels and improved terms of trade. Growth in exports to the countries of former Yugoslavia, the former Soviet Union and CEFTA remained robust, which partly compensated for the modest growth in exports to EU countries which nevertheless started to pick up slightly in the second quarter of the year (see Chapter 2.2.1). The terms of trade improved considerably in 2002 (up by 2.4 index points), mostly due to appreciation of the euro against the US dollar and partly due to higher export prices. An analysis of the external price effect on the trade balance has revealed that if the terms of trade had remained unchanged relative to 2001, the trade deficit would have been EUR 200 million higher. In 2002 compared to 2001, the trade deficit with EU member-states widened but it narrowed with CEFTA countries. The trade surplus with the countries of former Yugoslavia and the Soviet Union widened.

Table 21: **Slovenia's trade in goods - regional structure (in EUR million)**

	2001			2002		
	Exports	Imports	Balance	Exports	Imports	Balance
EU	6,432	7,675	-1,243	6,509	7,869	-1,360
EFTA	134	192	-58	207	202	5
EX-Yu	1,750	604	1,146	1,952	575	1,377
CEFTA	828	1,081	-253	954	1,094	-140
Russia	315	315	0	320	264	56
USA	273	333	-60	297	333	-36
Other	615	1,144	-529	723	1,234	-511

Source of data: the SORS.

As a result of increased exports and imports of services, **trade in services** generated a **slightly higher surplus** than in 2001, amounting to EUR 591.6 million (in 2001, EUR 559.5 million). On the export side, the share of other services increased the most, in particular business services (mainly intermediation), communication and financial services, which was a positive development because these services generate the highest value added. On the import side, the volume of other services rose fastest, while the volume of travel rose slowest. Compared to 2001, the surplus in transport services increased, but the surplus in travel decreased because Slovenian tourists

Tabela 22: **Trade in services**

Type of services, EUR million	Exports of services		Imports of services		Balance		Nominal growth 2002/2001, in %	
	2002	2001	2002	2001	2002	2001	Export	Import
Total services	2,416.0	2,193.8	1,824.3	1,634.2	591.6	559.5	10.1	11.6
Transport	632.8	559.2	386.2	356.0	246.6	203.2	13.2	8.5
Travel	1,140.8	1,120.8	641.1	594.2	499.7	526.6	1.8	7.9
Other services	642.4	513.8	797.0	684.0	-154.6	-170.6	25.0	16.5
Communication services	60.7	37.8	89.0	67.0	-28.2	-29.3	60.8	32.7
Construction services	95.5	78.8	60.5	52.1	35.0	26.7	21.1	16.1
Insurance services	5.9	8.5	11.2	11.2	-5.4	-2.7	-30.4	0.4
Financial services	41.0	12.2	29.8	28.0	11.2	-15.8	237.0	6.7
Computer and information services	83.4	71.7	85.1	64.3	-1.7	7.4	16.4	32.4
Licenses, patents and copyrights	7.9	16.2	82.8	67.4	-74.9	-51.2	-51.1	22.9
Other business services	326.9	266.8	380.7	335.6	-53.8	-68.7	22.5	13.5
- Intermediation	136.2	97.0	60.2	57.5	76.0	39.6	40.3	4.7
Personal, cultural and recreation services	15.7	18.0	40.2	41.1	-24.5	-23.1	-13.0	-2.3
Government services	5.4	3.8	17.7	17.4	-12.3	-13.5	40.3	1.8

Source of data: preliminary data from the Bank of Slovenia

abroad spent more than foreign tourists in Slovenia. The deficit in other services widened mainly owing to the large deficit in patents, licences and copyrights. Slovenia also recorded a deficit in trade in other knowledge-based services (in particular communication and business services). Unlike in 2001 (a surplus of EUR 17.2 million) **factor services** recorded a deficit of EUR 80.1 million, which was primarily due to higher capital expenditures[58]. The surplus in **current transfers** was (EUR 141.6 million) only slightly below the 2001 level (EUR 143.7 million).

In 2002, the capital and financial account of the balance of payments recorded a **net capital inflow** of EUR 1,516 million (excluding international monetary reserves) compared to the EUR 1,343.8 million seen in 2001. As much as three-quarters of financial inflows were represented by foreign direct investment inflows, totalling EUR 1,949.5 million or 8.3% of gross domestic product compared to EUR 562.4 million or 2.6% of gross domestic product in 2001. Capital inflows peaked in September as a result of selling off part of the equity of the NLB bank and in November as a result of the takeover of Lek worth EUR 781.5 million, which was the greatest single foreign investment project in Slovenia (see Chapter 3.3). Within the framework of foreign direct investment, capital inflows in the form of loans extended between affiliated companies[59] recorded a strong rise, totalling EUR 379.8 million (in 2001, EUR 196.4 million). The second largest inflow was net currency and deposits of banks, rising by EUR 481.8 million. Borrowing abroad (EUR 510.7 million) was slightly higher than in 2001 (EUR 470.2 million), with corporate sector borrowing being lower and commercial bank borrowing being higher, whereas the government repaid foreign loans in net terms for the second year in a row (see Chapter 3.4). Capital outflows were underpinned by individuals' cash flows, short-term commercial loans, and increased claims from loans. Cash outflows of individuals, amounting to EUR 591.2 million, were partly the result of the withdrawal of foreign currency from banks after the changeover to the euro in late 2001 and also reflected, as the Bank of Slovenia estimates, the repayment of loans taken abroad in the period of high domestic consumption. Along with higher export than import growth, short-term trade credits extended abroad surged by EUR 385.7 million (by EUR 265.9 million in 2001). The latter was also due to the poor payment discipline in the countries of former Yugoslavia and the extending of credit terms for exports to EU countries. Loans granted abroad increased by EUR 225.3 million, of which 38.5% was granted by banks, and the rest by domestic companies, most of it short-term loans. The outflow of capital in the form of outward foreign direct investment was somewhat lower than the year before (in 2002, EUR 121.9 million and in 2001 EUR 147.7 million) (see Chapter 3.3). As a result of higher inflows to the capital and financial account and a surplus in the current account of the balance of payments, international monetary reserves soared by EUR 1,940.6 million to EUR 6,781.4 million (see Chapter 3.4).

Despite the improved terms of trade (index 101.4), the more dynamic growth in imports than exports of goods seen in the **first two months of 2003** pushed up the

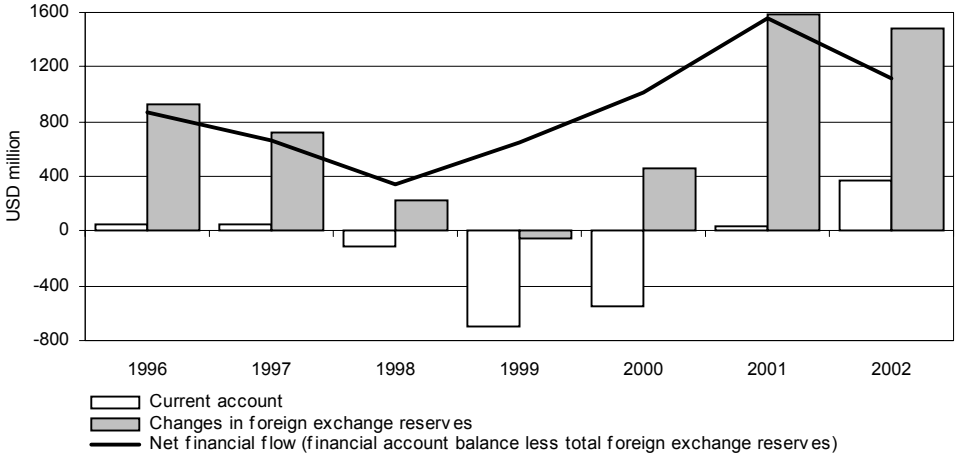
[58] In previous years reinvested earnings were included as a single sum at the end of December of each year, but since August 2002 they are included on a monthly basis, which permits better comparability of the balance of payments data with European countries and shows a more realistic picture of direct investment throughout a year.

[59] As of 2001, these loans are included in direct investment in the item "other capital".

trade deficit to EUR 82.8 million (in the same period last year, EUR 53.6 million; also see Chapter 2.2.1). At the same time, the surplus in trade in services and current transfers slightly narrowed, while the surplus recorded in factor incomes remained at the same level as in the respective period of last year (EUR 35.1 million). Thus, the current account surplus was almost halved compared to the first two months of 2002 (from EUR 94.1 million to EUR 49.8 million).

In the first two months of 2003, net capital inflows (EUR 27.1 million) were lower than in the same period last year (EUR 239.1 million). This change can largely be attributed to lower inflows of foreign direct investment and substantially lower inflows of currency and deposits of banks. However, the inflows of currency and deposits of banks were still the most important capital inflow, followed by net inflows from loans raised abroad. Net inflows of foreign direct investment (EUR 5.4 million) were way below the figure for the same period last year (EUR 147.6 million). On the other hand, the volume of foreign investment in domestic debt securities rose and, according to data from the Central Securities Clearing Corporation, net purchases by foreigners totalled EUR 30.4 million in the first two months (for 2002 a total of EUR 25.2 million). Most were investments in treasury bills. The net inflow of foreign loans was up by EUR 68.8 million (up EUR 8.4 million in the same period last year). The government repaid more loans than it took out, whereas companies and banks took out EUR 71.3 million worth of loans. The outflow of currency and deposits of households from the Slovenian banking sector amounted to EUR 88.9 million, roughly the same as in the first two months of 2002. Along with a slowdown in the domestic securities market and high capital inflows which poured into the country towards the end of last year, purchases of securities abroad by domestic investors also rose and totalled EUR 31.1 million (in the same period last year, net sales were recorded). The volume of short-term commercial loans granted abroad was considerably below last year's figure (EUR 27.7 million in the first two months of 2003 and EUR 113.2 million in the same period of 2002). At the end of February,

Picture 9: **Financing the current account of the balance of payments**



Source of data: BS.

international monetary reserves stood at EUR 6,842.6 million and covered 6.5 average months' worth of imports of goods and services.

As exports of goods are expected to continue growing faster than imports of goods (see Chapter 2.2.1) in **2003**, the trade deficit is – despite the deteriorated terms of trade – likely to narrow slightly to around EUR 224 million. At the same time, the surplus in the services balance is expected to widen to EUR 605 million despite the higher growth in imports. Income from capital will drop slightly due to low interest rates abroad. Capital expenditures are expected to increase due to the expected higher reinvested earnings by foreign investors in Slovenia and the planned payments of interest on external debt. Thus, the deficit in factor incomes is expected to widen to around EUR 170 million this year. Given the foreseen inflows of pre-accession assistance to Slovenia, the current account is set to record a surplus of EUR 145 million, which is slightly more than last year. So, the **current account** is likely to record a **surplus** of EUR 357 million (1.5% of GDP) in 2003.

In **2004**, trade flows are expected to be more dynamic on the import side mainly because of the strengthened investment demand and private consumption. The trade deficit should rise to EUR 309 million and the services surplus to EUR 629 million. The overall surplus in goods and services trade is expected to slightly narrow from EUR 381 million in 2003 to EUR 320 million in 2004. Given that the level of net factor incomes should be roughly the same (a deficit of EUR 167 million) and net inflows from the EU budget higher (a surplus in current transfer of EUR 193 million), the **current account surplus** should only be **slightly lower**, that is EUR 347 million or 1.3% of GDP.

3.3. Foreign direct investment – The record inflows of 2002 are unlikely to be sustained; but inflows should still be higher than in the past few years

In 2002, global foreign direct investment (FDI) flows decelerated markedly for the second year running. According to UNCTAD, FDI inflows fell by 27%, from USD 735 billion in 2001 to just USD 534 billion in 2002 (in the record year of 2000 they totalled USD 1,492 billion). As in 2001, this fall was stronger in advanced than developing countries (down 31% and 23%, respectively). The slowing world economic growth and falls in the capital market indexes of industrialised nations undermined business confidence which, in turn, significantly dampened the investment plans of companies, especially cross-border mergers and acquisitions. They were the driving force behind the FDI expansion seen in the late 1990s, especially between advanced countries, but they shrank much more than total FDI flows over the last two years. From January to September 2002, cross-border mergers and acquisitions slumped by 45% compared to the same period the year before, going down from USD 460 million to USD 250 million (UNCTAD 2002). Forecasts for global FDI flows for 2003 are still unavailable, but it is more likely that they will fall further than recover in view of the continued uncertainty in the economic environment and the downward corrections made to economic growth forecasts.

Table 23: **FDI in transition countries/future EU members**

USD million	INFLOWS			STOCK		
	2000	2001	2002*	2000	2001	2002*
Czech Republic	4,986	4,916	8,000	21,644	26,764	37,000
Hungary	1,649	2,443	1,600	19,804	23,562	27,000
Poland	9,342	5,713	4,000	34,227	41,031	46,000
Slovakia	1,925	1,475	4,000	4,746	5,582	10,000
Slovenia	136	503	2,000	2,893	3,209	5,500
Estonia	387	542	300	2,645	3,160	3,600
Latvia	410	155	400	2,084	2,332	3,000
Lithuania	379	446	600	2,334	2,666	3,600
TOTAL	19,213	16,194	20,900	90,376	108,305	135,700

Source of data: Podkaminer, Leon et al. 2003. Transition Countries Resist Global Slowdown: Productivity Gains Offset Effects of Appreciation. WIIW Research Reports, No. 293 (February), Vienna: WIIW.
Note: * Estimate.

In the circumstances of the dramatic fall in global FDI flows, the transition countries of Central and Eastern Europe recorded the best outcomes, as their FDI inflows fell by just 1% and remained at a level of around USD 27 billion (UNCTAD 2002). What is more, FDI inflows in transition countries which are also future EU members increased from USD 16,194 million in 2001 to USD 20,900 million in 2002 and overtook the FDI inflows of 2000, when global FDI flows reached record levels. By far the largest FDI inflows went to the Czech Republic, but inflows were also significant in Slovakia and Slovenia. Factors that bolstered FDI inflows in future EU members were the prospects of EU membership, privatisation processes taking place in some countries (the Czech Republic, Slovenia), and the growing competition which is forcing multinational companies to seek inexpensive production locations. With the exception of the Czech Republic, where FDI inflows are expected to halve in 2003 (reduced investment opportunities because of privatisation) and Slovenia, the Vienna Institute for Comparative Economic Studies (WIIW) forecasts that EU applicant-countries will maintain about the same levels of their FDI inflows as enjoyed in 2002.

Table 24: **Flows, stock and changes in stocks of inward FDI[1] in Slovenia**

Values, USD million	1995	1996	1997	1998	1999	2000	2001	2002
Year-end stock - total [2]	1,763.4	1,998.1	2,207.3	2,777.0	2,682.4	2,892.7	3,209.0	N/A
Equity and reinvested earnings	1,203.5	1,274.9	1,559.4	2,016.2	1,910.1	1,969.1	2,185.6	N/A
Net liabilities to foreign investors	559.8	723.1	647.9	760.8	772.4	923.6	1,023.4	N/A
Changes in stock - total values [2]	437.5	234.7	209.2	569.7	-94.6	210.3	316.3	
Annual inflows - total	150.5	173.5	334.2	215.5	106.6	135.9	503.3	1,865.3

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

After growing markedly in 2001, **FDI inflows to Slovenia** totalled as much as USD 1,865.3 million in **2002** and Slovenia recorded a noteworthy amount of FDI for the first time. In the **first two months of 2003**, FDI inflows amounted to a mere USD 36.7 million, way below the USD 157.1 million seen in the same period last year. Including these inflows, Slovenia's FDI stock is estimated to total over USD 5 billion. The increased inflows recorded in the last two years were largely fuelled by large foreign acquisitions, relative to the size of the Slovenian market, primarily the takeover of Lek, a pharmaceuticals company, by a Swiss company Novartis, and the purchase of a minority stake in the NLB bank by a Belgian KBC bank, as well as the takeover of Simobil by Austria's Mobilkom, the takeover of the SKB Banka by France's Société Générale, the purchase of the Banka Koper by Italy's San Paolo IMI, the purchase of the Krekova Banka by Austria's Reiffeisen Bank, the purchase of Cementarna Trbovlje by Austria's Lafarge Perlmooser, the purchase of a minority stake in Pivovarna Union by Belgium's Interbrew, and the purchase of the rest of the stake held by Sava Kranj in Sava Tires by Goodyear.

In 2002, the inflow of loans extended between affiliated domestic and foreign companies (holding a 10% stake or more) also increased substantially. Following recommendations of the International Monetary Fund, these loans have been presented as part of foreign direct investment in Slovenia's balance of payments since 2001. The net liabilities of Slovenian companies to their parent companies abroad rose by USD 350 million (by USD 174 million in 2001). These loans accounted for as much as 53.2% of the total net inflow of loans (23.3% in 2001).

In the future, FDI inflows are expected to be higher than in the period before 2002, however, last year's record levels will be difficult to beat. This could be achieved if one or more Slovenian companies are taken over, however, there are few companies left like Lek, a large pharmaceuticals company. In the upcoming years, FDI inflows will depend on many factors, but their impacts are difficult to pinpoint. Factors speaking in favour of greater FDI inflows are: (i) Slovenia's membership in the EU; (ii) completing the privatisation of Slovenia's non-tradable sector which is expected to involve foreign strategic investors; (iii) seeking strategic partners in domestic enterprises; and (iv) the constant improvement in the way Slovenia is perceived abroad. Factors speaking against greater FDI inflows are: (i) continuing the postponement of privatisation of the non-tradable sector, a process that is already slow; (ii) the state's active role in attracting greenfield projects is not being prioritised;

Table 25: **Flows, stock and changes in stocks of outward FDI[1] in Slovenia**

Values, USD million	1995	1996	1997	1998	1999	2000	2001	2002
Year-end stock - total [2]	489.9	459.5	459.4	636.2	626.5	767.6	949.5	N/A
Equity and reinvested earnings	366.2	342.9	324.7	381.5	379.1	464.0	584.2	N/A
Net liabilities to foreign investors	123.7	116.5	134.7	254.7	247.4	303.6	365.3	N/A
Changes in stock - total values[2]	135.9	-30.4	-0.1	176.8	-9.7	141.1	181.9	N/A
Annual outflows - total	10.0	-7.0	-30.9	5.5	-47.6	-65.3	-132.8	-116.9

Source of data: Bank of Slovenia.
Notes: [1] companies in which a foreign investor holds a 10% or higher stake; [2] the '-' sign indicates an outflow to a foreign country.

Box 4: Decision-making and supervision of operations in foreign-owned companies in Slovenian manufacturing

The analysis of the division of responsibilities between a foreign parent company and its subsidiary (foreign-owned company) shows that foreign-owned companies have authority over most business functions in Slovenian manufacturing. There is not a single business function which is in most cases under the authority of the foreign parent company. Foreign parent companies usually retain control over strategic and long-term functions: market research (in 47.2% of cases), product development (45.8%), and marketing (40.3%). As regards all other business functions, foreign-owned companies that are exclusively or mainly in charge of business functions represent a 65% share. Functions such as operating management, accounting and finance, purchases and logistics, and process engineering are understandably performed mainly by foreign-owned companies themselves. It is somewhat surprising, however, that strategic management and planning, investment financing and product pricing are largely under the authority of foreign-owned companies (Majcen and Rojec, 2003).

Table 26: **Who is in charge of individual business functions in foreign-owned companies operating in manufacturing in Slovenia? (% of surveyed foreign-owned companies)***

Business functions	Solely/mainly a foreign-owned company	Solely/mainly a foreign parent company	Not defined	Total
Product development	54.2	45.8	0.0	100.0
Process engineering	83.3	16.7	0.0	100.0
Product pricing	70.9	29.1	0.0	100.0
Purchases and logistics	90.3	9.7	0.0	100.0
Accounting and finance	94.4	5.6	0.0	100.0
Investment financing	79.2	20.8	0.0	100.0
Market research	52.8	47.2	0.0	100.0
Distribution, sales	69.4	30.6	0.0	100.0
After-sales services	69.4	27.8	2.8	100.0
Advertising	65.3	29.2	5.6	100.0
Marketing	59.7	40.3	0.0	100.0
Operating management	97.2	2.8	0.0	100.0
Strategic management and planning	68.1	31.9	0.0	100.0

Source of data: Majcen, Boris and Matija Rojec, 2003. Mechanisms of productivity growth through inward foreign direct investment. Slovenian country report, Ljubljana, Institute for Economic Research.
Notes: * data was obtained from a sample of 72 foreign-owned companies which were surveyed in 2002. The surveyed companies represented 23.8% of all foreign-owned companies in Slovenian manufacturing. They are, however, much more important as they represented 53.6% of total fixed assets, 50.8% of employees, 62.1% of sales, and 64.2% of exports of all foreign-owned companies operating in Slovenian manufacturing.

(iii) the lack of locations for industrial projects, which limits new investment in the production sector – investment is only being made by existing companies expanding their capacity in existing locations, while investment in new projects at new locations

is practically non-existent; this is due to the poor supply of industrial estates as well as the legislation and regulations that hamper the creation of these estates; and (iv) Slovenia's membership in the EU will not only create new opportunities for Slovenia, but also increase competition for FDI. It is a known fact that competition for FDI is strongest between member-states of a common market. Hence, it is necessary to create an investment 'infrastructure' and conditions that at least match those provided by other EU member-states.

In **2002, Slovenia's outward FDI** totalled USD 116.9 million, 12% below the record level of USD 132.8 million seen in 2001. The current stock of outward FDI is estimated at about USD 1,100 million. The investment of Slovenian companies abroad remained concentrated on the countries of former Yugoslavia and countries in transition. It is important to note that FDI outflows would have been higher if some of the planned acquisitions, mainly in Croatia, had not been prevented for political reasons. The normalisation of conditions in Serbia and the easing of the political tension underlying Slovenia's acquisitions in Croatia should provide enough room for the expansion of Slovenia's outward FDI. In the **first two months of 2003**, FDI outflows totalled USD 32.3 million (USD 27.5 million in the same period last year).

3.4. External debt – In 2002 borrowing only slightly higher than a year ago

According to figures from the Bank of Slovenia, Slovenia's external debt **increased** by USD 2,082 million in 2002 to total USD 8,799 million at the end of December, thus accounting for 40% of gross domestic product. Since, as in previous years, more than 90% of debt was denominated in euros, and the euro appreciated against the US dollar, over three-quarters of the increase in the dollar-denominated external debt stock was the result of **exchange rate changes** (USD 1,598 million), while **current transactions** pushed debt up by USD 484 million. Long-term debt accounted for 98.6% of total debt, which was up 0.5 of a structural point compared to 2001.

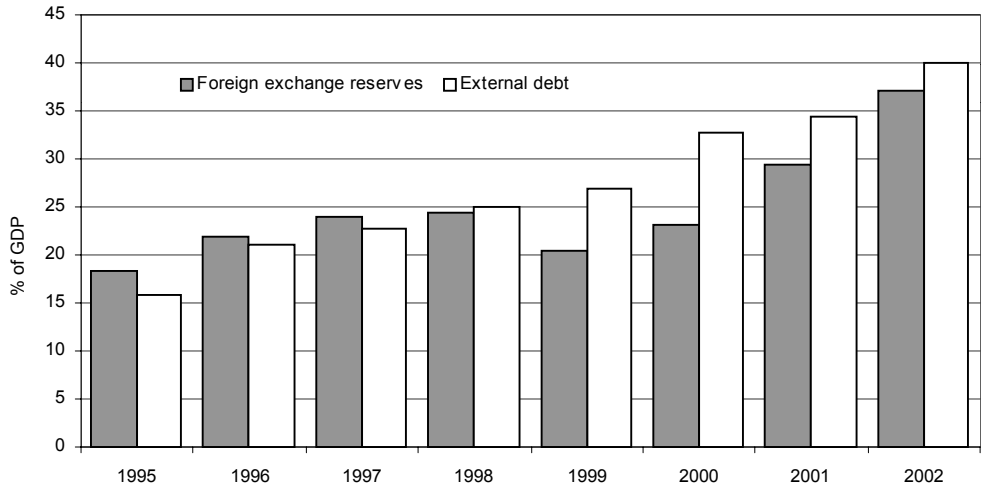
In the structure of long-term debt, the **trend of an increasing share of private debt**, which started in 1999, **continued**. The share of public and publicly guaranteed debt fell from 46.4% at the end of 1999 to 37.3% at the end of 2002, i.e. by 3.8 structural points from the end of 2001. In 2002 like in 2001, the government continued

Table 27: **Slovenia's external debt**

in USD million	1995	1996	1997	1998	1999	2000	2001	2002
Total debt stocks	**2,970**	**3,981**	**4,123**	**4,915**	**5,400**	**6,217**	**6,717**	**8,799**
Long-term debt	2,916	3,931	3,988	4,805	5,283	6,118	6,591	8,680
Public and publicly guaranteed	1,437	1,996	2,014	2,326	2,451	2,665	2,710	3,238
Private non-guaranteed	1,479	1,935	1,974	2,479	2,832	3,453	3,881	5,442
Use of IMF credit	4	1	-	-	-	-	-	-
Short-term debt	50	49	135	110	117	99	126	119

Source of data: BS.

Picture 10: **Slovenia's foreign exchange reserves and external debt, as a % of GDP**



Sources of data: SORS, BS, calculations IMAD.

to repay debt abroad and borrowed largely in the domestic market. In the debt structure broken down by creditors, the share of long-term external debt taken out in international financial organisations fell by 0.7 of a structural point to 10.9%.

In 2002, liabilities from loans taken out abroad (disbursements less repayments) amounted to USD 512.5 million (as against USD 416.3 million in 2001). Despite the predictable depreciation of the tolar and low interest rates abroad, the net borrowing of domestic companies abroad amounted to USD 295.7 million and was down by USD 58.2 million on 2001 (it only increased in the last quarter of the year). This was largely due to a high rise in domestic banks' foreign exchange loans to the corporate sector (see Chapter 7.2). The inflow of loans extended between affiliated companies (see Chapter 3.3) also increased substantially to amount to USD 350 million (in 2001, USD 174 million)[60]. Despite its high liquidity, the banking sector borrowed USD 218 million, which was double the level recorded in 2001. Like in the corporate sector, borrowing activity strengthened at the end of the year. The government repaid USD 1.1 million of net foreign loans in 2002.

The average **lending terms** of private creditors for **new borrowing** improved in 2002 compared to 2001; interest rates were down from 5.4% to 4.2%, the grace period extended to 3.8 years (in 2001 3.4 years), and the maturity period shortened to 6.3 years (in 2001 7.2 years). As regards the lending terms of official creditors, the interest rates climbed from 3.5% to 4.6%, the grace period extended and the maturity period shortened.

High capital inflows, in particular foreign direct investment and net inflows of currency and deposits of banks, along with the current account surplus, pushed total

[60] The loan data series was interrupted in 2001. Loans between affiliated residents and non-residents (a 10% or higher holding) are found under the item direct investment – other capital.

Table 28: **Indicators of Slovenia's indebtedness, in %**

Indicators	Low	Medium	Critical	1996	1997	1998	1999	2000	2001	2002
EDT/GDP	*30*	*30-50*	*50*	21.1	22.6	25.1	26.9	32.8	34.4	40.0
EDT/XGS	*165*	*165-275*	*275*	38.0	39.5	44.2	51.4	58.1	59.4	68.9
TDS/XGS	*18*	*18-30*	*30*	8.9	8.8	13.8	8.1	9.7	14.7	14.3
INT/XGS	*12*	*12-20*	*20*	1.9	2.2	2.1	2.4	2.8	3.2	2.9

Sources of data: SORS, BS, calculations and estimates by the IMAD.
Notes: The first two indicators (EDT/GDP and EDT/XGS) indicate the external debt total (EDT) relative to gross domestic product (GDP) and the value of exports of goods and services (XGS). The other two indicators (TDS/XGS, INT/XGS) are indicators of a flow comparing the exports of goods and services (XGS) with the total debt service (TDS) and interest rates on external debt (INT).

foreign exchange reserves up. As a result, the ratio of foreign exchange reserves to external debt improved from 0.856 at the end of 2001 to 0.926 at the end of 2002. At the end of 2002, Slovenia's foreign exchange reserves totalled USD 8,152 million, which was USD 2,405 million more than in 2001. Current transactions pushed reserves up by USD 1,485 million, and the exchange rate changes caused by the depreciation of the US dollar against the euro by USD 920 million. Total foreign exchange reserves covered 7.9 average months' worth of imports of goods and services (in 2001, 6 months' worth of imports of goods and services).

The World Bank's indebtedness **indicators** still put Slovenia in the group of **countries with low levels of indebtedness** in 2002. As a result of higher amounts of principal repayments, its debt service ratio increased the most in 1998, 2001 and 2002. At the end of 2000, Slovenia moved into the group of countries with medium-level indebtedness as regards the percentage of external debt in gross domestic product, while other external indebtedness indicators still put Slovenia way below the medium levels. Although the **indicators of debt stocks** deteriorated in 2002 compared to 2001, this is not problematic as long as developments in the balance of payments (the current account surplus and improved structure of capital inflows) remain favourable.

At the end of **February 2003**, external debt stood at USD 9,317 million, up by USD 518 million from the end of 2002. In the first two months of this year, external debt also increased largely because of the depreciation of the US dollar against the euro, whereas current transactions contributed USD 76 million. Foreign exchange reserves amounted to USD 8,534 million at the end of February and covered 91.6% of total external debt.

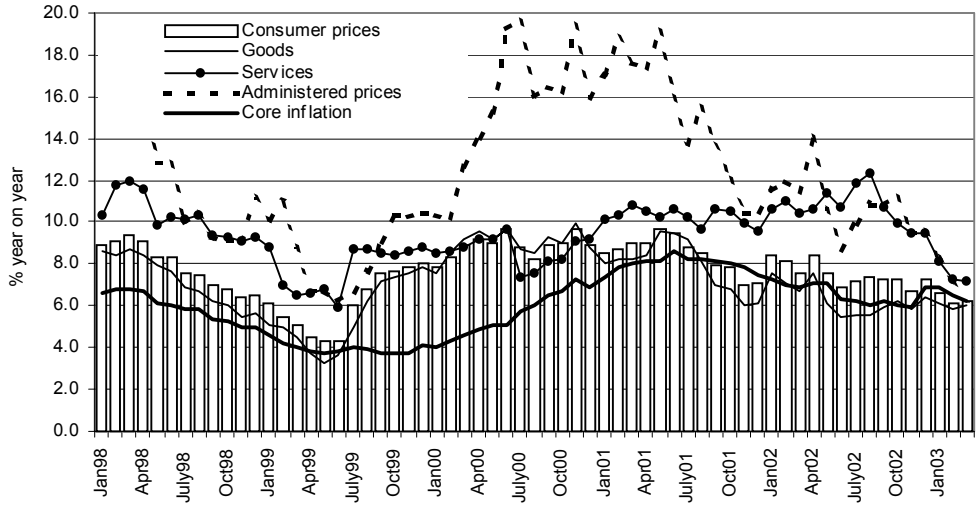
4. Prices – Combined actions of monetary, fiscal and administered prices policies needed to further cut inflation to approximately 5% in 2003 and 4% in 2004

Inflation continued to fluctuate at a relatively high level in **2002**. After the year-on-year rise in consumer prices slowed down by 1.9 percentage points to 7.0% in 2001, annual inflation again accelerated to 8.4% by April 2002. In the following months it began to decline again, and amounted to 7.2% in December. The average inflation, on the other hand, has fallen more steadily in the past two years; it amounted to 8.9% in December 2000 and 7.5% in December 2002.

A feature characteristic of 2002 was the relatively high quarterly price volatility. After rising by 3.2% in the first quarter, growth more than halved in the second quarter to only 1.5%, and in the third and fourth quarters gradual deceleration continued, with price rises amounting to 1.4% and 1.1%, respectively. The main reason for this volatility was the concentration of rises in tax burdens and prices under various regimes of regulation in the first four months of the year. The higher rates of value-added tax and excise duties on transport fuels, tobacco products and alcohol, as well as the introduction of utility environmental taxes added 1.4 percentage points to inflation in the first quarter, while in the following months the higher excise duties on tobacco added a further 0.3 of a percentage point. Along with the higher prices of basic local utility services, which were mainly the result of the environmental taxes, administered prices added another 0.6 of a percentage point to inflation in the first quarter. Half of that was the result of higher prices for telephone services, and the other half involved higher prices of fuels.

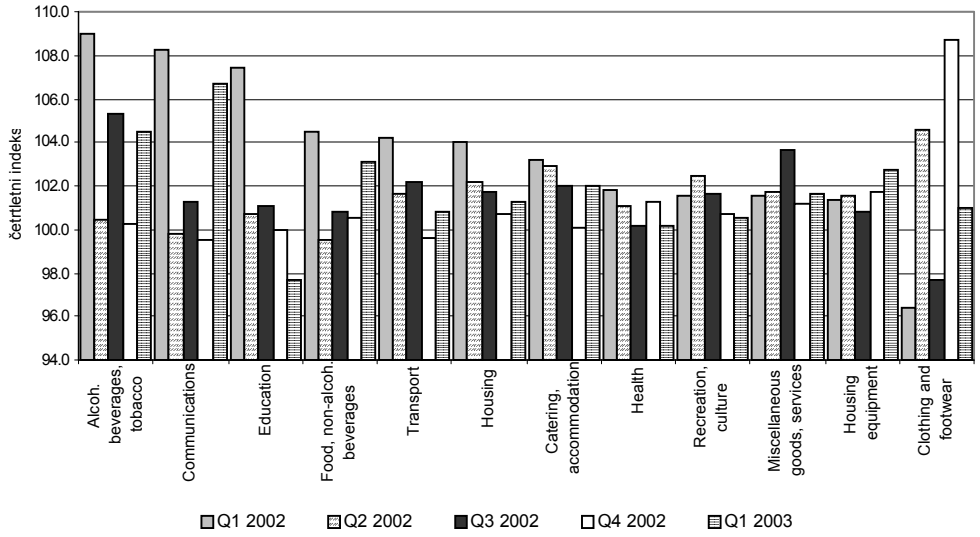
After the factors which contributed most to accelerating inflation in the first three months were no longer present, inflation moved at around 1.3% in the following

Picture 11: **Movements of inflation and selected aggregates**



Source of data: SORS, IMAD calculations.

Picture 12: **The contribution of individual price groups to inflation**



Source of data: SORS, IMAD calculations.

quarters, while deviations to either side seen in the second and final quarters were the result of changes in oil prices, affecting the prices of liquid fuels for transport and heating. In April, the price of oil rose above the average of 2002, while in November it fell below the average.

Three individual groups of product and services added 50% to inflation in 2002. They were food and non-alcoholic beverages, transport products and services, and housing, representing 53% of the total consumer price index. Moreover, the rise in prices of alcoholic beverages and tobacco, education, and housing was substantially higher than their share in the consumer price index, which means these groups added the highest relative shares to the overall price increase in 2002, i.e. 47% more than their share in the consumer price index.

After the one-off factors, which mostly pushed up the prices of goods, subsided in the first four months of 2002, the second and third quarters saw lower year-on-year price growth. Consequently, the **gap between the rise in services and goods prices** became more evident again. Following the 9.4% increase in services prices, the gap amounted to 3.0 percentage points (in 2001 services prices grew by 9.6%, 3.4 percentage points more than goods prices). If we look at services included in the consumer price index, administered prices of services rose substantially, especially those of telephone services (by 23.7%) and basic local utility services (by 17.8%). They contributed 10.4% to the total rise in services prices. As far as non-regulated services prices are concerned, the biggest contributors to the total rise in services prices were catering and accommodation services. The overall rise in services prices contributed 2.5 percentage points to inflation.

While the measured inflation ranged above 7%, there was no substantial fall in the **core inflation**. At the end of 2002 it was approximately 0.5 of a percentage point

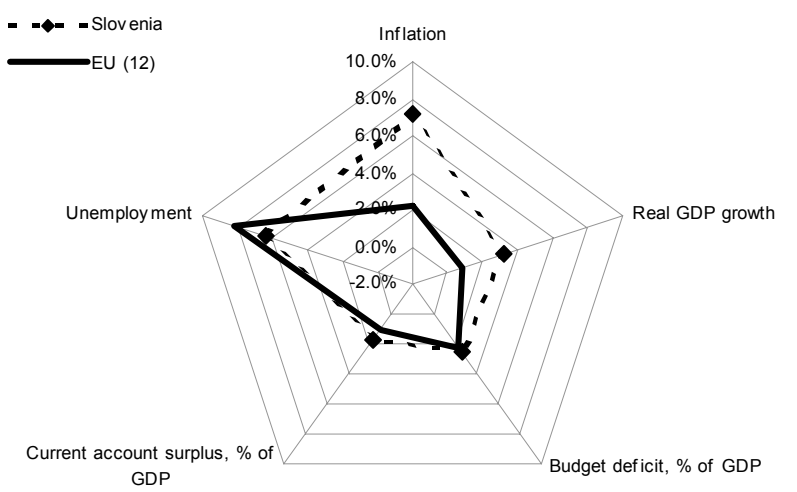
lower than in December 2001, but it still exceeded 6%. This relatively modest fall was mainly the result of the unchanged orientation of the main macroeconomic policies, and partly the result of the impact of tax changes on most products and services included in the consumer price index, as well as the indirect impact of administered price rises on other prices (mainly fuels).

Prices under various regimes of regulation rose by 9.2% last year, and contributed 1.3 percentage points to inflation. This rise was the result of the 9.7% increase in the first four months, while in the following months administered prices declined,

Box 5: Measures to cut inflation

As Picture 13 shows, the macroeconomic indicators for Slovenia, with the exception of inflation, were at the level of EU members, or even above them, at the end of 2002. The analysis of the causes fuelling inflation, which has persisted at a level of above 7% since 1999, shows these causes mainly stem from structural imbalances. While other macroeconomic aggregates were kept in balance, inflation's persistence at a relatively high level is also the result of the unresponsiveness of key economic policies to new circumstances in the domestic and foreign economic environments seen in the last two years.

Picture 13: **Macroeconomic indicators in 2002**



Sources: SORS, MF, BS, Eurostat.
Note: The surface area of the shape does not denote the efficiency of an economy.

At the end of 2002 the Bank of Slovenia and the government committed themselves to use a balanced combination of measures to influence several factors which have substantially fuelled price rises in the past few years. Their aim was to slow price growth in 2003 to approximately 5%, and by a further percentage point in

Box 5: Measures to cut inflation - *continued*

2004. Thus, the possibility of an economic shock in the concluding phase of integration with the European Union would be minimised.

In December the government adopted several measures related to fiscal burdens and prices under various regimes of regulation which should, along with the Bank of Slovenia's measures, enable a sustainable reduction of inflation. At the beginning of this year the government adopted the Plan of Raising Administered Prices in 2003, which sets the highest acceptable level of administered price rises, and their distribution between months. According to this plan, this year's rise in administered prices should not exceed the general level of prices, which is aimed at 5.1%, while at the same time any particular rise should not be substantially higher. Their contribution to inflation should amount to 0.6 of a percentage point, or 10.5% of the anticipated total consumer price growth, which is approximately 50% less than in 2002. If actual inflation differs significantly from the expected levels, the planned rises in administered prices can be lowered further.

In the last two years the inflationary impact of changes to taxes and excise duties has increased, partly due to bringing the tax reform to an end and partly to fiscal policy's unchanged objective, i.e. keeping the budget deficit below 1% of gross domestic product. Budget-deficit targeting was relatively successful in the period of stable economic conditions, while the subdued economic activity which began in 2001 and continued into 2002, resulting in lower budget revenues and increased pressure to raise expenditure, led to the need for a constant increase in taxation, especially indirect taxes. The higher rates of value-added tax and excise duties on automotive petrol, alcoholic beverages and tobacco products added 1.7 percentage points to inflation in each of the last two years. Hence the government decided not to raise taxes which would lead to higher price rises than forecasted for 2003, with the exception of excise duties on tobacco products and the introduction of the general value-added tax rate for wines already laid down in 2002. In 2003 their contribution to inflation should not surpass 0.6 of a percentage point. In early 2003 the government also began adjusting excise duties on liquid fuels, which reduced their volatility, thereby easing off price rises because changes in liquid fuel prices have an asymmetrical impact. Because of adjusting excise duties, inflation was 0.6 of a percentage point lower in the first quarter of this year. The harmonisation of budget commitments with the changed macroeconomic circumstances in the revised budget proposed in May, additionally reduced the need to raise tax burdens which could put additional pressure on price growth.

These measures of fiscal and administered prices policies were taken on the assumption that the Bank of Slovenia will adjust its monetary policy, that is exchange rate policy, at the beginning of the year. Depreciation of the tolar, which was also very predictable, accounted for approximately half of total price growth last year, hence a gradual reduction of inflation will be impossible without a slower depreciation of the tolar this year. In spite of this, growth in the Bank of Slovenia's tolar exchange rate slowed down minimally in the first quarter of this year and thus hampered the disinflation process. As a result, the cost of bringing inflation down will be unevenly distributed.

but monthly rises were more volatile. The biggest contributors to inflation among administered prices were local utility services (0.5 of a percentage point), petroleum products (0.4 of a percentage point), and telephone services (0.3 of a percentage point).

After telephone and postal services prices began to be regulated by the Telecommunications, Broadcasting and Post Agency in 2002, liquid gas prices were liberalised in early 2003, and fuel and gas oil prices started to be regulated again (this time with the same model as for automotive petrol), the share of prices under various regimes of regulation rose by approximately 1.5 percentage points at the beginning of this year. Including changes in weights of the consumer prices index, they are estimated to represent 15.4% of the total consumer price index.

In line with the Plan of Raising Administered Prices in 2003, the government did not change these prices in the **first quarter of this year**. Nevertheless, prices under various regimes of regulation rose by 2.0%, which added 0.3 of a percentage point to inflation. This rise was underpinned by higher prices of liquid fuels at the end of last year, which the SORS took into account in January's prices in line with the existing methodology, as well as by the rise in prices of basic local utility services which the government approved last year, but will be realised gradually, with the last part coming this year.

The contribution of indirect taxes to inflation dropped in the first quarter of this year compared to last year. The government continued to adjust excise duties on tobacco products prescribed by law, and replaced the reduced value-added tax rate on wine with the general one. These two changes added 0.3 of a percentage point to inflation. Because of adjusting excise duties on transport and heating liquid fuels, which reduced their price volatility, inflation was 0.6 of a percentage point lower in the first quarter of this year.

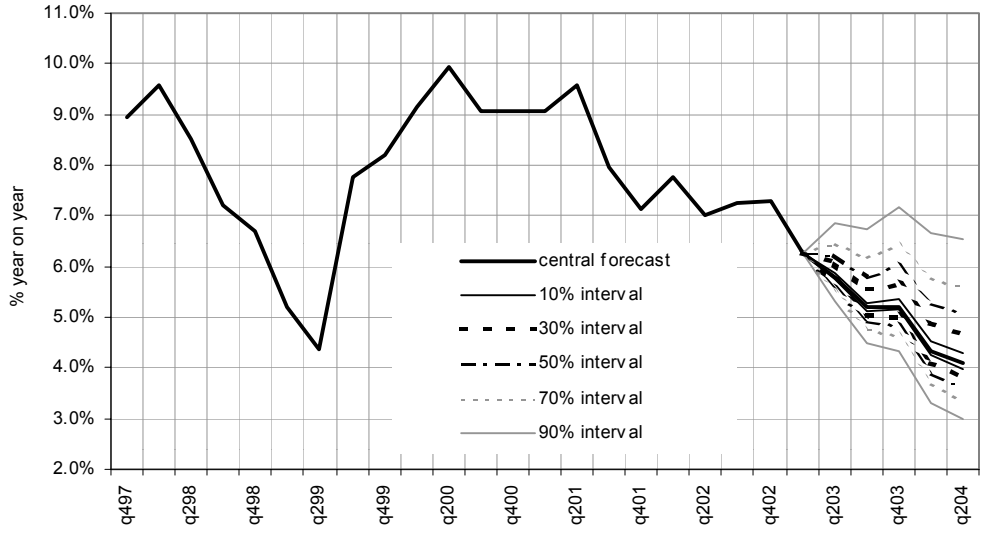
With the influence of both factors being reduced after they had fuelled excessive price growth in the first quarter of last year, price growth in the first quarter of this year was one-third lower. The 2.2% rise in prices was underpinned by seasonal factors (food and beverages, clothes and footwear) and services prices, which added 0.5 of a percentage point to inflation.

The year-on-year rise in **industrial producer prices** decelerated from 10.6% in January 2001 to just 3.7% at the end of 2002. Industrial producer prices slowed down by 3.7 percentage points in 2002 mainly because of the stagnation in investment goods prices, a fall of 3.9 percentage points in intermediate goods prices and a fall of 4.3 percentage points in consumer goods prices. However, the prices of consumer goods remained the fastest-growing component of the index. Deceleration in industrial producer prices also continued into the first quarter of this year, when their growth amounted to 0.1%, and the year-on-year growth dropped to 2.5% by the end of March. This deceleration was underlined by lower domestic-market energy prices which are included in the index. In the last twelve months they fell by 1.4%, which is in contrast with developments in EU markets, where comparable prices rose by 7.6% in the same period.

In the next quarters of this year we anticipate lower growth in consumer prices than in the first quarter and a further deceleration in year-on-year rises. With consistent implementation of the adopted fiscal policy measures (see Box 5), a stricter policy on administered prices, and presuming that the following months will not bring any significant rises in oil prices, which would not be sensible to neutralise with another change in excise duties rates on liquid fuels, we expect **inflation to near 5.1% by the end of the year, as projected in the Autumn Report 2002**. But such a drop will become unsustainable if it is not accompanied by monetary policy measures, that is changes in exchange rate policy. The deceleration of inflation merely by fiscal policy measures leads to a wider fiscal deficit, which can become macroeconomically unsustainable and in contrast with the EU recommendations laid down in the Maastricht criteria and the Stability and Growth Pact. At the same time, a further reduction in administered prices growth would lead to a discrepancy in relative prices, which was one of the more important generators of inflation in the last few years.

To gradually reduce inflation by the end of this year and create conditions for its further lowering to **a level around 4.3% in 2004, the consistent implementation of existing measures will have to be accompanied by more profound macroeconomic policy measures**, especially in the fields of monetary/exchange rate policy and indexation. Thus far the Bank of Slovenia has demonstrated less response than expected, because the monthly rate of the tolar's depreciation hardly fell under 0.3% in the first three months of the year (measured by the BS' official exchange rate), which would amount to a 3% rise in the tolar's exchange rate year on year, and yet again contribute approximately half to this year's projected inflation. If this policy is pursued further, the higher levels of the tolar's depreciation will have to be offset by additional limits on growth in administered prices, and by

Picture 14: **Anticipated deviations from the central inflation forecast**



Source of data: SORS, forecast: IMAD.

further fiscal measures (especially adjustments of excise duties). Further, if the current indexation mechanisms are preserved in the financial area and in wages, which enables the spillover of price growth in previous months to current inflation, inflation's inertness would increase in circumstances where a further lowering of inflation is expected. To keep inflation at a level close to the Maastricht criteria, policies will have to be restrictive while structural imbalances will have to be eliminated, especially in sectors, where prices are regulated by the government, and in the financial and labour markets.

Picture 14 shows the central inflation forecast for the following five quarters, assuming that the above measures are taken, and the **estimated deviations from the central forecast**. Amongst the main risk factors are changed dynamics of oil prices and the euro and US dollar's exchange rates compared to those anticipated in the forecasts, as well as errors made in previous forecasts of price movements. We estimate that more than two-thirds of these events would push prices up rather than bring them down, so the risks of inflation deviating from the central forecast are still asymmetrically distributed, as pointed out in the Autumn Report 2002.

5. Labour market

5.1. Employment and unemployment – Employment is expected to increase and unemployment to fall gradually in 2003 and 2004

After rising at a high annual rate of 1.7% for two consecutive years, the total **number of people in employment**[61] dropped by 0.7% in **2002**, or by 0.1% expressed in the full-time equivalent (**according to the national accounts methodology**). The slowdown in employment was the result of a drop in **informal employment** (i.e. unpaid family workers, people working under work contracts or in the black economy). The share of informal employment fell to below 14%, the lowest in the last six years. The **employment rate**[62] decreased to 63.4% from 63.9% in 2001.

The **number of people employed in enterprises and organisations** increased for the fourth consecutive year, although this rise was weaker than in 2001 (up by 1.8% in 2001 and 0.7% in 2002). A drop was recorded, however, in the **number of employees in the small business sector** (those working for the self-employed). This sector had recorded strong employment growth during the entire period of transition and partly made up for the downward trend seen in employment in enterprises and organisations. This sector had already suffered a considerable slowdown in employment growth in 2001, while the number of employees shrank by further 1,600 or 2.3% in 2002 despite the increases seen in some months. The **number of self-employed people** rose, mostly farmers (up by almost 5%) and own-account workers (up by 4%). The number of private individual entrepreneurs fell for the sixth year in a row. In addition to low profitability and poor prospects, this fall was due to the expansion of these businesses, leading them to enter the corporate sector.

The total **number of people in formal employment** (employees and the self-employed) increased by 0.6%. Employment rose in almost all **activities**[63] (the most in business services, up by 4.8%), but fell in mining (by 6.5%), manufacturing (by 1.7%) and hotels and restaurants (by 0.3%). The most significant falls in manufacturing were recorded in the textiles industry (by around 5%), food and beverages, wood production and processing, and the manufacture of other non-metal mineral products. Hotels and restaurants recorded a fall mostly in the number of the self-employed and their employees. This category also shrank considerably in manufacturing, wholesale and retail trade, and construction. The **regional distribution** of formal employment indicates that most formal employment positions were found in Central Slovenia (29.2%), followed by Podravska (14.9%) and Savinjska (12.9%). In the past three years, the number of jobs rose the most in

[61] According to the international methodology of labour force surveys.

[62] For people between 15 and 64 years of age. For more details, see 2003 Development Report, IMAD.

[63] Following the change in the Statistical Classification of Activities in 2002 sheltered workshops were transferred from health and social work activities (N) to the activities where these organisations mainly operate. Therefore, the 2002 official data cannot be compared with data for 2001. The most significant differences were recorded in the activities N, D and K. In order to analyse the actual trends, the analysis of the dynamics by activities in 2002 takes into account the data that exclude the above statistical reclassification.

Central Slovenia (by 4.8%), while the most significant drop was seen in Zasavska (by 7.2%). Moreover, Central Slovenia was the only region where the number of jobs exceeded the labour force, while Savinjska and Podravska recorded more jobs than local people in employment. The inflow of daily work-related migration was higher than the outflow only in the aforementioned regions. The **education structure of people in employment** is improving slowly in Slovenia. Up until 2002, employed people had completed an average of 11.3 years of schooling. The education level of employees improved mostly in public services, whereas industry and predominantly market-oriented services recorded a slow improvement in the education structure (for more see the Development Report 2003, IMAD).

Labour productivity growth intensified to 3.4% in 2002 from 2.5% in 2001. According to value added per employee in the full-time equivalent, productivity equalled EUR 22,400 per employee (current prices), accounting for 46.5% of the

Table 29: **Formal employment and labour productivity by activities**

		Formal employment						Productivity	
		Structure (in %)			Annual growth (in %)			Value added per employee (in EUR 000)	
		Monthly sources		Forecast	Monthly sources		Forecast		
		2001	2002	2003	2001	2002	2003	2001	2002*
TOTAL		**100.0**	**100.0**	**100.0**	**1.4**	**0.6**	**0.5**	**21.0**	**22.4**
A+B	**Agricultural activities**	**5.4**	**5.5**	**5.4**	**-3.3**	**2.0**	**-0.8**	**6.1**	**6.4**
C:F	**Industrial activities**	**39.7**	**39.8**	**39.2**	**0.4**	**-1,4**	**-1.1**	**20.7**	**22.3**
C	Mining	0.7	0.6	0.6	-5.3	-6.5	-5.6	20.7	22.6
D	Manufacturing	30.3	30.4	29.9	0.9	-1.7	-1.1	20.3	22.0
E	Electricity, gas, water supply	1.4	1.5	1.4	-0.8	0.5	-4.2	50.8	54.6
F	Construction	7.3	7.3	7.2	-0.9	0.0	-0.1	16.9	17.7
G:P	**Total services**	**54.9**	**54.7**	**55.4**	**2.7**	**1.8**	**1.8**	**25.6**	**27.1**
G:K	**Market services**	**18.8**	**19.4**	**19.6**	**2.6**	**1.9**	**1.3**	**27.2**	**28.9**
G	Trade, motor vehicle repair	12.7	12.8	12.9	1.9	1.1	0.8	20.0	21.4
H	Hotels and restaurants	3.7	3.7	3.7	0.5	-0.3	0.6	14.5	15.8
I	Transport, storage, communications	6.2	6.3	6.2	2.0	1.4	-0.6	25.3	27.8
J	Financial intermediation	2.5	2.6	2.7	2.9	2.4	5.2	41.6	42.6
K	Real estate, renting, business services	6.3	6.7	6.9	6.1	4.8	2.9	42.5	44.2
L:O	**Public services**	**17.4**	**16.4**	**16.7**	**2.7**	**1.9**	**2.5**	**23.1**	**24.0**
L	Public administration, defence	5.9	6.0	6.1	3.8	2.3	3.2	27.6	28.9
M	Education	6.9	7.0	7.1	2.0	1.7	1.7	20.3	21.1
N	Heath services and social work	7.1	6.0	6.2	2.8	1.7	2.9	22.3	23.0
O	Other social and personal services	3.4	3.3	3.4	2.3	1.9	2.4	22.5	23.4
P	Private households	0.1	0.1	0.1	12.6	-13.3	0.0	9.6	11.2

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

average productivity in the European Union. Productivity growth was achieved by reducing the number of employees, especially in manufacturing.

In **2003** employment growth is expected to intensify slightly in the corporate sector owing to the lower real wage growth and strengthened economic activity envisaged for the second half of the year. Employment growth should be lower in public services due to employment restrictions (see Chapter 2.3.). The **total number of people in employment** (according to the labour force survey and expressed in the full-time equivalent) is estimated to rise by around **0.2%** as a result of the continuous fall in the agricultural sector, mining, manufacturing and construction and the upward trend in the service sectors. **Labour productivity growth** should be **3.1%**, slightly less than in 2002. Since informal employment is not estimated to rise due to subdued economic growth, formal employment (employees and the self-employed) should rise more strongly than the total number of people in employment (up by about 0.5%). Following the expected stronger economic growth, employment should rise by **0.8%** and labour productivity by **3.5%** in **2004**.

After recording falls for some years, the **number of registered unemployed** increased slightly in **2002** to 102,635 (compared to 101,857 in 2001). Since formal employment rose as well, the average annual registered unemployment rate remained unchanged at 11.6%. The average **number of survey unemployed** decreased by 1.6% to 62,000, yet the average survey unemployment rate stayed the same at 6.4% due to the fall in survey employment.

The **main reasons for the slow fall in registered unemployment** were again high structural unemployment and fixed-term employment. The inflow of first-time job-seekers, which had increased steadily since 1998, dropped slightly in 2002. For the fourth consecutive year, the inflow of people who lost their jobs increased while the outflow of people into employment decreased (see Table 15 in the Statistical Appendix). The main **reasons for losing a job** included the termination of a fixed-term employment contract (almost 50%), termination of employment at one's own will (about 14%), bankruptcies and redundancies (7.4% and 9.3%, respectively) which, although increasing, have been relatively less important in the last two years. The number of people **erased from unemployment registers** for other reasons continued to be high (almost 40,000 in 2002). Most were erased for failing to report to the employment office or because of their own volition. The number of people erased due to retirement was lower than in 2001 (6,900 compared to 7,600 in 2001). In accordance with the amendments to the Employment and Unemployment Insurance Act adopted in July 2003, people included in unemployment registers pursuant to the Pension and Disability Insurance Act were moved to a separate register[64] in

[64] On the basis of the amendments to the Employment and Unemployment Insurance Act, the Rules on the content and manner of keeping official employment registers were published on 4 October 2002, defining the criteria for the reclassification of people included in unemployment registers pursuant to other acts. Such criteria are prepared by the Employment Service of Slovenia together with the competent institution to which a certain act refers. The basis for reclassification pursuant to other acts is the employment plan. In accordance with the above Rules, the Employment Service and the Pension and Disability Insurance Institute (PDII) prepared an organisational regulation for employed disabled persons – beneficiaries of the PDII disability allowance. The Employment Service and the PDII began to assess the employment possibilities of the disabled and prepared the criteria for their reclassification in registers of persons pursuant to other acts. The criteria apply to the following people:

November and December. At the end of the year 5,702 people were reclassified. Hence, by December the number of unemployed people dropped to 99,607 and the registered unemployment rate fell to 11.3%.

The **average share of the long-term unemployed** fell from 58.9% in 2001 to 54.5% in 2002, or 52.2% in December 2002. The average duration of unemployment decreased to 2 years, 7 months and 17 days. The share of unemployed aged over 40 fell to 49.4% (from 50.5% in 2001) and the share of those over 50 to 25.4% (from 27% in 2001). This drop was a result of retirement, erasure from the register and active employment policy measures. **Other structural problems of unemployment** eased slowly: the share of the unskilled unemployed remained unchanged (47%) as did the average duration of the unemployment of the unskilled unemployed aged over 40 (4 years and 2 months). Further, the registered and survey unemployment rates for women were still higher than those for men (see Table 15 in the Appendix). Youth unemployment (aged between 15 and 24) was still relatively high. On average, young unemployed people waited 1 year, 9 months and 7 days to get a job (51 days less than in 2001). The **number of unemployment benefit recipients** (18,868 on average in 2002) has decreased since the adoption of amendments to the act in October 1998, whereas the number of unemployment assistance recipients (5,491 on average in 2002) has increased slowly. However, the total number of recipients and their share in total unemployed people (23.7% in 2002) has dropped since 1999.

In 2002, an average of 11,586 vacancies were reported to employment services every month and 9,219 people were hired. The **number of vacancies** was 2.9% lower than in 2001 and the **ratio of unemployed people to vacancies** worsened again: 8.9 unemployed people per vacancy, compared to 8.5 in 2001. Further, the share of fixed-term employment, which had been below 71% in 1999 and 2000, increased to 74.4%. The **occupational structure** of vacancies continued to reveal a trend towards fewer elementary occupations and craft workers, while demand for more qualified jobs increased. Demand for clerks (requiring secondary-level education) also dropped in the last couple of years probably because of the widespread use of computer technologies and the introduction of computer-supported work. Exceptionally, demand for service workers fell (low employment growth in wholesale and retail trade and falls in hotels and restaurants), while demand for agricultural workers rose, which was in line with the increased employment seen in agriculture in 2002.

Given the persistence of structural unemployment, the **Active Employment Policy Programme** for 2003 was adopted in November 2002. It includes measures aimed at improving the employability of people with low employment prospects, reducing the number of under-skilled unemployed, reducing regional disparities in unemployment, and providing equal access to the labour market and employment for men and women. This measure will be very important since a further increase in the number of unemployed women is expected due to anticipated redundancies – mostly of women – in the textile and shoemaking industries.

- persons who have been registered by the Employment Service for at least two years;
- persons who in such a period were referred to employers but could not find a job due to their disability;
- persons for whom no adequate jobs were available in the said period; and
- persons who could not find a job although involved in active employment policy programmes.

In 2002, the average annual registered **unemployment** rate dropped in just five **statistical regions** (Notranjsko-kraška, Gorenjska, Obalno-kraška, Central Slovenia, and Podravska), while it increased in all others, the most in Koroška and Pomurska. Although the difference between the lowest and highest unemployment rates narrowed, regional disparities increased, as shown by the variation coefficient in registered unemployment rates, which climbed from 32.26% in 2001 to 33.43% in 2002. The lowest unemployment rate was registered in Goriška (6.3% compared to 5.8% in 2001) and the highest (17.6%) in Podravska (decreasing from 17.9% in 2001) and Pomurska (increasing from 16.7% in 2001).

Although the number of jobs exceeded the number of local people in employment in Podravska and Savinjska, the entire labour force could not be employed because of the mismatch between jobs and qualifications. This, in turn, led to high structural unemployment. Both regions recorded above-average shares of unemployed first-time job-seekers and unemployed women. Podravska had a very high rate of long-term unemployed, while Savinjska recorded a large number of the young unemployed. High structural unemployment (above-average shares of unskilled unemployed, unemployed women and young people) was also seen in Zasavska, which is characterised by its relatively strong labour force migration to the neighbouring regions. In fact, 30% of its labour force could not find a job in the home region – half of it (15.4%) was unemployed and the other half worked outside the region. Relatively strong labour force migration was also recorded by Notranjsko-kraška. Here, however, the registered unemployment rate was below the Slovenian average in spite of the lack of jobs.

In view of the anticipated employment growth, unemployment should continue to fall in **2003 and 2004**. In accordance with the National Labour Market and Employment Programme for the period up until 2006, unemployment should equal 96,600 people or 10.9% of the labour force in 2003 and 92,400 or 10.4% in 2004. This, however, will only be achieved with the intense implementation of the envisaged active employment policy measures. The number of people deleted from unemployment registers due to retirement, reclassification in separate registers in line with the Pension and Disability Insurance Act, and other reasons is estimated to remain high. Further, withdrawal of the 'discouraged'[65] from the labour market can also be expected. The new Labour Relations Act, which entered into force on 1 January 2003, precisely determines when and for how long fixed-term employment contracts can be used (they are still the prevailing form of new employment). This measure was adopted to bolster permanent employment, yet there is a risk this will increase unemployment because, pursuant to Article 53, people who would like to renew their fixed-term employment contract with the same employer after two years should suspend their employment relationship for more than three months. Therefore, inflows into unemployment are expected to decline only marginally in the following years, while outflows into employment are expected to increase slowly due to structural problems. The survey unemployment rate is expected to drop to 6.3% in 2003 and 5.9% in 2004.

[65] These are people who are unemployed but do not seek a job since they do not believe they can find one because of their age or lack of appropriate skills.

5.2. Wages – The macroeconomic balance between wage growth and labour productivity growth re-established in 2002; public sector wage growth lagging behind private sector wage growth

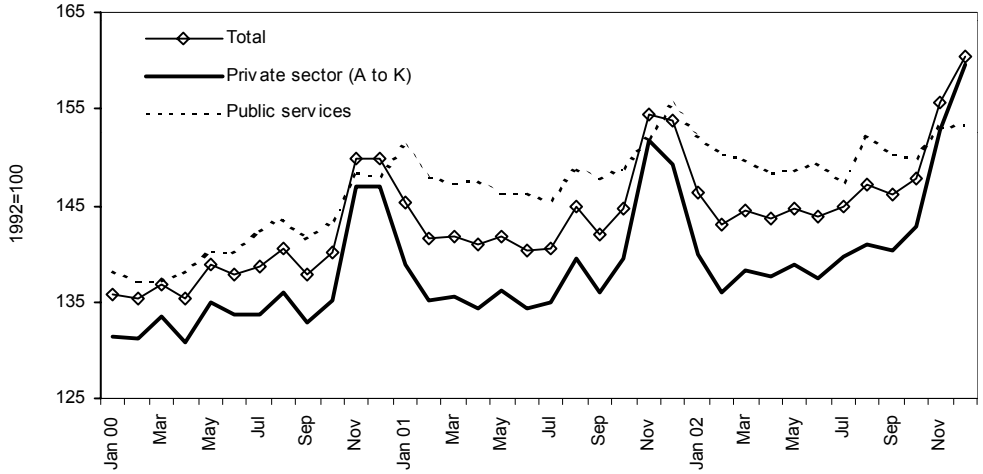
In **2002** the gross wage per employee rose in line with the objectives set in the Wages Policy Agreement for 2002-2004, concluded as a separate part of the Social Agreement (see Box 6). The **gross wage per employee** rose by 2% in real terms and **lagged behind** the 3.4% **labour productivity growth** by more than one percentage point. The underlying goal of wages policy was therefore achieved. In times of the increasingly stiff competition seen in international markets, this objective was necessary to create the conditions for investing in technology-advanced production and to reduce unemployment.

Furthermore, the objective of **keeping public sector wage growth below the rate of private sector wage growth**[66] was also achieved. The long-term objective is to establish a balance between wage growth in the two sectors; however, it was necessary to take this measure because wage movements in the past years strongly favoured the public sector. This was due to the decentralised wage system in the public sector and the lack of effective instruments to restrict general government expenditure on wages. In fact, in 1996-2002 the gross wage per employee rose by 24.5% in real terms in the public sector and by 18% in the private sector (this gap would be even wider if the period of observation were longer). Further, Slovenia's independence and the subsequent process of adjusting to the complex EU system required more people to be employed in the public administration and other public services. As a result, general government expenditure on public sector wages rose by an average annual rate of 6% in real terms, while gross domestic product increased by just 4%. Given these movements in public sector wages, which put, together with employment growth, strong pressure on public finances, it was necessary to pursue this goal.

In the **private sector**, the basic wage was adjusted by 2.7% in January 2002. This adjustment was based on the Annex to the Wages Policy Agreement for 1999-2001 and equalled 90% of the expected consumer price rise in the second half of 2001. There was no additional adjustment because the anticipated price rise matched the actual rise. A new adjustment mechanism was determined by the social partners and laid down in the Wages Policy Agreement for 2002-2004. The basic wage increased by 4.2% in August and by another 2.0% in December, equalling the

[66] In order to maintain the time series for wages broken down by activities and for the private and public sectors, data are presented in the same way as before the statistical changes made by the SORS in February and March 2002. Before the end of January 2002 sheltered workshops belonged to the activity of health and social work under the subgroup 'implementation of social work programmes and services', and were later transferred to the activity where these organisations mainly operate, mostly manufacturing. This transfer involved about 6,600 employees of sheltered workshops in February and about 3,600 in March, accounting for about 21% of people employed in health and social work (N), which is part of the public sector. The average wage of the disabled equalled about 60% of the average wage of the given subgroup and of the activity as a whole. As a result, the average gross wage in the subgroup 'implementation of social work programmes and services' increased by more than 40% in February and March compared to January 2002 and affected wage growth in the entire health and social work activity (N). The effect of this transfer was felt much less in the group of industry and construction. The number of employees rose by about 4% while the average wage of people working in sheltered workshops equalled about 82% of the average wage in this group. The calculations for wages and employees by activities were made the SORS, while those for the private and public sectors were by the IMAD.

Picture 15: **Monthly real gross wage per employee**



Source of data: SORS, calculated by the IMAD.
Note: the real gross wages per employee index (1992=100), deflated by the consumer price index (December 1998=100).

difference between the rise in consumer prices – alcohol and tobacco excluded – in January-November and August's adjustment.

In the private sector, the real gross wage per employee rose by 1.1% year on year in the first quarter, by 2.3% in the second quarter, 2.6% in the third quarter, and 3.3% in the last quarter of 2002. The high rise in the last quarter was due to the '13th month's pay' given as a premium for individual contributions and due to the Christmas bonus given as a reward for company loyalty. The share of employees receiving these rewards increased to 18.7% (compared to 17.2% in 2001). The largest share of employees receiving the '13th month's pay' was seen in economic and financial infrastructure, namely electricity, gas and water supply (E), about 60% of employees, in financial intermediation (J), about 38%, and in transport, storage and

Box 6: Social Agreement for 2003-2005

Wages policy must use all possible instruments to ensure stable wage movements in line with the given macroeconomic conditions. To prepare an efficient wages policy, it is necessary to reach an agreement between all social partners and define policy guidelines in the social agreement. After a long break (the last social agreement was adopted in 1996), in April 2003 the social partners agreed on and adopted the Social Agreement for 2003-2005. In order to create stable economic conditions, the Agreement comprises guidelines for wages policy as well as fiscal policy, economic competitiveness, and health and safety at work. In the area of social security, which is closely related to and dependent on economic growth, the common objectives concern employment, social security, health care policy, family policy, housing policy, and voluntary pension insurance. Significant effort has been devoted to defining common guidelines in order to guarantee efficient legal security, which is an important factor of society's development.

communications (I), about 34% of all employees. The higher wage growth in the last quarter was also due to the changed timing of adjusting wages since the basic wage had already been adjusted in December instead of in January as before. In the **private sector**, the **real gross wage per employee rose by 2.3%** over 2001, one percentage point **below** the 3.4% **labour productivity growth**.

In the **public sector**, the basic wage was adjusted in line with the Annex to the Collective Agreement for the Public Sector. The regular adjustment of 2.3% was made in January, while there was no additional adjustment because the anticipated rise in consumer prices equalled the actual rise, excluding alcohol and tobacco. Including the 2.6% adjustment in August, the real basic wage was 3.8% below the level of 2001. With the adoption of the Public Sector Wage System Act at the end of June 2002, all collective agreements, decrees and other regulations concerning wages in the public sector ceased to apply. Therefore, there was no more pressure from public sector trade unions to introduce any new wage supplements. This significantly helped slow wage growth down in the public sector.

In the public sector, the real gross wage per employee rose by 1.3% year on year in the first quarter, by 1.4% in the second, by 1.8% in the third quarter, and stagnated in the last quarter. Even though the real basic wage fell, the real gross wage per employee rose as a result of promotions and recruitment, which is typical of the public administration. Moreover, August's wages for the public administration included the wage supplement for May, June and the first half of July[67]. In the first nine months, wage growth was also influenced by the extraordinary pay rise in education, resulting from wage supplements paid out towards the end of 2001. This influence became apparent in the last quarter, when real growth in public sector wages came to a halt. Following its moderate growth during the year, the **gross wage per employee in the public sector rose by 1.1% in real terms**, thereby further helping the average gross wage to lag behind labour productivity growth.

The existing wages policy will continue to be pursed in **2003**. Given the anticipated consumer price rise, the gross wage per employee is estimated to rise by about **2%** in real terms, while labour productivity should grow by 3.1%. This means that the **objective set in the Social Agreement – the real gross wage per employee lagging behind labour productivity growth by 1 percentage point – will be met.**

In the **private sector** the adjustment mechanism laid down in the Wages Policy Agreement for 2002-2004 still applies this year. The basic wage will rise by 2.5% in August. A 'safety valve' is envisaged for use in August if the rise in consumer prices (alcohol and tobacco excluded) exceeds 2.8% in January-June, and the adjustment takes into account the difference between the 2.6% and the actual rise in consumer prices. December's adjustment, which depends on August's adjustment and the anticipated rise in consumer prices (alcohol and tobacco excluded), will raise the basic wage by about 2%.

In the first two months of 2003, the gross wage per employee in the private sector fell in nominal terms as a result of the high wage growth in the last quarter of 2002

[67] The supplement was introduced by a decree in December 2001 and abolished by the decree in mid-July 2002.

and the abolition of January's adjustment of the basic wage. The basic wage adjustment is only partly reflected in wages paid out, while the adjustment schedule agreed by the social partners is generally respected. Because adjustments are agreed to take place in August and December, the gross wage per employee is expected to rise slightly faster in the second half of the year. Further, economic growth is estimated to strengthen in the second half of the year, so wage movements in the private sector should follow the improved economic conditions. In line with these assumptions and the anticipated rise in consumer prices, the **real gross wage per employee** is forecast to **rise by around 2.1% in the private sector** and **will lag behind labour productivity growth by one percentage point.**

The gross wage per employee in the **public sector** will rise in line with the adjustment mechanism determined in the Annex to the Collective Agreement for the Public Sector. Wage growth will also be underlined by regular promotions. Even though no new wage supplements are envisaged, the wage supplement for education adopted before June 2002 will nevertheless be paid out.

In January 2003, the basic wage in the public sector was raised by 3.4% (2.1%+0.1%+1.2%) in accordance with the adopted adjustment mechanism. When the Annex was adopted in December 2001, it envisaged a 4.9% rise in consumer prices for 2003 (December 2003/December 2002), which was also laid down in the Budget Memorandum for 2002 and 2003. Following these assumptions, the agreed basic wage adjustment was 2.1% in January and 2.3% in August. At the end of 2002 the Budget Memorandum for 2003 and 2004 was adopted, which anticipated a 5.1% rise in consumer prices for 2003 (December 2003/December 2002). The Annex includes a provision that, if the budget is revised and new price estimates are included, 90% of the difference in price rises is incorporated in the adjustment for 2003. Therefore, January and August's adjustments were raised by 0.1 of a percentage point each. Moreover, January's adjustment included an additional adjustment based on the 'safety valve' laid down in the Annex. This additional adjustment also incorporated the 1.2 percentage points difference between the actual rise in consumer prices excluding alcohol and tobacco (6.9% in December 2002/December 2001) and the targeted rise envisaged in the basic wage adjustment mechanisms for 2002 (5.7%).

In January 2003, the public administration was given a wage supplement introduced by a government decree in December 2001 and abolished in mid-July 2002, but this abolition was subsequently annulled. In July, the gross wage will be raised in education by about 3%, as laid down in the Annex to the Collective Agreement for Education adopted in June 2002. Wages in education will be raised by the same percent each July up until 2006. The Annex to the Collective Agreement for Education was adopted as a result of pressures from the trade union and the analysis made while drafting the Public Sector Wage System Act, which revealed that wages in education were the most stagnant. The **gross wage per employee in the public sector is** therefore **expected to rise by about 1.5% in real terms in 2003**. If August's adjustment were abolished, the real gross wage per employee would rise about one percentage point less in the public sector and about 0.2 of a percentage point less in the economy as a whole.

The Social Agreement lays down common guidelines for adjusting wages, whereby the adjustment mechanism should incorporate the euro/tolar exchange rate, inflation in selected EU member-states, and consumer price movements in Slovenia. Wages policy for **2004** has still not been agreed for the public nor private sector and negotiations are still going on. In 2004, the new Public Sector Wage System Act will start to apply. Further, the Collective Agreement defining the methodology for determining the pay scale and the Collective Agreement for the Public Sector will also be adopted, providing foundations for formulating collective agreements for activities and professions. In order to meet the objective for public sector wage growth, the introduction of the new wage system must be as neutral as possible. Modifications should be carried out gradually in the upcoming years. The real **gross wage per employee** should rise by **about 2% in 2004** (about 1% in the public sector and about 2.5% in the private sector), and is expected to **lag behind** the 3.5% **labour productivity growth** by about 1.5 percentage points**.**

The **minimum wage** is adjusted in the same way as the private sector's basic wage, and is additionally adjusted in August to the previous year's gross domestic product growth. The social partners have agreed that this adjustment mechanism will be used until the minimum wage achieves 58% of the average gross wage per employee stipulated in collective agreements for manufacturing industries (54.8% was achieved in 2002). The levelling of basic wages has become apparent in the lower wage brackets. The minimum wage, on the other hand, has risen faster than the basic wage as a result of this additional adjustment and has drawn close to the basic wage of the fifth wage bracket of the collective agreement for the private sector. Although the social partners are satisfied with the results achieved by the adjustment mechanism for the minimum wage, the problem of the levelling of wages is becoming increasingly apparent. The social agreement provides that the minimum wage will be regulated by law in the future.

In 2002, **work-related allowances and other remuneration, payments based on contracts for work and service and copyright contracts** followed the same dynamics as in previous years and rose more slowly than the total net wage bill. They represented 39.6% of the total net wage bill (41.2% in 2001 and 43% in 2000). Figures for the first quarter of 2003 also indicate a continuing fall in the share of these types of remuneration in the total net wage bill.

6. Public finance

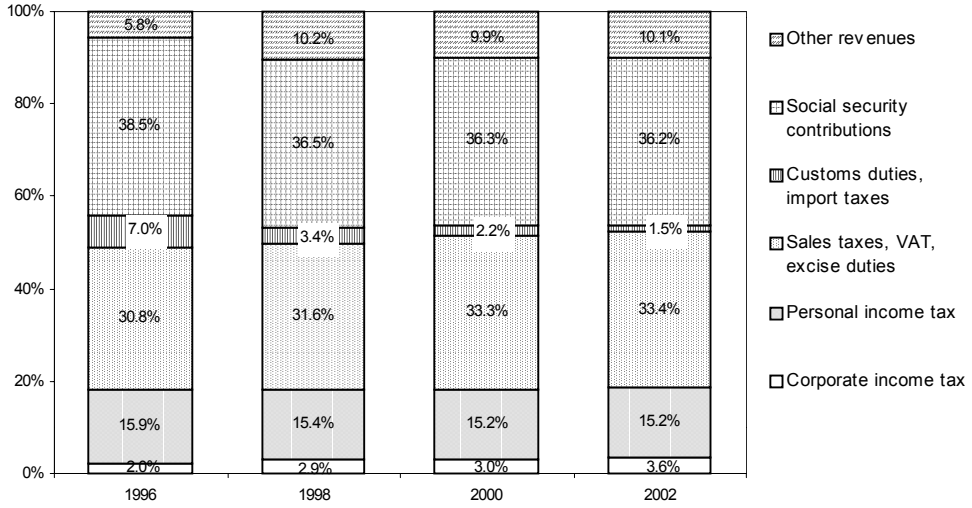
6.1. General government revenue – Budget revision needed since revenues were lower than anticipated

In **2002**, some changes were introduced in the collecting and calculating of general government revenue, which altered its scope and structure. In January, the two value-added tax rates were raised; the general rate was raised from 19% to 20% and the reduced rate from 8% to 8.5%. Excise duties were also raised for all products subject to excise duty. Two new taxes were introduced: an environmental tax on waste disposal and an environmental tax on the use of lubricants. Both taxes had a positive effect on general government revenue and environmental protection. Another new source of general government revenue was the introduction of a registration tax for motorcycles. The rates of social security contributions levied on employees did not change, whereas the rates of employers' health insurance contributions were raised from 6.36% to 6.56% of the total wage bill. The rate of pensioners' health insurance increased by 0.2 of a percentage point. The threshold of payroll tax was raised by one band and taxation in higher bands was reduced by 0.2 of a percentage point. Import tax rates were further reduced slightly in 2002 due to free-trade and accession agreements.

In 2002, **value-added tax revenues** climbed by 10.6% in real terms from 2001. A solid half of this increase was the result of the higher tax rates introduced at the beginning of the year. **Revenues from all excise duties** improved by 8.9% in real terms. Because of the rise in excise duties at the end of 2001 and early 2002, revenues from excise duties on mineral oils saw the biggest rise (up 10% in real terms). Excise duty revenues from tobacco and tobacco products grew 9.6% in real terms, whereby excise duties were increased at the beginning and in the middle of 2002 as a result of the harmonisation with the EU's legislation. Revenues from excise duties on alcohol and alcoholic beverages rose by a mere 0.8% in real terms. The structure of excise duty revenues shows that 72% of these revenues came from excise duties on mineral oils, 20.5% from excise duties on tobacco and tobacco products, and 7.5% from excise duties on alcohol and alcoholic beverages. Wage-based general government revenues accounted for around 55% of all revenues. Revenues from **social security contributions** exceeded those from 2001 by 2.8% in real terms, while revenues from **personal income tax** climbed by 2.7%. Revenues from **taxes on wages**, representing the majority of personal income tax (95.9% in 2002), grew 2.8% in real terms, other sub-groups of personal income tax rose by 1.1% in real terms, while personal income tax refunds were at the same real level as in 2001. Revenues from **payroll tax** rose by 4.6% in real terms against 2001. Revenues from **corporate income tax** were a mere 1.6% higher than in 2001. Revenues from customs duties and import taxes fell by 1.5% in real terms. **Total general government revenues** from mandatory levies **rose by 4.5% in real terms against 2001**. The structure of general government revenues shows that the share of indirect taxes increased, while the share of direct taxes and social security contributions shrank.

The consolidated government finance accounts of the Ministry of Finance show that **consolidated general government revenues**, which do not include value-added tax and excise duties collected in January 2003 because of the harmonising of the

Picture 16: **Structure of mandatory levies, in %**



Sources of data: Agency for Payments, Office for Public Payments, B-2 Report, the IMAD's methodology and calculations.

fiscal and calendar years, totalled **39.4% of gross domestic product**, 2.1 percentage points less than in 2001. About 1.5 percentage points of this was due to the compensatory deficit.

Some **changes to** the **tax system and its instruments** were also introduced in **2003** which will affect this year's scope and structure of general government revenue. Amendments to the Corporate Income Tax Act will result in higher general government revenues from corporate income tax in 2004. The amendments reduce the relief previously granted for investment and redetermine the expenses that can be set off against tax. After the transition period ended, the general value-added tax rate (instead of the reduced rate) is being levied on wine as of January 2003. Specific and proportionate excise duties on cigarettes have been raised because of harmonisation with the EU's laws. Further adjustment will be carried out in July. In line with its anti-inflationary programme, the government intervened by adjusting excise duties on mineral oils, thus allowing petroleum product prices to remain unchanged. A new environmental tax on old motor vehicles was introduced because of the increasing number of worn-out motor vehicles.

General government revenue collected in the **first three months of 2003** was 4.4% higher in real terms than in the same period last year. Revenues from **value-added tax** climbed by 6.8% in real terms. Revenues from excise duties fell by 6.5% in real terms. Excise duties on mineral oils dropped by 9% in real terms (following the government's anti-inflationary programme), excise duties on alcohol and alcoholic beverages fell by 18.6%, while excise duties on cigarettes and tobacco products increased by 7.8% in real terms, which was the result of the increase in specific and proportionate excise duties on cigarettes and tobacco products in January 2003. Revenues from excise duties on mineral oils accounted for 70% of total revenues

from excise duties, tobacco and tobacco products represented a solid 23% and alcohol and alcoholic beverages 6.5%. **Social security contributions** climbed by 3.7% in real terms. Revenues from **taxes on wages** rose by 4.2% in real terms. Significant drops were seen in all other personal income tax sub-groups (down 3.5% in real terms). The final assessments of personal income tax were positive in the first three months of this year, while they were negative in the same period last year. So revenues from personal income tax climbed by 5.3% in real terms. Revenues from **payroll tax** rose by 9.8% in real terms and **corporate income tax revenues rose by 9.3%.** March's payments of **corporate income tax** included the first taxes on profits for 2002, which are estimated to be higher than in 2001. Revenues from **customs duties** and **import taxes rose by 2.4% in real terms.**

The changed macroeconomic conditions, which led to a downward revision of forecasts for **2003** (see Chapter 2.1), will also affect the scope and structure of general government revenue in 2003. Growth in domestic spending and imports of goods (expressed in tolars) is likely to be lower than forecast in autumn. This will hold revenue growth back, especially revenues from value-added tax, where the downward correction compared to the adopted budget is the greatest, and revenues from other taxes influenced by domestic consumption trends. The anticipation of lower revenues from value-added tax was one of the main reasons for revising the 2003 budget. Employment growth is expected to be lower than forecast in autumn, so wage-based general government revenues will also rise more slowly.

Drawing on these assumptions, we anticipate that annual **revenues from value-added tax will be 1.9% higher in real terms than in 2002, while revenues from excise duties** will remain the same because of the anti-inflationary measures taken by the government in early 2003. As a result of further reductions of duty rates necessitated by accession and other trade agreements, revenues from **customs duties and import taxes** will drop for the eighth consecutive year (down 0.6% in real terms) and will only account for 0.5% of gross domestic product. Amendments to the Corporate Income Tax Act will result in higher general government revenues from **corporate income tax**, which are expected to rise by 22% in real terms. **Wage-based revenues** will rise by 4% in real terms. Revenues from social security contributions of employers and employees will rise by 3.2% in real terms, while taxes on wages will increase by 4.2%. Revenues from total **personal income taxes** will climb by around 3.5%, with rises in other personal income tax sub-groups being weaker. Real growth in revenues from **payroll tax** is estimated to be around 8%. **Total general government revenues** collected in 2003 should increase by 3.8% in real terms and they should represent around 40.5% of gross domestic product.

The reform of direct taxes will continue in 2003 and 2004. Activities will focus on preparing a new systemic act regulating personal income and corporate income tax. These activities will also be oriented to the new regulation of property tax. Laws to support tax changes are anticipated to enter into force in 2004 and/or 2005. Their enforcement will result in a slight change in the general government revenue structure. As far as direct taxes are concerned, revenues from corporate income tax should increase, while revenues from personal income tax should fall. The share of property tax is envisaged to rise. As far as indirect taxes are concerned, Slovenia will regulate the taxation of intracommunitary freight transport between EU member-

countries by amending its Value-Added Tax Act upon its accession to the European Union.

In 2003 and 2004, in the light of expected macroeconomic developments the scope of general government revenue will have to be expanded by taking appropriate measures. These should aim to improve the charging, collecting and recovering of the existing mandatory levies (taxes and contributions), expand the contribution and tax bases, and rationalise the existing tax relief. Further increases in the tax burden on labour are unacceptable from the point of view economic competitiveness. Other revenues will also have to be increased, particularly non-tax revenues from domestic and foreign donations and other, mainly capital and concession, revenues.

6.2. General government expenditure – In 2003 the consolidated general government expenditure will total 42.6% of gross domestic product

In **2002, national budget expenditure** totalled SIT 1,313 billion, 2.3% more than in 2001. Budget expenditure equalled 24.9% of gross domestic product, 0.3 of a percentage point less than in 2001. A rise higher than total budget expenditure was recorded by transfers to the Pension and Disability Insurance Institute (up 8.8% in real terms), expenditure on interest payments, especially on domestic loans (total domestic and foreign interest payments were up 8% in real terms), and expenditure on wages, contributions and other allowances for government employees (up 4.5% in real terms) and employees in public institutions (up 7.4% in real terms). Transfers to individuals and households increased by 0.6% in real terms. Expenditure on goods and services in government bodies and public institutions dropped by 2.2% in real terms, subsidies fell by 7.2% in real terms, and capital expenditure and capital transfers decreased by a solid 9% in real terms. Transfers to local governments fell by 7.5% in real terms. Hence, wages and contributions for employees in government bodies and public institutions, transfers to the Pension and Disability Insurance Institute, and interest payments contributed the most to the rise in national budget expenditure.

The government proposed a revision of the national budget adopted for 2003 because of the downgraded macroeconomic forecasts, the estimated effects of counter-cyclical adjustment of excise duties on oil products, and the Constitutional Court's arbitration award concerning the wage supplements of government employees. In line with the Public Finance Act, which enforced the preparation of two-year budgets, the government is set to propose a revision to the adopted national budget for 2004 and submit a proposal of the national budget for 2005.

According to the proposed revision of the national budget for **2003**, overall national budget expenditure will drop by around SIT 12.5 billion (or 0.9%) and total SIT 1,437 billion. Compared to 2002, national budget expenditure will climb by 3.7% in real terms, and its share in gross domestic product will climb from 24.9% in 2002 to 25.2% in 2003. Expenditure on wages, contributions and other allowances for employees in government bodies will increase faster than total national budget expenditure (up 6.7% in real terms). This increase is partly due to the budget revision, especially the Constitutional Court's arbitration award, which has committed the

Table 30: **Structure and share of national budget expenditure in gross domestic product, in %**

	% of GDP				Structure in %			
	2001	2002	2003	2004	2001	2002	2003	2004
	realised		proposed budget revision	adopted	realised		proposed budget revision	adopted
TOTAL NATIONAL BUDGET EXPENDITURE	**25.2**	**24.9**	**25.2**	**25.2**	**100.0**	**100.0**	**100.0**	**100.0**
CURRENT EXPENDITURES	**7.8**	**7.7**	**7.6**	**7.5**	**31.0**	**31.1**	**30.0**	**29.7**
of which:								
Wages, contributions and other allowances for government employees	3.4	3.4	3.5	3.4	13.2	13.5	13.8	13.4
Expenditure on goods and services in government bodies	2.8	2.7	2.5	2.6	11.2	10.7	10.0	10.2
Domestic and external interest payments	1.5	1.6	1.5	1.3	5.9	6.3	5.8	5.4
Sufficient amount of financing sources	0.2	0.2	0.1	0.2	0.7	0.6	0.3	0.8
CURRENT TRANSFERS	**15.0**	**15.1**	**15.0**	**15.0**	**59.6**	**60.6**	**59.6**	**59.7**
of which:								
Subsidies	1.2	1.1	1.2	1.2	4.8	4.3	4.7	4.8
Transfers to individuals and households	3.5	3.4	3.5	3.5	13.8	13.6	14.0	13.7
Transfers to public institutions	5.3	5.4	5.3	5.3	21.0	21.8	21.2	21.1
Transfers to the Pension and Disability Insurance Institute	4.1	4.3	4.0	4.0	16.2	17.2	15.9	15.9
Other transfers	0.7	0.6	0.8	0.8	3.8	3.8	4.0	4.2
CAPITAL EXPENDITURE AND TRANSFERS	**2.3**	**2.1**	**2.6**	**2.7**	**9.4**	**8.3**	**10.4**	**0.6**

Sources of data: Ministry of Finance, Bulletin of Government Finance; proposed revision of the national budget for 2003 and the adopted national budget for 2004; the IMAD's calculations according to GDP forecasts.

government to pay out wage supplements introduced by the related government decree. Significant growth in capital expenditure and capital transfers will continue (up almost 29% in real terms) despite the budget revision and will contribute the most to the increase in national budget expenditure in 2003. Growth in transfers to individuals and households will be strong (up 6.7% in real terms) as a result of implementing the Social Security Act. Saving measures will mainly affect expenditure on goods and services in both government bodies and public institutions, which will decrease by 0.2% in real terms. Expenditure on interest payments will stop rising (down 4.5% in real terms), which is in line with the long-term objective of debt servicing. Transfers from the national budget to the Pension and Disability Insurance Institute will fall by 4.5% in real terms.

Expenditure of the national budget adopted for **2004** amounts to SIT 1,559 billion and is 4% higher than the expenditure of the revised national budget for 2003 in real terms. Its share relative to the estimated gross domestic product is 25.2%,

approximately the same as in 2003. In view of the revised national budget for 2003 and the changed macroeconomic frameworks, it might be necessary to consider a revision of the national budget for 2004 as well.

In **2002, local government expenditure** rose by 4.9% in real terms. Its share in gross domestic product was 5.2% or 0.1 of a percentage point more than in 2001. Expenditure on wages and contributions for local government employees, expenditure on goods and services, transfers to individuals and households, interest payments, and capital expenditure and capital transfers increased faster than total local government expenditure. Slower growth was recorded in expenditure allocated for public institutions and other public services providers, and subsidies (the latter slumped by 45% in real terms). Local government budgets recorded a current budget deficit of SIT 8.7 billion. In **2003 and 2004**, weaker growth in local government expenditure is anticipated and is estimated to be lower than gross domestic product growth. The share of local government expenditure should settle at around 5% of gross domestic product.

Expenditure on pension and disability insurance increased by 4% in real terms in **2002**. Spending on pensions and disability allowances climbed by 3.3% in real terms. Pensions and other benefits in cash were raised in February in line with the adopted indexation method (up by around 4%). The ratio between the average old-age pension and the average wage decreased from 73.2 in 2001 to 72.8 in 2002. Relative to expenditure on pensions, growth was faster in expenditure on wage compensations (up 8% in real terms), expenditure on income support for pensioners, state pensions and other forms of providing social security (up 8.8% in real terms). At the same time, the number of beneficiaries rose faster than anticipated (up 1.7%). In order to implement the rights laid down in the Pension and Disability Insurance Act (excluding contributions for health insurance of pensioners), 12.8% of gross domestic product was used in 2002, the same percentage as in 2001. Estimates for 2003 and 2004, which incorporate a further lowering of the accrual rate, a moderate rise in the number of beneficiaries (up 1.1% in 2003 and 0.8% in 2004), and the current method of adjusting pensions to wage growth, show that around 12.6% of the estimated gross domestic product will be needed in **2003** and around 12.5% in **2004**.

The effects of the reformed pension system have been evident since the entering into force of the new Pension and Disability Insurance Act (2000). The average retirement age for men and women is increasingly higher, more and more insured persons are prolonging their working life beyond the date when they meet the conditions for retirement, the pension base is calculated on the basis of a longer reference period, and the number of insured people in voluntary supplementary pension schemes is increasing.

Expenditure on **compulsory health insurance** rose by 3.6% in real terms in **2002** and reached 6.6% of gross domestic product. Expenditure on health services increased by 3.2% in real terms and – within this group – expenditure on wages and contributions for employees in health-care institutions increased by 4% in real terms, while expenditure on goods and services climbed by just 1.2% in real terms. As regards the structure of expenditure, the share allocated for wages and contributions

is increasing, while the share for material costs is decreasing (the ratio was 59.7 to 40.3 in 2000 and 60.9 to 39.1 in 2002). Expenditure on medicines and orthopaedic products increased by 4.5% in real terms. Growth in expenditure on wage compensations for sick leave accelerated again after levelling off in 2001, going up by 12.2% in real terms. The rights provided by compulsory health insurance were not changed in 2002. A range of activities was adopted to curb expenditure and rationalise implementation of health-care programmes. According to the forecasts, expenditure on compulsory health insurance will increase by 3.5% in real terms in **2003**. Its share in gross domestic product is estimated to rise by 0.1 of a percentage point to reach 6.7%. Expenditure on health services is anticipated to increase by 3.9% in real terms, of which expenditure on wages and contributions will rise by 3.3% in real terms, and expenditure on goods and services by 4.7%. Expenditure on medicines and orthopaedic products is forecast to climb by 3% in real terms. Following measures taken to shorten sick leave, the rapid growth in sick leave allowances should slow down in 2003; however, growth will remain high at around 6% in real terms. This is partly the result of changes in labour legislation. Activities aimed at curbing expenditure in the health sector are to continue. Accessibility to health services has already been worsened by the limited funding collected through compulsory health insurance, dictating constant efforts to cut expenditure in the compulsory health-care system, as well as by the insufficient flexibility of the organisation and operation of health-care institutions. These developments have already raised questions about the equality and solidarity of the public health-care system and provoked analyses of the current state of the health-care system that will serve as the basis for changes and reform.

After consolidation, total general government expenditure increased by 2.6% in real terms in **2002** and totalled 42.4% of gross domestic product, 0.4 of a percentage point less than in 2001. According to the revised national budget, the estimated expenditure of pension and health budgets, and estimated local government expenditure, consolidated general government expenditure will increase by 3% in real terms in **2003**. Its share in gross domestic product will total 42.6%, 0.2 of a percentage point more than the year before. In **2004**, total (consolidated) general government expenditure should rise by 3% in real terms. This forecast is made on the basis of the adopted national budget and the expenditure forecasts for other general government budgets. The share of general government expenditure in gross domestic product is expected to reach 42.3%.

6.3. General government deficit – In 2003 it will total 1.5% of gross domestic product

Economic policy measures taken in **2002** ensured the most stable financing sources possible, while the revision of the 2002 budget and the adjustment of financial plans of other general government budgets eased pressure on general government expenditure. Nevertheless, the current general government deficit for 2002 reached 1.5% of gross domestic product (according to preliminary data). Further, the fiscal year was synchronised with the calendar year, meaning that total national budget expenditure was effected with 11-month revenues from value-added tax and excise duties (i.e. excluding revenues from value-added tax and excise duties paid in January

Table 31: **Consolidated general government revenue and expenditure, the GFS-IMF methodology (% of GDP)**

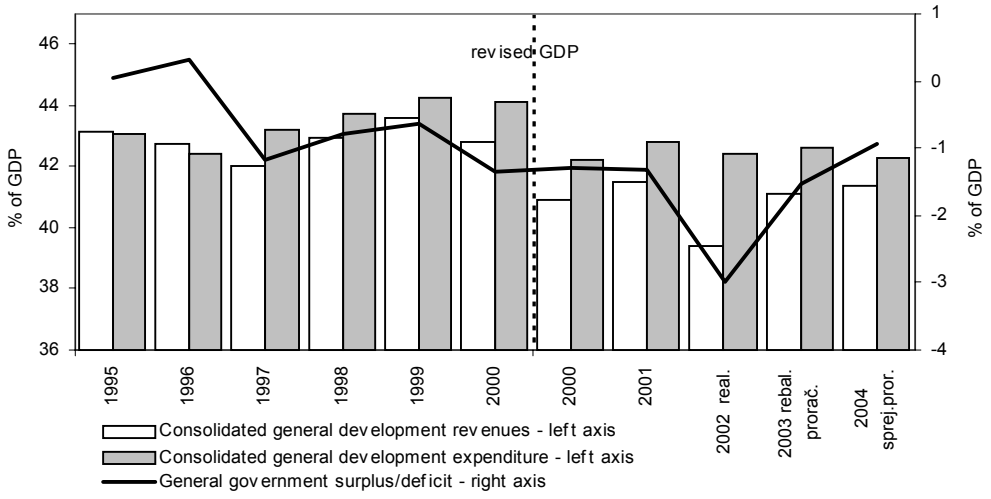
	1996	1997	1998	1999	2000	2000*	2001	2002	2003	2004
									Forecast	
General government revenues	42.7	42.0	43.0	43.6	42.8	40.9	41.5	39.4	41.1	41.4
General government expenditure	42.4	43.2	43.8	44.2	44.2	42.2	42.8	42.4	42.6	42.3
Surplus / deficit	0.3	-1.2	-0.8	-0.6	-1.4	-1.3	-1.3	-3.0	-1.5	-0.9

Sources of data: Ministry of Finance, Bulletin of Government Finance; proposed revision of the national budget for 2003; adopted national budget for 2004; the IMAD's calculations based on GDP forecasts.
Note: * after 2000 shares compared to the revised gross domestic product (see Box 1).

2003). Therefore, the current general government deficit increased by the **'compensatory' deficit**, amounting to 1.5% of gross domestic product. The general government deficit thus totalled 3% of gross domestic product in 2002. According to estimates, the general government deficit will total about 1.5% of estimated gross domestic product in **2003** and 0.9% in **2004**.

In Slovenia, the general government deficit comprises the deficits of four consolidated general government budgets: the national budget, the budget of compulsory pension and disability insurance, the budget of compulsory health insurance, and local government budgets. The standards of general government accounting draw on the solutions proposed by the Government Finance Statistics (GFS), which is recommended by the International Monetary Fund. Flows (general government revenues and expenditure) are entered when paid, rather than when accrued, the same as in national accounts. Being a candidate-country for EU membership, Slovenia

Picture 17: **Consolidated general government revenue and expenditure (% of gross domestic product)**



Source of data: Ministry of Finance; calculations by the IMAD; for 2000 shares in GDP calculated in line with the SORS' old methodology; from 2000 onwards shares calculated relative to revised GDP.

is obliged to submit to the European Commission a notification of its public debt and general government deficit which must be compiled in line with the methodology of the European System of Accounts – ESA 95. Compiling the general government deficit on the basis of a single methodology 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 EU's methodology requires the following: the inclusion of all transactors (the inclusion of public funds and other government institutions) and transactions (e.g. the institutions' own revenues, certain environmental taxes); transition to an accrual basis of accounting (which is particularly important for interest on public debt); adjustment to the calendar year; adjustment of the consolidation method etc. According to the EU's methodology, the general government deficit totalled 2.7% of gross domestic product in 2001 and 2.5% of gross domestic product in 2002.

6.4. Central government debt – At the end of 2002 it accounted for 26.94% of gross domestic product

Central government debt increased by SIT 194.5 billion in 2002 and amounted to SIT 1,423.5 billion on 31 December 2002. Loan disbursement totalled SIT 904.2 billion, while debt repayment amounted to SIT 752.3 billion. Revaluation and exchange rate changes pushed debt up by SIT 42.6 billion.

At the end of 2002, euro-denominated debt represented 50.8% of total central government debt (52.6% in 2001). Tolar-denominated debt represented 46.9% (42.9% at the end of 2001), while dollar-denominated debt dropped to 1.8% (3.8% at the end of 2001). The currency structure and its changes resulted from the reduction of risks related to exchange rate changes and the adjustment of the external debt portfolio to the structure of foreign exchange inflows from exports. There was no new borrowing in US dollars in 2002 apart from the disbursement of an existing loan from international financial organisations in the amount of USD 41,000.

In 2002, the government continued to pursue the strategy of providing the largest possible amount of budgetary finance from the domestic market, so external borrowing totalled just SIT 0.8 billion. The share of debt with a variable interest rate increased from 17.6% at the end of 2001 to 23.6% at the end of 2002 owing to the financing of the budget through domestic bonds carrying a variable interest rate. Debt with a fixed interest rate, however, still represented the major share of

Table 32: **Stock and changes in the debt of the Republic of Slovenia in 2002 (SIT billion)**

	31.12.2001 Stock	Disburse-ment	Repayment	Net disburse-ment	Revaluation and changes	Debt changes	31.12.2002 Stock
DEBT OF THE RS	**1,228.9**	**904.2**	**752.3**	**151.9**	**42.6**	**194.5**	**1,423.5**
I. Internal debt	635.1	903.4	727.4	176.0	26.4	202.4	837.7
II. External debt	593.7	0.8	24.9	-24.1	16.2	-7.9	585.7

Source of data: Ministry of Finance, Bulletin of Government Finance.

total debt (76.4%). During 2002, the downward trend in interest rates continued from 2001, which was also indicated by interest rates on 5-year bonds RS 31 (issued on 15 January 2002; the interest rate was the tolar indexation clause + 4.20%) and RS 46 bonds (issued on 8 November 2002; the interest rate was the tolar indexation clause + 3.00%).

The government's long-term borrowing amounted to SIT 200.7 billion, of which SIT 13.2 billion was loans raised from domestic commercial banks, SIT 186.7 billion came from the issue of securities in the domestic market (see Table 33), and SIT 0.8 billion was loans raised from international financial institutions. At the end of 2002, short-term debt totalled SIT 90 billion (SIT 55 billion at the end of 2001), SIT 21 billion of which came from borrowing through six-month treasury bills, SIT 30.5 billion came from 12-month treasury bills, and SIT 20 billion from one-month treasury bills.

As far as debt management is concerned, 2002 was marked by the first issue of the tolar-denominated government bond carrying a nominal interest rate (RS 36), the sale of the government's stake in the NLB bank, and debt restructuring (September 2002; see Autumn Report 2002, p. 105). The Ministry of Finance decided to use the proceeds of the sale of a stake in the NLB bank gradually, while considering the possibility of exchanging the existing government debt instruments with new ones. In November 2002, the government exchanged the RS15 bonds, G-T series, for

Table 33: **Government bonds issued by the end of 2002**

Bond	Maturity	Interest rate	Total value
RS 28 - 3-year issue	15.01.2005	TOM*+4.20%	SIT 10,500 million
RS 29 - 10-year issue	15.01.2012	5.375%	EUR 32,474.300 SIT 12,313 million
RS 31 - 5-year issue	15.01.2007	TOM+4.70%	SIT 2,947.7 million
RS 32 - 10-year issue	15.01.2012	5.375%	EUR 23,865.000
RS 34 - 5-year issue	18.02.2007	TOM+4.20%	SIT 16,910 million
RS 35 - 5-year issue	18.03.2007	TOM+4.20%	SIT 14,000 million
RS 36 - 3-year issue	18.03.2005	9.00%	SIT 12,000 million
RS 37 - 5-year issue	19.04.2007	TOM+4.00%	SIT 17,000 million
RS 38 - 15-year issue	19.04.2017	5.625%	EUR 100,000,000 SIT 22,730 million
RS 40 - 5-year issue	31.05.2007	TOM+3.90%	SIT 15,000 million
RS 41 - 5-year issue	17.06.2007	TOM+3.90%	SIT 12,000 million
RS 42 - 3-year issue	15.07.2005	9.00%	SIT 12,000 million
RS 43 - 5-year issue	15.10.2007	TOM+3.00%	SIT 9,363.2 million
RS 44 - 10-year issue	08.11.2012	6.65%	SIT 2,964.9 million
RS 45 - 3-year issue	08.11.2005	8.20%	SIT 12,112.5 million
RS 46 - 5-year issue	08.11.2007	TOM+3.00%	SIT 48,488.5 million
RS 47 - 10-year issue	08.11.2012	TOM+3.25%	SIT 60,524.5 million
RS 28 - 10-year issue	02.12.2012	4.75%	EUR 60,000.000

Note: * TOM = tolar indexation clause.

Table 34: **Central government debt in 2003-2005 (SIT billion)**

	2003	2004	2005
Required scope of financing	248.9	268.9	408.8
Interest payments[1]	91.6	98.3	99.2
Repayment of principal[1]	175.9	201.5	343.9
Central government debt	**1,533.0**	**1,620.0**	**1,700.6**
Debt as % of GDP	**26.8**	**26.2**	**25.4**

Source of data: S. Mičković: Dolg ožje opredeljene države, April 2003.
Note: [1] new borrowing in 2003-2005 is included.

new bonds (RS44-47) amounting to SIT 124.1 billion. The amount realised through the early repayment of the RS15 bonds, series P, R, S, T (13 November 2002) was SIT 1.8 billion. The Ministry of Finance deposited the non-employed proceeds of the sale of a stake in the NLB bank with the Bank of Slovenia on the conditions and terms laid down in the Agreement between the Bank of Slovenia and the Republic of Slovenia of 25 September 2002. The total budget savings should amount to SIT 69.4 billion in the period from 2002 to 2012 (in 2002 this resulted in SIT 982.2 million of savings), resulting from the exchange of the RS15 bonds, G-T series, the early repayment of the remaining RS15 bonds, P, R, S, T series, and from interest earned on deposited non-employed proceeds. Further, in the first half of 2002 the government exchanged part of the RS15M bonds for RS31 and RS32 bonds, amounting to SIT 8,243.8 million. The rest of the RS15M bonds (SIT 16,482.0 million) and part of the RS04 bonds (SIT 7,815.7 million) were repaid early. The budget gained SIT 1,565 million from the exchange and early repayment of the RS15M and RS04 bonds.

The combined approach of early debt repayment and the exchange of part of the portfolio with new, cheaper instruments produced better results than early repayment alone. The combined approach helps lower the cost of debt servicing for a much larger share of debt. The interest rate on long-term bonds fell by more than 2 percentage points, while the yield curve for a maturity of 3 to 12 months almost levelled out.

The **forecast of central government debt for 2003-2005** is based on the following assumptions:

- the budget deficit will not exceed 1.25% of gross domestic product in 2003 and 1.0% of gross domestic product in 2004 and 2005;
- in 2003-2005, the government will not take over any new debt on the basis of special laws;
- in 2004 and 2005, Slovenia will be a net recipient from the European Union budget; and
- proceeds of the sale of the government's stake in the NLB bank will be deposited with the Bank of Slovenia in the given period.

Even though the proceeds of the sale of a stake in the NLB bank will be deposited with the Bank of Slovenia, debt relative to gross domestic product will fall in the given period. This fall and the smaller share of interest payments in general government expenditure will be the result of the changed structure of the debt portfolio and the active management of the proceeds of the sale of the government's stake in the NLB bank.

Although debt growth should be sustainable in 2003-2005, the above estimate of the fiscal stance mainly results from the anticipated gross domestic product growth and falls in inflation and interest rates in the domestic market up until 2005. A more 'conservative' growth assumption would be more appropriate for fiscal management in the upcoming years, meaning that a balanced budget structure should be achieved in this period (also see Autumn Report 2002, Box 9).

7. Monetary developments and the capital market

7.1. Monetary developments and policy – The Bank of Slovenia still keeps growth in the tolar's exchange rate predictable

In 2002 the Bank of Slovenia continued to pursue the monetary policy first presented in the Medium-term Monetary Policy Framework in November 2001. It is based on two pillars: the first one involves the volume of M3 broad monetary aggregate in circulation and the second one the rest of the indicators influencing price stability and sustainability of monetary policy[68]. By thoroughly implementing its policy, the Bank of Slovenia should achieve its main objective, namely the gradual **reduction of inflation to a level comparable with European Union member-countries.**

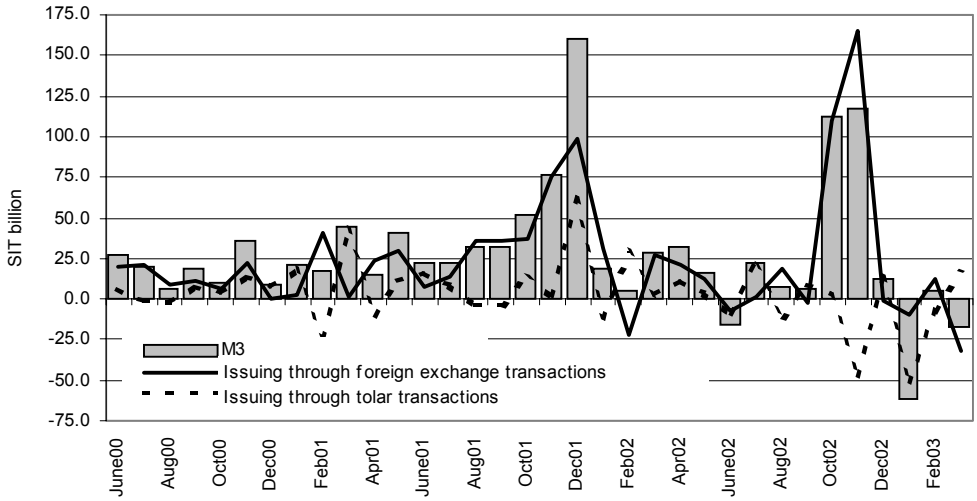
For 2002 the Bank of Slovenia again presented **the target band of M3 broad monetary aggregate growth** as its **operational goal**. After lowering both its floor and ceiling by one percentage point in 2001, it returned its values to the previous levels in 2002, and thus forecasted average M3 growth of between 12.0% and 18.0% (in the final quarter of the year compared to the same quarter the year earlier), and between 9.0% and 15.0% in 2003. In spite of adapting its floor and ceiling, M3 growth displays the central bank's inability to control it because it has exceeded the ceiling of the targeted band since the beginning of 2001. The deviation was especially noticeable in the first quarter of **2002** when M3 growth reached 29.8%. This relatively high growth was the result of adapting portfolios upon introduction of the euro, and in the following two quarters M3 growth began to slow down. Before the end of the year the trend of slowing growth was interrupted by the increased inflow of foreign exchange related to the sale of equity shares to foreign partners. These inflows amounted to 2.6% of gross domestic product in 2001, while in 2002 they grew to 8.3%, and especially in the last quarter substantially affected the dynamics of monetary aggregate growth. Average M3 growth thus amounted to 22.7% at the end of 2002. In the first quarter of **2003** the growth of monetary aggregates began to slow down again, partly due to fewer one-off effects, which influenced its growth at the end of last year, and partly due to the usual seasonal influences. Average M3 growth amounted to 17.9% at the end of March, which was 11.9 percentage points less than in March last year.

Increased capital inflows and the related exogenous pressures on M3 growth are also expected in the next few years, which raises the issue of the **suitability of M3 targeting**. The exceeding of its growth ceiling, which has been evident for years, erodes the credibility of monetary policy, and thus makes cutting inflation even more difficult, i.e. increases the cost of its lowering.

The influence of exogenous factors on M3 growth is also evident from Picture 18, which shows the currency structure of issuing the broad monetary aggregate. In the first nine months of 2002, M3 was supplied through foreign exchange (SIT 79.1 billion) and tolar transactions (SIT 43.1 billion), while in the last quarter the extent of supply through foreign exchange increased 3.5-fold (to SIT 273.2 billion), while

[68] They mainly involve the indicators of economic activity, wage growth, the current account deficit, growth in administered prices, and the government sector's deficit.

Picture 18: **The flows of M3 supply**



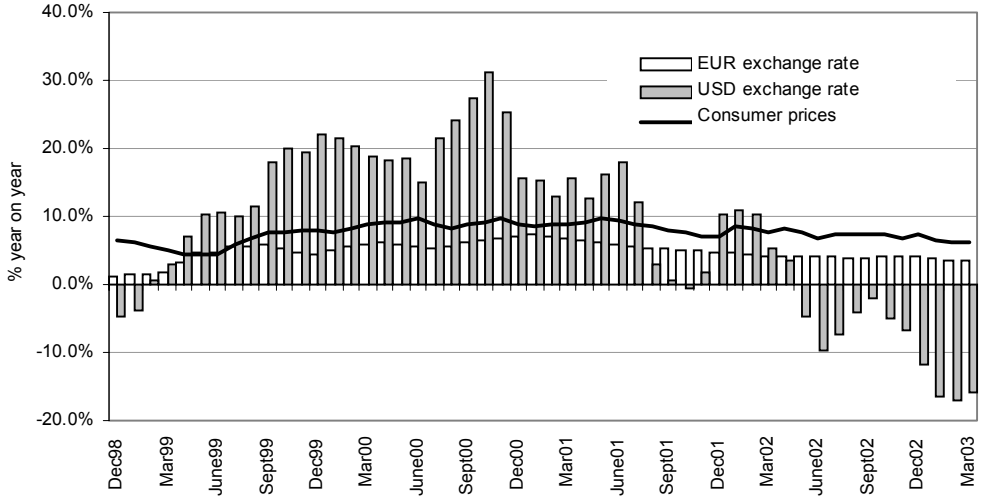
Source of data: Bank of Slovenia.

the amount of tolar transactions decreased (SIT 30.9 billion). In the first quarter of this year the decrease in the volume of M3 was the result of foreign exchange (SIT 29.1 billion) as well as tolar (SIT 43.5 billion) transactions.

The growth of M2 monetary aggregate overtook the growth of M3 at the beginning of this year for the first time since 1999 due to the slower rise of foreign currency deposits in banks (from 18.8% in September last year to 6.8% in March this year), while growth in tolar bank deposits slowed down by a mere 1.3 percentage points (to 19.4%). After increasing markedly last year, **growth of base money** slowed down in the first quarter of this year, which amounted to 6.4% at the end of March. That is comparable to the growth it achieved in the first quarter of 2000.

In 2002 the increased **volume of foreign exchange inflows** was accompanied by their relatively high fluctuation between quarters. In the first quarter the net supply of foreign exchange amounted to SIT 330.3 billion, in the second and third quarters it totalled SIT 20.3 billion and SIT 2.7 billion, respectively, and in the last quarter it grew to SIT 165.0 billion. In the spot foreign exchange market net supply amounted to SIT 46 billion, while in the futures market the net supply of foreign exchange amounted to SIT 564.3 billion. The Bank of Slovenia, which maintained the underlying orientation of its **exchange rate policy**, intervened with swaps whose volume grew 2.2-fold in the last quarter with respect to the first nine months of the year, and amounted to SIT 546.6 billion at the end of 2002 (SIT 260.9 billion in December 2001). The other instrument of exchange rate policy which the Bank of Slovenia used last year was implementation of an agreement with commercial banks, according to which they were obliged to buy and sell foreign exchange at the benchmark rates set by the Bank of Slovenia. By employing these instruments, the Bank of Slovenia managed to keep growth of the euro's exchange rate relatively stable, given the above mentioned effects on monetary aggregate growth, as well the effects on interest rates which will be presented later on. After rising 4.6% year

Picture 19: **Year-on-year changes in the exchange rates of the euro and the US dollar and inflation**

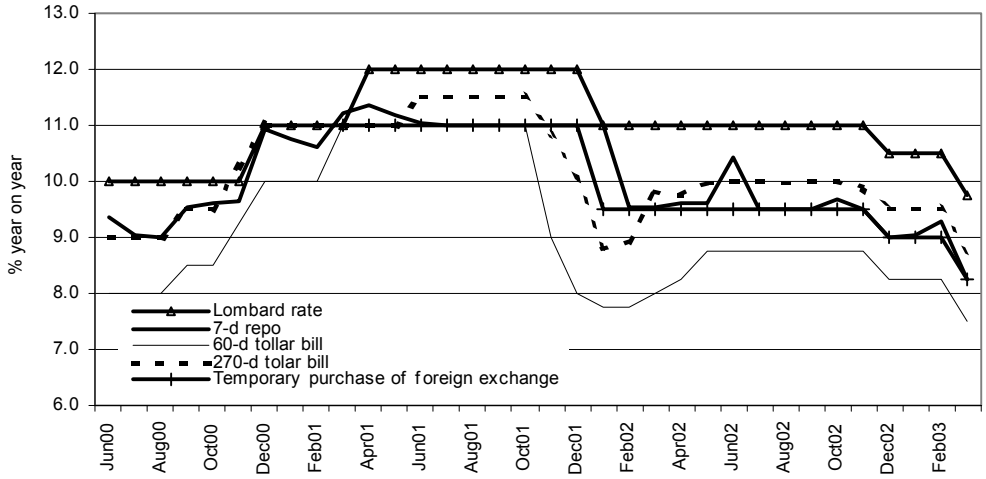


Sources of data: Bank of Slovenia, SORS.

on year at the end of 2001, the Bank of Slovenia's euro's exchange rate slowed down by 0.4 of a percentage point in the first quarter of 2002, and by a further 0.2 of a percentage point by the end of the year, and thus amounted to 4.0% in December. Monthly growth of about 0.3% decreased marginally in the first quarter of this year.

The year-on-year rise in the US dollar's exchange rate was 10.8% in January 2002, it then dropped to 3.4% by the beginning of the second quarter. The second half of the year saw the tolar's nominal appreciation against the US dollar, which reached 11.9% by December year on year and increased to 15.9% in March 2003.

Picture 20: **The Bank of Slovenia's key interest rates**



Source of data: Bank of Slovenia.

The combination of exchange rate policy measures, especially the growing volume of swaps, retained the need to withdraw money through tolar bills, which grew twice as fast as the swaps by the end of 2002. As a result, the level of their **interest rates** was higher at the end of 2002 compared to the year before. With 60-day tolar bills the increase was 0.5 of a percentage point, and with 270-day tolar bills, the increase was 0.7 of a percentage point, even though the Bank of Slovenia lowered both interest rates by 0.5 of a percentage point in December, when the volume of swaps declined compared to previous months.

Other central bank interest rates were changed with similar dynamics. In January 2002 the Bank of Slovenia lowered its basic interest rates; the Lombard interest rate was cut from 12% to 11%, and the repurchase agreement interest rate from 11% to 9.5%. These rates did not change until December. At the end of 2002 both interest rates were lowered by 0.5 of a percentage point, so the average level of the central bank's interest rate was lower than in 2001. The end of the first quarter of this year saw a **further cut in all key interest rates**, when the Bank of Slovenia brought them into line with inflation, which was 0.9 of a percentage point lower than at the end of 2002.

While changing its key interest rates at the end of March **2003**, the Bank of Slovenia also lowered the interest rate on euro purchases from 4.5%, where it was held since October 2001, to 4.0%. Even though the Bank of Slovenia merely reacted to changes in the macroeconomic environment, especially the lower inflation, the lower interest rates did help the tolar's depreciation to slow down. Along with a more restrictive policy of increasing prices under various regimes of regulation and a reduction of fiscal changes with inflationary impacts, the **Bank of Slovenia's slowing down of nominal depreciation of the tolar** is one of the measures required to lower inflation to 5% in 2003 and to 4% in 2004. Namely, bearing in mind the significant pass-through effect of exchange rate on prices, the highly predictable rates of the euro's exchange rate are estimated to have added about half to the total rise in consumer prices. Slower depreciation of the tolar could therefore **have an important effect on bringing inflation down in the following months**.

Following the expected slowing down of the euro's exchange rate by the end of this year and the related lowering of the Bank of Slovenia's key interest rates, growth in monetary aggregates will still largely depend on foreign capital inflows. In the case of their modest rise, comparable with their growth in 2001, and lower fluctuations between quarters, by the end of the year the growth of monetary aggregates could be close to the rates envisaged by the Bank of Slovenia for 2003.

7.2. Financial flows and the capital market – In 2002 modest growth in household savings and borrowing, corporate tolar lending dropped, while foreign currency lending increased dramatically, and stock exchange indices saw high growth

The volume of household bank savings grew considerably less in 2002 than in the previous two years (just 7% real growth in 2002, 28.1% in 2001, and 14.8% in 2000). This **modest growth** was due to: (i) the exchange of national currencies of

EMU countries for euros at the end of 2001 and dynamic growth in household deposits throughout that year, resulting in the considerable growth of household deposits and a high benchmark; and (ii) cuts in interest rates on tolar time deposits which probably led to the transfer of some savings from banks to the secondary capital market. This was most likely also influenced by the high growth of indexes of the Ljubljana Stock Exchange. Following the extremely high net inflows of foreign currency deposits at the end of 2001, it was expected that some of them would be moved back to cash, but there was no major outflow last year. This indicates the high level of trust people have in domestic banks. Net flows of tolar and foreign currency deposits amounted to SIT 151.6 billion in 2002 (SIT 90.4 billion only in the last two months), and were 63.1% lower in real terms than in 2001.

The volume of **tolar savings** grew by 12.6% in real terms in 2002 (24.7% in 2001). Amongst these, long-term tolar deposits saw the highest growth of 52.3% in real terms. There are three main reasons for this. Firstly, the methodological change in the coverage of long-term savings deposits, i.e. the transfer of long-term savings deposits to long-term time deposits – which accounted for close to two-thirds of the rapid growth in long-term deposits. Secondly, the de-indexation of all new financial contracts with a maturity of less than a year and, thirdly, the inflow of deposits from the National Savings Housing Scheme (NSHS), where SIT 42.7 billion had been deposited by the end of 2002. The average monthly inflow of tolar deposits after the launch of the fourth NSHS amounted to SIT 1.6 billion, which represented almost half of all long-term deposit inflows. They reached the same level as in 2001 in real terms (excluding the methodological change). Short-term tolar deposits (sight deposits excluded) grew by just 1.2% in real terms, while net inflows were 65.2% lower in real terms than in 2001. The modest growth of short-term savings was the result of the elimination of the tolar indexation clause (TOM) in July 2002. The inflows of sight deposits were strongest and amounted to SIT 57 billion, 37% more in real terms than in 2001. Total net inflows of tolar deposits amounted to SIT 145.7 billion in 2002, 30.5% less than the year before in real terms. The share of household tolar savings increased by 3.9 percentage points to 58.6% in 2002 because of the higher returns yielded by tolar savings compared to foreign currency savings leading to lower inflows of foreign currency deposits, and partly because of the flows of foreign currency deposits back to cash.

Contrary to expectations that some **foreign currency deposits** generated by the exchange of foreign currencies for euros at the end of 2001 would be transferred back to cash, net outflows of foreign currency deposits recorded by October 2002 amounted to just slightly less than 8% of the inflow seen in 2001, while the inflow of foreign currency deposits overtook the outflow by SIT 5.9 billion by the end of the year (in 2001 net foreign currency inflows amounted to SIT 187.6 billion[69]). So the volume of foreign currency savings increased by 1% in real terms last year. However, only short-term time deposits recorded growth (4.1% year on year in real terms), while the volume of sight and long-term foreign currency deposits dropped in real terms (by 0.4% and 0.9%, respectively). The latter can be explained by two factors: first, inflation was higher than growth in the exchange rate, which made

[69] Inflows of sight and savings foreign currency deposits seen in the last quarter of 2001 accounted for almost three-quarters of total net foreign currency flows in 2001 mainly because of exchanging the 12 EMU currencies for euros. These inflows were highest in December, when they totalled SIT 78.4 billion in net terms.

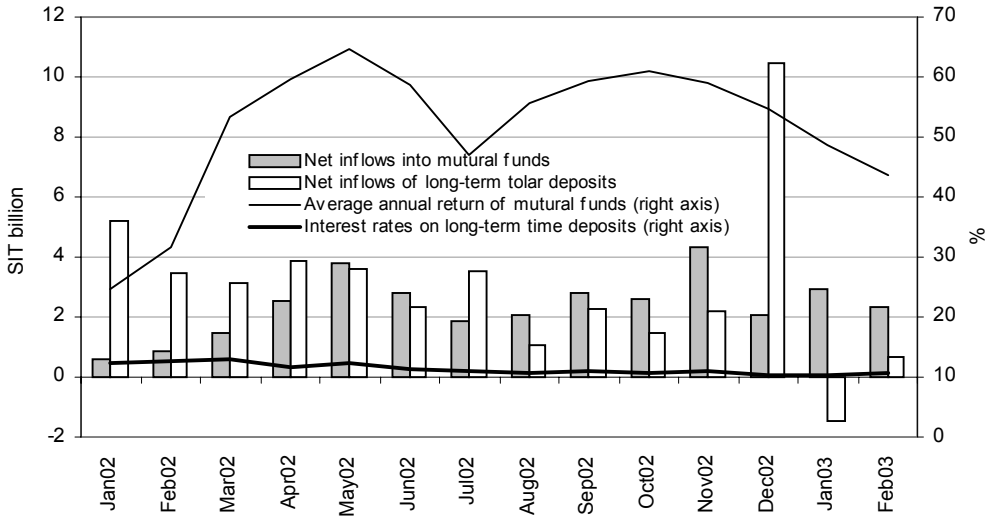
foreign currency savings less attractive and, second, the exchange rate was expected to be fixed.

The trend of slow growth in household bank savings **continued in the first quarter of this year**. Savings rose by 1.1% in real terms (0.8% at the same time in 2002, and 4.2% in 2001), of which tolar savings grew by 1.4%, and foreign currency savings by 0.7%. Assuming the slower depreciation of the tolar, the share of household foreign currency savings is expected to keep dropping.

Mutual funds are an increasingly important form of saving. In **2002** the value of their assets grew 2.8-fold in nominal terms to SIT 55.4 billion, and they equalled 2.8% of overall household bank savings by the end of the year. Net inflows amounted to SIT 27.7 billion (SIT 1.2 billion in 2001). The reason for that was the high annual returns, which exceeded 50% on average as a result of the strong rise in the Ljubljana Stock Exchange's indices; the SBI surged by 55.2% last year. In spite of the falling stock exchange indexes **in the first quarter of this year**, and hence lower returns (26.7% at the end of March), this form of savings has remained attractive. Net inflows into mutual funds reached SIT 6.2 billion in the first three months, almost double than in the same period last year. With such high rates of growth, the domestic capital market will soon become too small which will force the funds to orient their investments to foreign markets. The announced changes in interest taxation and capital profit taxation will also influence this process.

The **volume of domestic banks' tolar lending to corporations and other financial organisations (OFO), households and the government** dropped by 1.3% in real terms in 2002 (in 2001 it grew by 7.7% in real terms). The volume of short-term loans dropped by 7.5%, while the volume of overdrafts and advances and long-term

Picture 21: **A comparison of net inflows of long-term tolar deposits with mutual funds net inflows, and their returns**



Source of data: Bank of Slovenia, www.finance-on.net, the IMAD's calculations.

loans grew by 1.2% and 2.5%, respectively. Borrowing mainly fell because of the net repayment of tolar loans by companies and OFOs, which preferred to take out foreign currency loans with domestic banks.

The slow rise of **household tolar loans** continued in 2002 (0.6% in real terms, 1.2% in 2001): the volume of long-term loans, which represented 79% of all household tolar loans, grew by 1% in real terms, while the volume of short-term loans and overdrafts and advances dropped by 1.1%. Net flows of household loans amounted to SIT 37.6 billion, which was almost the same level in real terms as in 2001. As a result of moderate borrowing, along with subdued savings, the **household indebtedness**, measured as a proportion between loans and deposits, lowered from 0.31 at the end of 2001 to 0.29 at the end of 2002, which was the lowest level since August 1995. In the first quarter of **2003** the stock of domestic bank household loans dropped compared to December (by 1% in real terms; overdrafts and advances, and short-term loans by 4.2%, long-term loans by 0.1%).

At the end of 2002 the volume of **corporate tolar bank loans** was 5.6% lower in real terms than the year before (in 2001 they grew by 11.2%). The highest drop was measured in short-term tolar loans (representing 55.8% of corporate and OFO domestic bank tolar loans), falling by 8.5% in real terms. The only noticeable growth was in overdrafts and advances, up 46.8% in real terms, but due to their relatively small share (2%) they did not hold back the fall in tolar loans considerably. Net flows of corporate and OFO tolar loans amounted to SIT 10 billion, and were well behind the flows from 2001 (SIT 141.9 billion). Corporate borrowing in the form of **foreign currency loans** rose more than tolar borrowing. Foreign currency loans grew by 39% in real terms (35.1% in 2001) and represented a third (33.1%) of all domestic bank corporate and OFO loans by the end of the year (26.1% at the end of 2001, 22.6% at the end of 2000). The reasons were the same as in previous years – the higher level of inflation than the rise in exchange rate, a high value of the tolar indexation clause (TOM), and the good foreign currency liquidity of banks. Net flows of domestic bank corporate and OFO foreign currency loans amounted to SIT 135.9 billion, 76.6% higher in real terms than in 2001. With tolar loans falling and foreign currency loans rising, the total **volume of domestic bank corporate and OFO loans** grew by 6.7% last year (17% in 2001).

In the first three months of **2003**, the volume of domestic bank corporate and OFO tolar loans grew by 6% in real terms because of the transfer of loans of the Motorway Construction Company (DARS) from the government to the corporate segment (without this transfer corporate loans would have dropped by approximately 1.3% in real terms). Long-term loans grew by 17.4% in real terms (without the transfer they would have dropped by approximately 0.3% in real terms). The downward trend in the volume of short-term corporate and OFO loans continued, and they dropped by 2.6% in real terms in the first quarter. Domestic bank foreign currency loans still achieved robust growth and were 8% higher in real terms at the end of March than in December (6% without the DARS). Net flows of foreign currency loans amounted to SIT 37.4 billion and were 2.4-times bigger in real terms than in the same period last year. With the anticipated slower depreciation of the tolar, the volume of foreign currency loans is expected to keep growing.

Corporate borrowing abroad intensified in the last quarter of 2002, when enterprises raised foreign currency loans in a total net amount of SIT 32.1 billion. In 2002 as a whole, net external corporate borrowing amounted to SIT 69.4 billion, 22.9% less than the year before in real terms. Nevertheless, external loans were the second most important source of corporate finance after domestic banks' foreign currency loans, representing 32.6% and 63.5% of total net inflows of corporate loans. External borrowing was mainly undertaken by large enterprises for which banks cannot provide large loans because of statutory limits to the level of exposure to any one borrower.

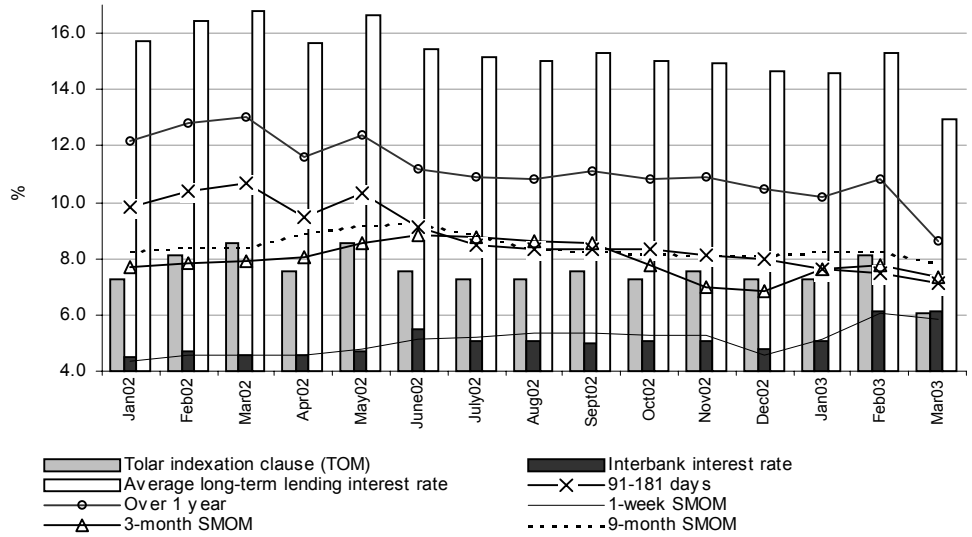
The **government** borrowed SIT 69.4 billion from domestic banks in **2002** (SIT 5.1 billion in 2001). Unlike companies and other financial organisations, the government mainly raised tolar loans, representing 77.8% of the net flows of government loans, in line with its strategy to provide as much budgetary finance as possible from the domestic financial market. The volume of government loans increased by 19.3% in real terms; long-term loans were up 24.2%, while overdrafts and advances and short-term loans were down 4.3%. In the **first quarter of 2003**, the volume of government loans dropped by 40.5% in real terms because of the transfer of the DARS' loans to the corporate sector (excluding these loans, the drop would have been 2.9%). The government repaid foreign currency loans in a net amount of SIT 7 billion, so the volume of these loans shrank by 10.7% in real terms.

In previous years the biggest influence on nominal **interest rates** was the movement of the tolar indexation clause (TOM), which was removed for short-term claims and liabilities in July 2002. As a result, short-term interest rates are no longer shaped by the level of price rises in the past twelve months but they include the expected level of inflation. This caused a considerable fall in nominal interest rates and minimised their fluctuations, while the difference between domestic and foreign interest rates narrowed. The reference interest rate to replace the TOM should be the Slovenian Interbank Interest Rate (SMOM). It represents interest rates on tolar liquidity loans and tolar time deposits, which are formed in the domestic interbank money market. However, in just over one year of its existence the SMOM has not really taken hold because some banks have established their own reference interest rate calculated on the basis of several interest rates. This year we expect a gradual changeover to nominal interest rates also in claims and liabilities with a maturity of more than a year.

The average lending interest rate on short-term loans, which started to drop faster in the second half of 2002, dropped by 1.7 percentage points in 2002 to 11.8%, while the long-term lending interest rate dropped by one percentage point to just 6.9% above the TOM. The downward trend in lending interest rates continued into the **first quarter of this year** when the average short-term lending interest rate, as well as the average long-term interest rate above the TOM, dropped by 0.4 of a percentage point. The drop in **deposit interest rates** was even more noticeable, as they began dropping even before the abolition of indexation[70] and fell by an average of 1.6 percentage points in 2002. Short-term interest rates for a maturity of more than 90 days dropped faster, down by an average of 2.1 percentage points, while

[70] Except in May, when the TOM climbed to 8.6%.

Picture 22: **Movements of selected interest rates (year on year, in %)**



Sources of data: Bank of Slovenia, Bank Association of Slovenia, the IMAD's calculations.

interest rates of a shorter maturity fell by 0.8 of a percentage point. Long-term interest rates above the TOM dropped by 1.7 percentage points last year to 3%. This lowering continued in the **first quarter of this year**; short-term interest rates on time deposits were down by an average of 0.6 of a percentage point, while long-term interest rates above the TOM fell by 0.3 of a percentage point. **The average value of the TOM** was 7.7% in 2002, close to one percentage point less than in 2001. Taking into account the projected lowering of inflation, the TOM is expected to be about 1.5 percentage points lower than last year. In March its value was the lowest since August 1999 (6.1%).

The average interbank interest rate hit its lowest level thus far in 2002 and came in at 4.9%, two percentage points less than in 2001. After the first six months it grew to 5.5% due to a somewhat lower scope of meeting the minimum reserves, then it fell back to approximately 5% due to the somewhat higher foreign currency inflows and the resulting increased bank liquidity. **In the first quarter of 2003** bank liquidity dropped somewhat, reflected in a higher average interbank interest rate, reaching a peak above 6%. The **SMOM** also moved in line with the average interbank interest rate. In the third quarter of 2002 short-term interest rates were somewhat higher than SMOMs of a longer maturity, which could in theory mean that a drop in interest rates is expected (but due to the shallowness of the interbank market and low representativeness of the SMOM, theoretical implications do not necessarily hold). This difference shrank in the first quarter of this year.

In 2002 the **Ljubljana Stock Exchange** recorded considerable rises in securities prices, contrary to the **movements** seen in world financial markets[71]. The **SBI20 –**

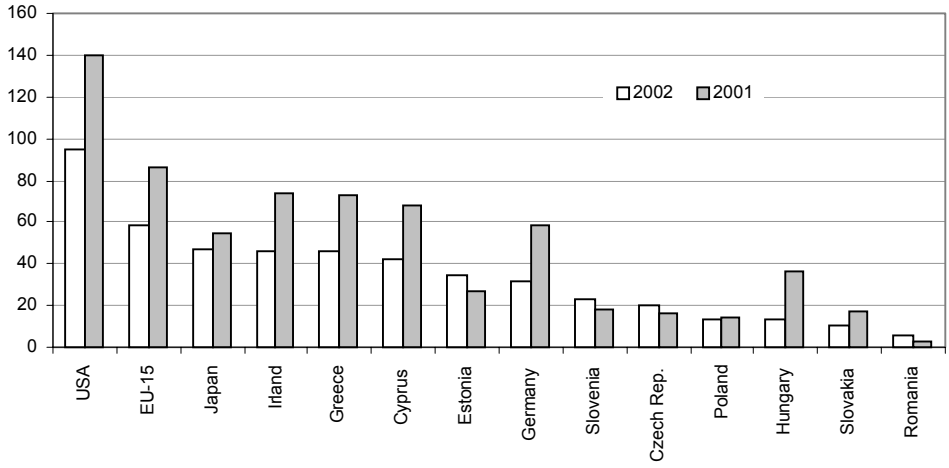
[71] The value of the Morgan Stanley Capital International (MSCI) global stock market index fell by 33% in 2002 when measured in euros.

the Slovenian stock exchange index – increased by 55.2% (19% in 2001, and only 0.1% in 2000) and at the end of 2002 reached 3,340 points. This high growth was the result of merger and acquisition activities, new investors in the stock market and mutual funds, the good business results of some companies, and falls in interest rates in the banking sector. The **PIX**, the **index of authorised investment companies**, reached 2,730 points at the end of 2002, and gained 71.9% in value during the year (4.4% in 2001 and 0.1% in 2000). Amongst the industrial sector indexes, the chemicals index achieved the highest return (81% growth). The pharmaceuticals index grew by 74.2% by the end of November, when the stocks of Lek, a pharmaceuticals company, were excluded, and the index was no longer calculated. This was followed by the oil and gas index (68.9%), the trade index (37.1%), the food and beverages index (35.8%), and the transport index (33.1%). Net purchases of stocks by foreign investors in the official and free markets amounted to SIT 326.2 billion, which was 4.8-fold more than the year before and mainly resulted from merger and acquisition activities in 2002.

The **market capitalisation of all securities** in the stock exchange (excluding the shares of investment companies) reached SIT 1,930.4 billion by the end of 2002, 58.5% more than at the end of 2001. Its **share relative to gross domestic product** grew from 26.7% at the end of 2001 to 36.5% at the end of 2002. The market capitalisation of **all shares** in the stock exchange grew by 45.1% to SIT 1,233.1 billion at the end of the year, representing 23.3% of GDP (17.9% at the end of 2001). The gap behind advanced industrialised countries in the value of this indicator fell, mainly due to the growth of stock exchange indexes in Slovenia and their fall in the rest of the world, but it is still far below the advanced markets (see Picture 22). **Turnover** on the Ljubljana Stock Exchange was 38% higher last year than in 2001, and with a value of SIT 481 billion it was the highest so far.

In 2002 the **share turnover ratio**, which is calculated as a ratio of the annual turnover on the Ljubljana Stock Exchange to the market capitalisation on the last day of the

Picture 23: **Market capitalisation of shares, % of GDP**



Sources of data: Ljubljana Stock Exchange, New Cronos, the IMAD's calculations.

year, dropped compared to 2001, from 0.28 to 0.23 (market capitalisation grew faster than turnover on the stock exchange). Comparison of this indicator with advanced and other Central European capital markets, where it normally reaches values between 0.5 and 0.8, shows the shallowness of the Slovenian capital market. The bond turnover ratio climbed from 0.14 to 0.16, while the turnover ratio of shares of investment companies rose from 0.34 to 0.35 in 2002.

In the first quarter of 2003 growth in the Ljubljana Stock Exchange indexes stopped; the SBI20 index was 4.7% lower by the end of March than at the end of 2002. The reasons for this fall lie in the high prices of securities listed on the Ljubljana Stock Exchange, and the delayed revival of the world economy. Among industrial sector indexes a rise was only seen in the food and beverage index and the transport index, up by 5.9% and 3.3%, respectively. Market capitalisation totalled SIT 1,730.2 billion at the end of the first quarter and was (excluding the shares of investment companies) 10.4% lower than in December. A large part of this drop was due to the withdrawal of Lek's shares at the end of February, which amounted to SIT 152 billion. Turnover on the Ljubljana Stock Exchange dropped by 5.4% in nominal terms year on year in the first quarter. The turnover of bonds stood out, since it surged by 66.2%, representing 43% of the whole turnover (24.5% last year).

7.2.1.1. Bank performance

Consolidation of the banking sector continued in 2002. At the end of 2002, there were 20 banks in Slovenia (21 at the end of 2001). Market concentration, measured by the total assets of the three largest banks relative to assets of the whole banking system, fell by 1.9 percentage points to 54.6% as a result of a faster rise in the total assets of medium-sized and small banks. With further consolidation, this share should keep growing.

According to unaudited data, total bank assets amounted to SIT 4,537.8 billion at the end of 2002 (85.9% of GDP), 7.1% higher in real terms than at the end of 2001. With banks' lower lending activity, loans to the non-financial sector represented 47.8% in the asset structure, 1.6 structural points less than the year before. Strong growth of investment in securities was noted for the second consecutive year; this represented 34.1% of total assets (28.6% in 2001) and rose by 30% in real terms over 2001 (30.6% in 2001). This was mainly the result of quick growth of investment in the Bank of Slovenia's securities; its stock increased by SIT 335.8 billion last year, and represented 59.5% of all securities investment. The volume of investment in government securities, representing 31.7% of all securities investment, grew by 14.3% in real terms. On the liabilities side, liabilities to the non-banking sector fell by 1.8 percentage points to 69.4% compared with 2001 following a moderate rise in household savings. Liabilities to the banking sector represented 12.6% of all liabilities (11.8% in 2001), which was mainly the result of banks' higher borrowing abroad.

The indicators of bank performance improved last year. The pre-tax profit was SIT 46.1 billion, which was almost triple the level of 2001. This growth was the result of the new Slovenian Accounting Standards, which abolished the revaluation of capital, fixed assets and capital investments. It should also be noted that 2001, when one of the banks formed reserves on a larger scale, represented a relatively

low starting point. Return on capital amounted to 13.3% in 2002 (4.8% in 2001), and return on assets 1.1%, 0.6 of a percentage point more than the year before. A big problem for the banking system was operating expenses, which grew faster than total assets (especially the cost of labour).

8. Medium-term economic forecasts for 2005-2007

In the period from 2005 to 2007 economic growth should strengthen gradually to reach 4.5% in 2007. This forecast diverges from the medium-term macroeconomic scenario of the Strategy for the Economic Development of Slovenia (SEDS; IMAD, 2001), according to which real gross domestic product growth should range between 5.3% and 5.7% in 2005 and 2006. In addition to uncertainty in the international economic environment, which is postponing the expected recovery of global economic activity and, consequently, Slovenia's economic growth, this divergence is due to internal and structural factors. In 2001 and 2002, the structure of gross domestic product growth changed in the sense that domestic private and investment consumption faltered; investment relative to gross domestic product fell, while the structure of spending disposable income changed to the benefit of saving. The main reasons for divergence remain unfinished or pending structural reforms. This was pointed out in the Development Report 2003 (IMAD, 2003), stating that the remaining structural reforms will have to be completed in order to achieve macroeconomic stability, especially in the areas of the non-tradable sector's efficiency, bolstering the knowledge-based society, innovation, and technological restructuring of the tradable sector. Because of the slow pace of raising competitiveness resulting from these structural shortcomings and factors in the international environment, the forecast of growth in exports of goods and services is lower than the projection from the SEDS' macroeconomic scenario. However, growth should intensify gradually in the upcoming years and exports should retain their role of an important lever of economic growth.

Projections for 2005-2007 anticipate annual export growth climbing to around 6.8% provided that conditions in the international environment are relatively favourable and the regional composition of trade remains diversified. Domestic consumption should also strengthen. Investment is expected to remain robust (annual growth of about 7%) with a slight cyclical fall in 2006 and should mainly involve the private sector's investment in machinery and equipment. This investment restructuring should help introduce new production programmes and products and strengthen international competitiveness by increasing the share of high value-added products in exports. Projections of investment growth drew on the increased level of national saving and higher net foreign capital inflows in the form of direct and portfolio investment. Part of public capital expenditure should be replaced by foreign private capital involved in financing the building of infrastructure on a concession basis, especially after 2004, and increased financing from the EU. Taking into account these assumptions, room for investing in machinery and equipment, technological development and information and communication 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 simultaneously shrinking. The anticipated strong productivity growth should enable faster wage growth, with the real gross wage per employee still rising below the rate of productivity growth. This should also boost private consumption growth to around 3.5%. Despite the intensified domestic consumption and import growth, the current account surplus is not expected to fall to below 1% of gross domestic product because of the improved economic competitiveness and the sustained high export growth.

Table 35: **Forecasts of the main macroeconomic indicators**

- Real growth rates, %

	2005	2006	2007
Gross domestic product	4.0	4.4	4.5
Employment (% growth)	0.8	0.8	0.9
Labour productivity (% growth)	3.5	3.8	3.7
Gross wage per employee	2.2	2.5	2.5
Exports of goods and services	6.6	6.9	7.0
Imports of goods and services	7.1	6.5	7.0
Final consumption (government and private)	3.3	3.4	3.4
Gross fixed capital formation	7.0	5.5	7.5
Current account deficit (% of GDP)	1.0	1.1	0.9
Inflation rate (annual average, %)	4.2	3.7	3.5

Source of data: the IMAD's forecasts.

In order to maintain stable economic growth after accession with the EU, qualitative changes must bring about investment restructuring, reinforced competitiveness factors and the elimination of macroeconomic imbalances, mainly involving inflation, which should be reduced to a level comparable to the EU, and the general government deficit, which should be gradually reduced. Factors that will help bring inflation down close to the Maastricht criterion are more restrictive policies (see Chapter 4) and the elimination of structural imbalances, mainly in those sectors where prices are regulated by the government, the financial markets, and the labour market. If this is realised, in the period right after entering the ERM2 any price rises above the EU average or the Maastricht criterion[72] would solely be the result of faster productivity growth in Slovenia relative to the EU average ('real convergence'), which could at first be partly offset by nominal depreciation within the allowed range of exchange rate fluctuations.

[72] 1.5 percentage points above the average of the three member-states recording the lowest inflation rates.

Part III

An Analysis of the Quality of the IMAD's Forecasts

An analysis of the quality of the IMAD's forecasts

The quality of forecasts of real economic growth and average inflation rates was first assessed in the Autumn Report 2002. This analysis includes two new forecasts, one from the Autumn Report 2001 and one from the Spring Report 2002, and two additional indicators: the nominal economic growth rate calculated as the annual percentage change in GDP in current prices and year-end inflation measured by the annual rise in consumer prices in December.

Like in 2002, we separately assess the quality of two types of forecasts: those for the current year (spring forecasts) and those for the year ahead (autumn forecasts).[73] They can clearly show the impact of the varying degrees of uncertainty on forecasting:

- an error in the forecast for the current year is the difference between the projection made on the basis of the first available data for the current year and the actual figure for the same year published by the statistical office as a provisional figure as soon as the actual data are available. In this case, a comparison of the projected figure with the actual one involves a relatively short, one-year, interval, and the forecast is already being realised when it is made, while the estimate is not yet final. The forecast is therefore not made in the total absence of any information, while the estimate is not subject to any modifications or changes of statistical coverage so it is unlikely that any significant difference would occur;
- on the other hand, the interval between the projection and its realisation is much longer in the forecast for the year ahead. The time of making a forecast for the whole year ahead (without relying on any actual data) and the time of publishing an estimate by the statistical office, which is usually a corrected and therefore a more accurate figure, are wide apart, usually almost two years. The gap between these two figures measures the difference between the projection, which is made without any, limited or derived information, and the actual figure, which is fairly accurate. Hence, the likelihood of an error is greater. An error in the forecast for the year ahead can serve as a basis for assessing the quality of forecasts which are made with greater uncertainty.

In this analysis, we have examined the quality of forecasts from the Autumn Report 2001 and the Spring Report 2002 (both made for 2002) by comparing them with the first statistical publication of GDP and inflation figures for 2002.[74] The main findings are as follows:

- the forecast of the GDP growth rate for 2002 in constant prices, which was made in autumn 2001, was quite high (3.6%). Developments seen in early 2002 led to a downward revision of this forecast (down 0.3 of a percentage point) and the actual growth rate was missed by just 0.1 of a percentage point;
- the nominal economic growth rate, on the other hand, was underestimated. In autumn 2001, a lower GDP growth rate in current prices was projected than in

[73] *Forecasts for the current year* refer to spring forecasts (Spring Report) for the current year. *Forecasts for the year ahead* refer to autumn forecasts (Autumn Report) for the upcoming year. The realisation of these forecasts is examined by comparing these values with figures published in the next Spring or Autumn Reports.

[74] Even though this is not fully in line with this methodology, we have used the same method to compare the autumn forecasts of 2001 made for 2002.

spring 2002, when the figure was revised upwards by 0.3 of a percentage point – the current forecast underestimated the actual value by 1.0 percentage point; and

- the autumn forecast of price trends for 2002 was over-optimistic, so the current forecast was raised by 0.5 or 0.6 of a percentage point – compared to the actual figure, the spring projection of the average inflation rate was 0.6 of a percentage point below the actual rate, while the spring forecast of the year-end inflation rate was 0.9 of a percentage point below the actual figure.

By comparing deviations of forecasts from the actual figures for 2002, we can determine how deviations seen in the last year may affect the quality of the IMAD's forecasts in a longer period. In order to give the results greater analytical value, we have calculated two statistical measures of error in forecasts: the mean absolute error (MEA)[75] and the root mean squared error (RMSE)[76]; the lower the value of these measures, the higher the quality of forecasts. The value of these figures fell compared to the first analysis (see Autumn Report 2002), suggesting that the quality of forecasts has continued to improve. A comparison with foreign institutions (Table 6) shows that the IMAD's forecasts of the main macroeconomic aggregates were pretty accurate, especially after 1996, concerning both forecasts for the current year and those for the year ahead.

After 1996, the real GDP growth rate forecast for the year ahead was missed by an average of 0.35 of a percentage point, while the forecast for the current year was missed by just 0.13 of a percentage point (representing 3.5% of the average actual values), except in 1999 and 2001, when a significant error was caused by the unexpected shock on the demand side. The IMAD's forecasts of real growth rates were more frequently over- than under-estimated, however, the errors were usually small.

Nominal GDP growth rates were projected with similar accuracy, ranging between 10% and 13% of the average actual values after 1996. Forecasts for the current year diverged from the actual figures by an average of 0.97 of a percentage point and were therefore not overly biased. On the contrary, forecasts tended to be underestimated, however, they differed from the final figures by no more than 0.88 of a percentage point (about a 7% error relative to the average final figure on nominal growth).

After 1996, forecasts of the average inflation rate for the current year were not biased and were close to the actual values. Differences were small, except in 2000, when leaps in oil prices were recorded – the average error amounted to just 0.4 of a percentage point (4.9% of the average actual value of inflation). Somewhat larger discrepancies were seen in the autumn forecasts, with the latest one being that of autumn 2002.

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

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

Table 36: **Comparison of errors in forecasts of economic growth and inflation made by the IMAD and selected foreign forecasting institutions**

	MEAN ABSOLUTE ERROR		ROOT MEAN SQUARED ERROR	
	Current year	Year ahead	Current year	Year ahead
Economic growth (real annual percentage change in gross domestic product)				
IMAD, 1991-2002	1.16	1.31	1.52	1.77
IMAD, 1st period[1]	2.10	2.16	2.18	2.50
IMAD, 2nd period[2]	0.49	0.60	0.76	0.72
ECFIN[3]	0.53	0.94	0.77	1.33
ECFIN, forecasts for member-states	0.56-1.60	0.94-2.36	0.77-2.01	1.18-2.71
EU member-states, 1991-2001[4]	0.80	1.09	1.21	1.76
EU member-states, 1998-2001[4]	0.63	1.33	1.06	1.92
EU member-states, 1991-2001[5]	0.43-2.24		0.71-3.24	
EU member-states, 1998-2001[5]	0.29-2.08		0.46-2.83	
IMF[6]	0.65	1.17		
Inflation (consumer price index or consumption deflator (OECD))				
IMAD, 1995-2002	0.76	1.04	1.05	1.37
IMAD, 2nd period [2]	0.53	1.04	0.66	1.37
ECFIN[3]	0.37	0.99	0.49	1.51
ECFIN, forecasts for member-states	0.33-1.15	0.57-2.08	0.52-1.53	0.84-3.04
OECD, obdobje 1971-1997[7]				0.72-2.73
OECD, obdobje 1985-1997[7]				0.61-1.28

Notes:
[1] as far as economic growth is concerned, the 1st period covers forecasts for the current year for 1991-1995 and forecasts for the year ahead for 1992-1996,
[2] as far as economic growth is concerned, the 2nd period covers forecasts for the current year for 1996-2002 and forecasts for the year ahead for 1997-2002. As far as inflation is concerned, this period covers forecasts for the current year for 1996-2002 and forecasts for the year ahead for 1998-2002,
[3] the European Commission's forecasts refer to the aggregate economic growth rate of EU member-states for 1969-1997 (Source: EC Economic Papers),
[4] errors in forecasts have been calculated as the average of errors made by the 15 EU member-states in their forecasts (Source: ECB),
[5] a collection of forecasts made by national forecasting institutions (Source: ECB),
[6] The IMF's forecasts cover industrialised European countries in 1976-1995 (source: World Economic Outlook),
[7] The OECD's forecasts bring together forecasts for 13 selected European countries (source: Economic Outlook).

Similar results were recorded in the forecasts for year-end inflation. A significant error was made in 1998 and 2000 and again in 2001, while the forecast for 2001 matched the actual figure. The average error, excluding extraordinary years, amounted to 0.6 of a percentage point, representing 7.4% of the average actual figures.

The IMAD is improving the quality of its forecasts by upgrading the methodology and forecasting procedures. The internationally established indicators ensure that the accuracy of the IMAD's forecasts is on par with the most credible international forecasting institutions.

Statistical Appendix

Table of Contents

Table 1: **Main Macroeconomic Indicators of Slovenia**

- Real growth rates in %

	1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
										Forecast		
GROSS DOMESTIC PRODUCT	4.1	3.5	4.6	3.8	5.2	4.6		2.9	3.2	3.1	3.9	4.0
Structure in value added in % [1]												
Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.2	3.7	3.3	3.5	3.3	3.3	3.2	3.1	3.0
Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.5	38.3	38.3	37.2	36.9	36.8	36.6	36.6	36.3
- Industry (C+D+E)	33.4	32.8	32.5	32.8	32.0	32.1	30.9	31.0	31.0	30.9	30.8	30.5
- Construction F	5.1	5.7	5.7	5.7	6.3	6.2	6.3	5.9	5.8	5.7	5.8	5.8
Services (G...O)	59.2	59.5	59.8	59.7	60.3	60.6	62.2	62.2	62.3	62.5	62.6	63.0
FISIM	-2.3	-2.5	-2.3	-2.4	-2.2	-2.2	-2.9	-2.4	-2.4	-2.3	-2.3	-2.3
GDP in mil. SIT (current prices)	2,221,459	2,555,369	2,907,277	3,253,751	3,648,401	4,035,518	4,222,404	4,740,995	5,284,501	5,711,600	6,186,800	6,694,900
GDP in mil. EUR	14,508	15,075	16,116	17,468	18,843	19,682	20,594	21,829	23,360	24,566	26,451	28,574
GDP in mil. US$	18,745	18,878	18,206	19,585	20,071	18,122	18,962	19,530	21,996	25,751	27,743	29,982
GDP per capita in EUR	7,300	7,571	8,111	8,811	9,490	9,889	10,352	10,959	11,705	12,307	13,247	14,309
GDP per capita in US$	9,431	9,481	9,163	9,878	10,109	9,105	9,531	9,805	11,022	12,901	13,894	15,014
GDP per capita (PPS)*	11,300	11,800	12,800	13,500	14,500	15,600		16,300				

Cont. on the next page.

Table 1: **Main Macroeconomic Indicators of Slovenia**

- Real growth rates in %

	1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
										Forecast		
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS												
Exports of goods and services- real [2]	1.1	3.6	11.6	6.7	1.7	12.7		6.4	6.1	5.4	6.3	6.6
Exports of goods	3.0	2.4	13.3	9.2	2.7	12.8		6.9	6.1	5.5	6.5	6.8
Exports of services	-6.3	8.7	4.9	-3.6	-2.7	11.8		3.8	6.1	4.8	5.4	5.6
Imports of goods and services- real [2]	11.3	2.1	11.9	10.4	8.2	6.1		3.0	4.8	4.5	7.0	7.1
Imports of goods	13.1	1.8	13.3	10.9	8.8	6.1		3.2	4.3	4.2	7.1	7.2
Imports of services	-1.2	3.6	3.1	7.0	3.6	6.0		1.4	8.6	6.0	6.5	6.5
Exports of goods and services in mil. EUR	8,021	8,375	9,248	9,893	9,867	11,626	11,626	12,642	13,499	14,150	15,087	16,424
As a % of GDP	55.3	55.6	57.4	56.6	52.4	59.1	56.5	57.9	57.8	57.6	57.0	57.5
Imports of goods and services in mil. EUR	8,302	8,534	9,372	10,154	10,701	12,364	12,364	12,772	13,168	13,768	14,767	16,169
As a % of GDP	57.2	56.6	58.2	58.1	56.8	62.8	60.0	58.5	56.4	56.0	55.8	56.6
Trade balance in mil. EUR	-281	-160	-123	-261	-835	-738	-738	-130	331	381	320	255
As a % of GDP	-1.9	-1.1	-0.8	-1.5	-4.4	-3.7	-3.6	-0.6	1.4	1.6	1.2	0.9
Current account balance in mil. EUR	-52	32	43	-108	-664	-583	-583	31	393	357	347	274
As a % of GDP	-0.4	0.2	0.3	-0.6	-3.5	-3.0	-2.8	0.1	1.7	1.5	1.3	1.0
Foreign exchange reserves in mil. US$	3,426	4,124	4,377	4,781	4,115	4,376	4,376	5,747	8,152			
External debt in mil. US$	2,970	3,981	4,123	4,915	5,400	6,217	6,217	6,717	8,799			
As a % of GDP	15.8	21.1	22.6	25.1	26.9	34.3	32.8	34.4	40.0			

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Table 1: **Main Macroeconomic Indicators of Slovenia**

- Real growth rates in %

	1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
										Forecast		
EMPLOYMENT, WAGES AND PRODUCTIVITY												
Employment in full-time equivalent	1.0	-1.0	-0.5	0.0	1.2	1.1		0.9	-0.1	0.2	0.8	0.8
Registered unemployed (annual average in thousand)	121.5	119.8	125.2	126.1	119.0	106.6		101.9	102.6	96.6	92.4	87.2
Rate of registered unemployment in %	13.9	13.9	14.4	14.5	13.6	12.2		11.6	11.6	10.9	10.4	9.8
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9	7.6	7.0		6.4	6.4	6.3	5.9	5.5
Gross wage per employee	5.1	5.1	2.4	1.6	3.3	1.6		3.2	2.0	2.0	2.0	2.2
Labour productivity	2.5	4.4	5.2	3.6	3.3	4.0		2.5	3.4	3.1	3.5	3.5
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS												
Final consumption	7.4	2.3	3.2	3.9	5.6	1.4		3.0	2.1	2.1	3.2	3.3
As a % of GDP	78.7	77.6	76.7	75.9	76.0	75.8	76.6	76.5	75.4	75.2	74.5	74.0
in which:												
Private consumption	9.1	2.0	2.8	3.3	6.0	0.8		2.6	2.0	2.0	3.3	3.5
As a % of GDP	58.5	57.5	56.4	55.7	55.8	54.9	56.6	56.0	54.8	54.6	54.3	54.1
Government consumption	2.5	3.4	4.3	5.8	4.6	3.1		4.0	2.7	2.4	2.8	2.7
As a % of GDP	20.1	20.1	20.4	20.3	20.2	20.8	20.0	20.6	20.5	20.6	20.2	20.0
Gross fixed capital formation	16.8	8.9	11.6	11.3	19.1	0.2		-0.8	3.1	3.2	7.0	7.0
As a % of GDP	21.4	22.5	23.4	24.6	27.4	26.7	25.7	23.9	22.9	22.8	23.5	24.1

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Table 1: **Main Macroeconomic Indicators of Slovenia**

- Real growth rates in %

	1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
										Forecast		
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	42.8	40.9	41.5	39.4	41.1	41.4	
General government expenditure as a % of GDP	43.1	42.4	43.2	43.8	44.2	44.2	42.2	42.8	42.4	42.6	42.3	
Surplus/deficit as a % of GDP	0.0	0.3	-1.2	-0.8	-0.6	-1.4	-1.3	-1.3	-3.0	-1.5	-0.9	
EXCHANGE RATE AND PRICES												
Average exchange rate US$	118.5	135.4	159.7	166.1	181.8	222.7		242.7	240.2	221.8	223.0	223.3
Average exchange rate EUR	153.1	169.5	180.4	186.3	193.6	205.0		217.2	226.2	232.5	233.9	234.3
Effective exchange rate [3]	10.3	-2.9	0.7	4.0	-0.7	-2.1		-0.1	2.7	2.9	1.9	2.4
Inflation (end of the year)	8.6	8.8	9.4	6.5	8.0	8.9		7.0	7.2	5.1	4.3	4.0
Inflation (annual average) [4]	12.6	9.7	9.1	7.9	6.1	8.9		8.4	7.5	5.5	4.3	4.2

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

The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures (SORS, March 2003).

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

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
										Estimate	Forecast		
A.	Agriculture, hunting, forestry	87,072	98,260	107,700	116,215	114,552	115,101	127,997	137,166	149,099	158,165	165,556	174,760
B.	Fishing	386	439	484	519	520	534	565	585	588	633	666	700
C.	Mining and quarrying	26,006	30,683	33,908	36,023	36,825	36,763	27,095	24,956	28,282	29,610	30,744	31,615
D.	Manufacturing	545,730	616,410	706,266	782,651	859,603	970,014	994,856	1,122,577	1,244,204	1,349,292	1,470,680	1,590,722
E.	Electricity, gas and water supply	56,693	65,032	73,492	96,503	98,108	112,768	106,454	128,690	143,993	150,757	157,307	161,768
F.	Construction	96,588	123,827	143,158	159,312	195,879	214,935	230,721	242,651	265,644	283,655	313,572	341,650
G.	Wholesale, retail, trade, repair	232,286	257,269	294,293	326,778	365,101	403,227	423,913	484,423	539,121	584,482	635,369	687,985
H.	Hotels and restaurants	57,164	68,467	77,314	84,124	94,979	111,721	95,167	105,535	117,793	128,691	141,241	155,892
I.	Transport, storage, communications	148,746	169,275	204,827	233,079	259,090	282,646	269,912	299,562	331,943	361,612	397,066	442,404
J.	Financial intermediation	77,067	93,185	108,916	119,023	134,177	156,326	186,803	182,838	209,986	235,357	262,124	292,054
K.	Real estate, renting and business activities	224,830	263,568	291,572	334,244	380,744	421,884	545,979	619,160	684,400	744,137	808,924	886,872
L.	Public administration and com. soc. sec.	102,937	121,447	149,612	161,704	178,540	203,034	230,036	269,961	304,226	332,151	361,069	392,102
M.	Education	108,002	123,881	146,687	157,735	177,098	205,041	205,792	239,070	264,260	283,726	303,977	327,459
N.	Health and social work	101,172	118,454	134,589	148,882	169,420	195,243	186,516	213,487	236,672	254,849	273,839	294,369
O.	Other community and personal activities	63,580	77,431	88,243	100,449	115,126	133,145	126,702	142,779	158,593	171,438	185,589	201,924
P.	Private households with employed persons							1,383	1,775	1,913	2,014	2,116	2,225
	FISIM	-43,947	-55,127	-58,554	-66,343	-69,351	-77,324	-106,919	-98,989	-108,832	-116,393	-124,214	-136,383
TOTAL VALUE ADDED (basic prices)		1,884,312	2,172,501	2,502,509	2,790,898	3,110,409	3,485,059	3,652,971	4,116,226	4,571,885	4,954,178	5,385,626	5,848,115

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

- Current prices, SIT million

	1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
									Estimate	Forecast		
1. TOTAL VALUE ADDED (basic prices)	1,884,312	2,172,501	2,502,509	2,790,898	3,110,409	3,485,059	3,652,971	4,116,226	4,571,885	4,954,178	5,385,626	5,848,115
2. CORRECTIONS [1]	337,147	382,868	404,768	462,853	537,993	550,460	569,433	624,769	712,617	757,421	801,174	846,785
3. GROSS DOMESTIC PRODUCT (3=1+2)	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,222,404**	**4,740,995**	**5,284,501**	**5,711,600**	**6,186,800**	**6,694,900**
TOTAL VALUE ADDED (basic prices)	1,884,312	2,172,501	2,502,509	2,790,898	3,110,409	3,485,059	3,652,971	4,116,226	4,571,885	4,954,178	5,385,626	5,848,115
in which:												
1. Agriculture, forestry, fishing (A + B)	87,458	98,699	108,184	116,734	115,072	115,635	128,562	137,751	149,688	158,798	166,222	175,459
2. Industry and construction (C + D + E + F)	725,017	835,952	956,824	1,074,489	1,190,415	1,334,480	1,359,126	1,518,874	1,682,123	1,813,315	1,972,304	2,125,754
- Industry (C + D + E)	628,429	712,125	813,666	915,177	994,536	1,119,545	1,128,405	1,276,223	1,416,479	1,529,659	1,658,732	1,784,105
- Construction F	96,588	123,827	143,158	159,312	195,879	214,935	230,721	242,651	265,644	283,655	313,572	341,650
3. Services (G ... P)	1,115,784	1,292,977	1,496,055	1,666,018	1,874,273	2,112,268	2,272,203	2,558,590	2,848,908	3,098,458	3,371,314	3,683,285
4. FISIM	-43,947	-55,127	-58,554	-66,343	-69,351	-77,324	-106,919	-98,989	-108,832	-116,393	-124,214	-136,383

Source of data: SORS, IMAD's calculations for 2002 and forecasts.
Note: [1]Taxes on products and services, minus subsidies on products and services.

The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures (SORS, March 2003). The two series are incomparable.

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

- Shares in GDP in %, current prices

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
										Estimate	Forecast		
A.	Agriculture, hunting, forestry	3.9	3.8	3.7	3.6	3.1	2.9	3.0	2.9	2.8	2.8	2.7	2.6
B.	Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C.	Mining and quarrying	1.2	1.2	1.2	1.1	1.0	0.9	0.6	0.5	0.5	0.5	0.5	0.5
D.	Manufacturing	24.6	24.1	24.3	24.1	23.6	24.0	23.6	23.7	23.5	23.6	23.8	23.8
E.	Electricity, gas and water supply	2.6	2.5	2.5	3.0	2.7	2.8	2.5	2.7	2.7	2.6	2.5	2.4
F.	Construction	4.3	4.8	4.9	4.9	5.4	5.3	5.5	5.1	5.0	5.0	5.1	5.1
G.	Wholesale, retail, trade, repair	10.5	10.1	10.1	10.0	10.0	10.0	10.0	10.2	10.2	10.2	10.3	10.3
H.	Hotels and restaurants	2.6	2.7	2.7	2.6	2.6	2.8	2.3	2.2	2.2	2.3	2.3	2.3
I.	Transport, storage, communications	6.7	6.6	7.0	7.2	7.1	7.0	6.4	6.3	6.3	6.3	6.4	6.6
J.	Financial intermediation	3.5	3.6	3.7	3.7	3.7	3.9	4.4	3.9	4.0	4.1	4.2	4.4
K.	Real estate, renting and business activities	10.1	10.3	10.0	10.3	10.4	10.5	12.9	13.1	13.0	13.0	13.1	13.2
L.	Public administration and com. soc. sec.	4.6	4.8	5.1	5.0	4.9	5.0	5.4	5.7	5.8	5.8	5.8	5.9
M.	Education	4.9	4.8	5.0	4.8	4.9	5.1	4.9	5.0	5.0	5.0	4.9	4.9
N.	Health and social work	4.6	4.6	4.6	4.6	4.6	4.8	4.4	4.5	4.5	4.5	4.4	4.4
O.	Other community and personal activities	2.9	3.0	3.0	3.1	3.2	3.3	3.0	3.0	3.0	3.0	3.0	3.0
P.	Private households with employed persons							0.0	0.0	0.0	0.0	0.0	0.0
	FISIM	-2.0	-2.2	-2.0	-2.0	-1.9	-1.9	-2.5	-2.1	-2.1	-2.0	-2.0	-2.0
1. TOTAL VALUE ADDED (basic prices)		84.8	85.0	86.1	85.8	85.3	86.4	86.5	86.8	86.5	86.7	87.1	87.4
2. CORRECTIONS[1]		15.2	15.0	13.9	14.2	14.7	13.6	13.5	13.2	13.5	13.3	12.9	12.6
3. GROSS DOMESTIC PRODUCT (3=1+2)		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

- Shares in GDP in %, current prices

	1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
									Estimate	Forecast		
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:												
1. Agriculture, forestry, fishing (A + B)	3.9	3.9	3.7	3.6	3.2	2.9	3.0	2.9	2.8	2.8	2.7	2.6
2. Industry and construction (C + D + E + F)	32.6	32.7	32.9	33.0	32.6	33.1	32.2	32.0	31.8	31.7	31.9	31.8
- Industry (C + D + E)	28.3	27.9	28.0	28.1	27.3	27.7	26.7	26.9	26.8	26.8	26.8	26.6
- Construction F	4.3	4.8	4.9	4.9	5.4	5.3	5.5	5.1	5.0	5.0	5.1	5.1
3. Services (G ... P)	50.2	50.6	51.5	51.2	51.4	52.3	53.8	54.0	53.9	54.2	54.5	55.0
4. FISIM	-2.0	-2.2	-2.0	-2.0	-1.9	-1.9	-2.5	-2.1	-2.1	-2.0	-2.0	-2.0
5. Corrections[1]	15.2	15.0	13.9	14.2	14.7	13.6	13.5	13.2	13.5	13.3	12.9	12.6
shares in value added in %												
TOTAL VALUE ADDED	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:												
1. Agriculture, forestry, fishing (A + B)	4.6	4.5	4.3	4.2	3.7	3.3	3.5	3.3	3.3	3.2	3.1	3.0
2. Industry and construction (C + D + E + F)	38.5	38.5	38.2	38.5	38.3	38.3	37.2	36.9	36.8	36.6	36.6	36.3
- Industry (C + D + E)	33.4	32.8	32.5	32.8	32.0	32.1	30.9	31.0	31.0	30.9	30.8	30.5
- Construction F	5.1	5.7	5.7	5.7	6.3	6.2	6.3	5.9	5.8	5.7	5.8	5.8
3. Services (G ... P)	59.2	59.5	59.8	59.7	60.3	60.6	62.2	62.2	62.3	62.5	62.6	63.0
4. FISIM	-2.3	-2.5	-2.3	-2.4	-2.2	-2.2	-2.9	-2.4	-2.4	-2.3	-2.3	-2.3

Source of data: SORS, IMAD's calculations for 2002 and forecasts.
Note: [1] Taxes on products and services, minus subsidies on products and services.

The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures (SORS, March 2003). The two series are incomparable.

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

- Constant prices 1995, SIT million

		1995	1996	1997	1998	1999	2000
A.	Agriculture, hunting, forestry	87,072	87,956	85,362	88,028	86,186	85,309
B.	Fishing	386	423	430	411	424	409
C.	Mining and quarrying	26,006	26,495	27,328	27,348	27,627	27,253
D.	Manufacturing	545,730	554,260	590,671	618,131	637,279	692,199
E.	Electricity, gas and water supply	56,693	57,365	59,750	60,303	59,799	61,513
F.	Construction	96,588	109,382	117,792	123,199	142,637	146,663
G.	Wholesale, retail, trade, repair	232,286	239,175	245,870	252,793	268,802	275,444
H.	Hotels and restaurants	57,164	59,680	61,826	62,404	64,336	70,635
I.	Transport, storage, communications	148,746	152,612	159,052	167,272	172,604	180,708
J.	Financial intermediation	77,067	85,509	85,555	89,445	92,358	97,833
K.	Real estate, renting and business activities	224,830	234,121	240,033	245,682	257,322	264,951
L.	Public administration and com. soc. sec.	102,937	108,438	119,592	125,568	132,332	139,909
M.	Education	108,002	109,175	114,476	118,048	122,096	126,659
N.	Health and social work	101,172	107,685	111,035	112,901	120,092	125,101
O.	Other community and personal activities	63,580	66,671	69,372	73,376	77,470	80,961
	FISIM	-43,947	-50,253	-48,924	-51,043	-50,289	-51,230
1. TOTAL VALUE ADDED (basic prices)		1,884,312	1,948,694	2,039,221	2,113,866	2,211,072	2,324,317
2. CORRECTIONS [1]		337,147	351,206	365,543	382,090	414,870	422,705
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2,221,459**	**2,299,900**	**2,404,764**	**2,495,956**	**2,625,942**	**2,747,021**
TOTAL VALUE ADDED, (basic prices)		1,884,312	1,948,694	2,039,221	2,113,866	2,211,072	2,324,317
in which:							
1. Agriculture, forestry, fishing (A + B)		87,458	88,379	85,792	88,439	86,610	85,718
2. Industry and construction (C + D + E + F)		725,017	747,502	795,541	828,981	867,342	927,628
- Industry (C + D + E)		628,429	638,120	677,749	705,782	724,705	780,965
- Construction F		96,588	109,382	117,792	123,199	142,637	146,663
3. Services (G ... O)		1,115,784	1,163,066	1,206,812	1,247,489	1,307,409	1,362,201
4. FISIM		-43,947	-50,253	-48,924	-51,043	-50,289	-51,230

Source of data: SORS.
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 % (1995 prices)

		1996	1997	1998	1999	2000
A.	Agriculture, hunting, forestry	1.0	-2.9	3.1	-2.1	-1.0
B.	Fishing	9.6	1.7	-4.4	3.1	-3.5
C.	Mining and quarrying	1.9	3.1	0.1	1.0	-1.4
D.	Manufacturing	1.6	6.6	4.6	3.1	8.6
E.	Electricity, gas and water supply	1.2	4.2	0.9	-0.8	2.9
F.	Construction	13.2	7.7	4.6	15.8	2.8
G.	Wholesale, retail, trade, repair	3.0	2.8	2.8	6.3	2.5
H.	Hotels and restaurants	4.4	3.6	0.9	3.1	9.8
I.	Transport, storage, communications	2.6	4.2	5.2	3.2	4.7
J.	Financial intermediation	11.0	0.1	4.5	3.3	5.9
K.	Real estate, renting and business activities	4.1	2.5	2.4	4.7	3.0
L.	Public administration and com. soc. sec.	5.3	10.3	5.0	5.4	5.7
M.	Education	1.1	4.9	3.1	3.4	3.7
N.	Health and social work	6.4	3.1	1.7	6.4	4.2
O.	Other community and personal activities	4.9	4.1	5.8	5.6	4.5
	FISIM	14.3	-2.6	4.3	-1.5	1.9
1. TOTAL VALUE ADDED (basic prices)		3.4	4.6	3.7	4.6	5.1
2. CORRECTIONS [1]		4.2	4.1	4.5	8.6	1.9
3. GROSS DOMESTIC PRODUCT (3=1+2)		**3.5**	**4.6**	**3.8**	**5.2**	**4.6**
TOTAL VALUE ADDED, (basic prices)		3.4	4.6	3.7	4.6	5.1
in which:						
1. Agriculture, forestry, fishing (A + B)		1.1	-2.9	3.1	-2.1	-1.0
2. Industry and construction (C + D + E + F)		3.1	6.4	4.2	4.6	7.0
- Industry (C + D + E)		1.5	6.2	4.1	2.7	7.8
- Construction F		13.2	7.7	4.6	15.8	2.8
3. Services (G ... O)		4.2	3.8	3.4	4.8	4.2
4. FISIM		14.3	-2.6	4.3	-1.5	1.9

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

Table 3c: **Value Added by Activities and Gross Domestic Product**

- Constant prices 2000, SIT million

		2000	2001	2002	2003	2004	2005
					Forecast		
A.	Agriculture, hunting, forestry	127,997	128,646	130,082	130,797	131,386	133,291
B.	Fishing	565	573	536	547	552	557
C.	Mining and quarrying	27,095	25,668	27,442	27,593	27,717	27,717
D.	Manufacturing	994,856	1,045,275	1,092,950	1,138,307	1,200,345	1,262,523
E.	Electricity, gas and water supply	106,454	113,251	119,545	120,202	121,344	121,344
F.	Construction	230,721	225,737	233,139	239,084	255,700	270,915
G.	Wholesale, retail, trade, repair	423,913	431,360	442,268	456,642	472,396	491,055
H.	Hotels and restaurants	95,167	101,203	102,941	106,595	111,126	116,626
I.	Transport, storage, communications	269,912	280,417	282,532	290,451	301,924	317,020
J.	Financial intermediation	186,803	196,908	215,275	229,376	245,317	261,263
K.	Real estate, renting and business activities	545,979	567,871	578,428	593,178	615,422	639,731
L.	Public administration and com. soc. sec.	230,036	243,596	253,962	265,517	276,616	287,542
M.	Education	205,792	210,176	215,727	221,228	226,648	232,201
N.	Health and social work	186,516	191,150	197,913	203,554	209,151	214,903
O.	Other community and personal activities	126,702	130,122	134,206	138,300	142,656	147,674
P.	Private households with employed persons	1,383	1,552	1,386	1,386	1,393	1,399
	FISIM	-106,919	-118,459	-126,217	-128,741	-131,381	-134,074
1. TOTAL VALUE ADDED (basic prices)		3,652,971	3,775,046	3,902,116	4,034,017	4,208,314	4,391,689
2. CORRECTIONS [1]		569,433	567,948	579,016	583,793	591,897	600,531
3. GROSS DOMESTIC PRODUCT (3=1+2)		**4,222,404**	**4,342,994**	**4,481,132**	**4,617,810**	**4,800,210**	**4,992,220**
TOTAL VALUE ADDED, (basic prices)		3,652,972	3,775,046	3,902,116	4,034,017	4,208,314	4,391,689
in which:							
1. Agriculture, forestry, fishing (A + B)		128,562	129,219	130,618	131,344	131,938	133,849
2. Industry and construction (C + D + E + F)		1,359,126	1,409,931	1,473,076	1,525,187	1,605,107	1,682,499
- Industry (C + D + E)		1,128,405	1,184,194	1,239,937	1,286,103	1,349,407	1,411,585
- Construction F		230,721	225,737	233,139	239,084	255,700	270,915
3. Services (G ... O)		2,272,203	2,354,355	2,424,639	2,506,227	2,602,649	2,709,415
4. FISIM		-106,919	-118,459	-126,217	-128,741	-131,381	-134,074

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

Table 3d: **Value Added by Activities and Gross Domestic Product**

- Real growth rates in % (2000 prices)

		2001	2002	2003	2004	2005
				Forecast		
A.	Agriculture, hunting, forestry	0.5	1.1	0.5	0.5	1.5
B.	Fishing	1.4	-6.5	2.0	1.0	1.0
C.	Mining and quarrying	-5.3	6.9	0.5	0.5	0.0
D.	Manufacturing	5.1	4.6	4.1	5.5	5.2
E.	Electricity, gas and water supply	6.4	5.6	0.5	1.0	0.0
F.	Construction	-2.2	3.3	2.5	7.0	6.0
G.	Wholesale, retail, trade, repair	1.8	2.5	3.2	3.5	4.0
H.	Hotels and restaurants	6.3	1.7	3.5	4.3	5.0
I.	Transport, storage, communications	3.9	0.8	2.8	4.0	5.0
J.	Financial intermediation	5.4	9.3	6.5	7.0	6.5
K.	Real estate, renting and business activities	4.0	1.9	2.5	3.8	4.0
L.	Public administration and com. soc. sec.	5.9	4.3	4.5	4.2	4.0
M.	Education	2.1	2.6	2.5	2.5	2.5
N.	Health and social work	2.5	3.5	2.8	2.8	2.8
O.	Other community and personal activities	2.7	3.1	3.0	3.2	3.5
P.	Private households with employed persons	12.2	-10.7	0.0	0.5	0.5
	FISIM	10.8	6.5	2.0	2.0	2.0
1. TOTAL VALUE ADDED (basic prices)		3.3	3.4	3.4	4.3	4.4
2. CORRECTIONS [1]		-0.3	1.9	0.8	1.4	1.5
3. GROSS DOMESTIC PRODUCT (3=1+2)		**2.9**	**3.2**	**3.1**	**3.9**	**4.0**
TOTAL VALUE ADDED, (basic prices)		3.3	3.4	3.4	4.3	4.4
in which:						
1. Agriculture, forestry, fishing (A + B)		0.5	1.1	0.6	0.5	1.4
2. Industry and construction (C + D + E + F)		3.7	4.5	3.5	5.2	4.8
- Industry (C + D + E)		4.9	4.7	3.7	4.9	4.6
- Construction F		-2.2	3.3	2.5	7.0	6.0
3. Services (G ... O)		3.6	3.0	3.4	3.8	4.1
4. FISIM		10.8	6.5	2.0	2.0	2.0

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

Table 4: **Gross Domestic Product and Primary Incomes**

- Current prices, in SIT million

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
											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**	**4,222,404**	**4,740,995**	**5,284,501**	**5,711,600**	**6,186,800**	**6,694,900**
2	Compensation of employees	1,271,699	1,400,005	1,558,696	1,700,323	1,889,714	2,122,115	2,216,514	2,498,035	2,752,419	2,983,256	3,209,372	3,452,647
	Wages and salaries	1,070,010	1,213,825	1,363,936	1,482,608	1,646,253	1,847,245	1,966,867	2,217,008	2,440,419	2,645,163	2,845,731	3,061,525
	Employees' actual soc. cont.	201,689	186,180	194,760	217,716	243,462	274,869	249,647	281,026	312,000	338,093	363,641	391,122
3	Taxes on production and imports	377,964	444,708	493,398	572,126	668,115	697,701	695,051	771,895	878,088	941,352	1,003,950	1,067,054
4	Subsidies	48,001	52,873	59,868	71,771	79,200	77,108	59,180	64,078	72,398	78,820	86,615	93,729
5	Gross operating surplus and gross mixed income	619,797	763,529	915,051	1,053,073	1,169,772	1,292,810	1,370,019	1,535,143	1,726,392	1,865,812	2,060,093	2,268,928
	in which:												
	Consumption of fixed capital	390,891	463,466	522,945	580,989	634,144	706,093	759,751	857,882	965,094	1,045,247	1,134,716	1,238,149
	Net operatin surplus and net mixed income	228,906	300,063	392,106	472,084	535,628	586,717	610,268	677,261	761,298	820,565	925,377	1,030,779

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Table 4: **Gross Domestic Product and Primary Incomes**

- As a share in GDP in %

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
											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**	**100.0**	**100.0**
2	Compensation of employees	57.2	54.8	53.6	52.3	51.8	52.6	52.5	52.7	52.1	52.2	51.9	51.6
	Wages and salaries	48.2	47.5	46.9	45.6	45.1	45.8	46.6	46.8	46.2	46.3	46.0	45.7
	Employees' actual soc. cont.	9.1	7.3	6.7	6.7	6.7	6.8	5.9	5.9	5.9	5.9	5.9	5.8
3	Taxes on production and imports	17.0	17.4	17.0	17.6	18.3	17.3	16.5	16.3	16.6	16.5	16.2	15.9
4	Subsidies	2.2	2.1	2.1	2.2	2.2	1.9	1.4	1.4	1.4	1.4	1.4	1.4
5	Gross operating surplus and gross mixed income	27.9	29.9	31.5	32.4	32.1	32.0	32.4	32.4	32.7	32.7	33.3	33.9
	in which:												
	Consumption of fixed capital	17.6	18.1	18.0	17.9	17.4	17.5	18.0	18.1	18.3	18.3	18.3	18.5
	Net operatin surplus and net mixed income	10.3	11.7	13.5	14.5	14.7	14.5	14.5	14.3	14.4	14.4	15.0	15.4

Source of data: SORS, IMAD's forecasts.

Note: The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures (SORS, March 2003). The two series are incomparable.

Table 5a: **Expenditure on Gross Domestic Product**

-Current prices, in SIT million

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
											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**	**4,222,404**	**4,740,995**	**5,284,501**	**5,711,600**	**6,186,800**	**6,694,900**
2	EXPORTS OF GOODS AND SERVICES	1,226,101	1,424,628	1,669,985	1,842,906	1,916,217	2,386,009	2,387,289	2,746,628	3,055,212	3,289,813	3,528,838	3,848,159
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,451,273	1,693,895	1,892,614	2,077,530	2,529,423	2,538,115	2,774,572	2,980,308	3,201,143	3,454,032	3,788,497
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-26,645	-23,910	-49,708	-161,313	-143,414	-150,826	-27,944	74,904	88,670	74,806	59,662
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	4,373,230	4,768,939	5,209,597	5,622,931	6,111,994	6,635,238
6	FINAL CONSUMPTION (6=7+8)	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,234,886	3,627,384	3,982,309	4,293,403	4,609,366	4,957,315
7	PRIVATE CONSUMPTION	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,391,945	2,653,063	2,896,357	3,116,774	3,358,256	3,620,029
	- households	1,275,971	1,443,649	1,609,667	1,780,915	2,000,581	2,179,351	2,339,484	2,592,804	2,828,270	3,043,505	3,279,315	3,534,935
	- non-profit institutions	24,353	25,493	29,015	30,815	33,434	36,823	52,461	60,259	68,087	73,268	78,941	85,094
8	GOVERNMENT CONSUMPTION	447,519	514,518	592,535	658,989	738,388	841,108	842,941	974,321	1,085,952	1,176,629	1,251,110	1,337,286
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,138,344	1,141,555	1,227,289	1,329,527	1,502,628	1,677,923
10	GROSS FIXED CAPITAL FORMATION	474,626	574,631	679,465	800,629	999,183	1,076,840	1,085,925	1,131,961	1,209,146	1,304,477	1,452,299	1,613,010
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	23,722	20,505	32,111	38,128	44,810	52,419	9,595	18,143	25,050	50,329	64,913

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Table 5a: **Expenditure on Gross Domestic Product**

-Structure, in % (current prices)

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
											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	100.0	100.0
2	EXPORTS OF GOODS AND SERVICES	55.2	55.8	57.4	56.6	52.5	59.1	56.5	57.9	57.8	57.6	57.0	57.5
3	IMPORT OF GOODS AND SERVICES	57.2	56.8	58.3	58.2	56.9	62.7	60.1	58.5	56.4	56.0	55.8	56.6
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4 = 2 - 3)	-2.0	-1.0	-0.8	-1.5	-4.4	-3.6	-3.6	-0.6	1.4	1.6	1.2	0.9
5	TOTAL DOMESTIC DEMAND (5 = 6 + 9)	102.0	101.0	100.8	101.5	104.4	103.6	103.6	100.6	98.6	98.4	98.8	99.1
6	FINAL CONSUMPTION (6 = 7 + 8)	78.7	77.6	76.7	75.9	76.0	75.8	76.6	76.5	75.4	75.2	74.5	74.0
7	PRIVATE CONSUMPTION	58.5	57.5	56.4	55.7	55.8	54.9	56.6	56.0	54.8	54.6	54.3	54.1
	- households	57.4	56.5	55.4	54.7	54.8	54.0	55.4	54.7	53.5	53.3	53.0	52.8
	- non-profit institutions	1.1	1.0	1.0	0.9	0.9	0.9	1.2	1.3	1.3	1.3	1.3	1.3
8	GOVERNMENT CONSUMPTION	20.1	20.1	20.4	20.3	20.2	20.8	20.0	20.6	20.5	20.6	20.2	20.0
9	GROSS CAPITAL FORMATION (9=10+11)	23.3	23.4	24.1	25.6	28.4	27.8	27.0	24.1	23.2	23.3	24.3	25.1
10	GROSS FIXED CAPITAL FORMATION	21.4	22.5	23.4	24.6	27.4	26.7	25.7	23.9	22.9	22.8	23.5	24.1
11	CHANGES IN INVENTORIES AND VALUABLES	2.0	0.9	0.7	1.0	1.0	1.1	1.2	0.2	0.3	0.4	0.8	1.0

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

Note: The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures (SORS, March 2003). The two series are incomparable.

Table 5b: **Expenditure on Gross Domestic Product**

- Constant prices 1995, in SIT in million

		1995	1996	1997	1998	1999	2000
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	EXPORTS OF GOODS AND SERVICES	1,226,101	1,270,085	1,416,863	1,512,395	1,538,789	1,733,512
3	IMPORT OF GOODS AND SERVICES	1,271,088	1,297,490	1,451,977	1,602,804	1,733,995	1,839,624
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-27,405	-35,114	-90,409	-195,206	-106,112
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
6	FINAL CONSUMPTION (6=7+8)	1,747,844	1,788,413	1,845,160	1,917,730	2,025,866	2,054,222
7	PRIVATE CONSUMPTION	1,300,324	1,325,902	1,362,595	1,407,115	1,491,768	1,503,349
	- households	1,275,971	1,302,942	1,338,965	1,383,268	1,467,679	1,478,792
	- non-profit institutions	24,353	22,960	23,630	23,847	24,089	24,557
8	GOVERNMENT CONSUMPTION	447,519	462,511	482,565	510,615	534,098	550,873
9	GROSS CAPITAL FORMATION (9=10+11)	518,602	538,892	594,719	668,635	795,282	798,911
10	GROSS FIXED CAPITAL FORMATION	474,626	516,828	576,673	642,087	764,422	766,172
11	CHANGES IN INVENTORIES AND VALUABLES	43,976	22,064	18,046	26,548	30,860	32,739
	Real growth rates in %						
1	GROSS DOMESTIC PRODUCT (1 = 4 + 5)		3.5	4.6	3.8	5.2	4.6
2	EXPORTS OF GOODS AND SERVICES		3.6	11.6	6.7	1.7	12.7
3	IMPORT OF GOODS AND SERVICES		2.1	11.9	10.4	8.2	6.1
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
6	FINAL CONSUMPTION (6 = 7 + 8)		2.3	3.2	3.9	5.6	1.4
7	PRIVATE CONSUMPTION		2.0	2.8	3.3	6.0	0.8
	- households		2.1	2.8	3.3	6.1	0.8
	- non-profit institutions		-5.7	2.9	0.9	1.0	1.9
8	GOVERNMENT CONSUMPTION		3.4	4.3	5.8	4.6	3.1
9	GROSS CAPITAL FORMATION		3.9	10.4	12.4	18.9	0.5
	in which:						
	GROSS FIXED CAPITAL FORMATION		8.9	11.6	11.3	19.1	0.2

Source of data: SORS, IMAD's forecasts.

Table 5c: **Expenditure on Gross Domestic Product**

- Constant prices 2000, in SIT in million

		2000	2001	2002	2003	2004	2005
					Forecast		
1	**GROSS DOMESTIC PRODUCT (1 = 4 + 5)**	**4,222,404**	**4,342,994**	**4,481,132**	**4,617,810**	**4,800,210**	**4,992,220**
2	EXPORTS OF GOODS AND SERVICES	2,387,289	2,539,243	2,693,205	2,838,082	3,017,207	3,216,224
3	IMPORT OF GOODS AND SERVICES	2,538,115	2,613,158	2,739,891	2,861,827	3,062,768	3,280,492
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-150,826	-73,915	-46,687	-23,745	-45,561	-64,268
5	TOTAL DOMESTIC DEMAND (5=6+9)	4,373,230	4,416,909	4,527,819	4,641,555	4,845,771	5,056,488
6	FINAL CONSUMPTION (6=7+8)	3,234,886	3,330,959	3,402,210	3,473,853	3,584,030	3,700,575
7	PRIVATE CONSUMPTION	2,391,945	2,454,562	2,502,466	2,552,515	2,636,894	2,727,867
	- households	2,339,484	2,399,588	2,445,494	2,494,404	2,576,865	2,665,767
	- non-profit institutions	52,461	54,974	56,972	58,111	60,029	62,100
8	GOVERNMENT CONSUMPTION	842,941	876,397	899,744	921,338	947,135	972,708
9	GROSS CAPITAL FORMATION (9=10+11)	1,138,344	1,085,950	1,125,609	1,167,702	1,261,742	1,355,913
10	GROSS FIXED CAPITAL FORMATION	1,085,925	1,077,015	1,110,086	1,146,036	1,226,832	1,312,710
11	CHANGES IN INVENTORIES AND VALUABLES	52,419	8,935	15,523	21,666	34,910	43,203
	Real growth rates in %						
1	GROSS DOMESTIC PRODUCT (1 = 4 + 5)		2.9	3.2	3.1	3.9	4.0
2	EXPORTS OF GOODS AND SERVICES		6.4	6.1	5.4	6.3	6.6
3	IMPORT OF GOODS AND SERVICES		3.0	4.8	4.5	7.0	7.1
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4 = 2 - 3)						
5	TOTAL DOMESTIC DEMAND (5 = 6 + 9)		1.0	2.5	2.5	4.4	4.3
6	FINAL CONSUMPTION (6 = 7 + 8)		3.0	2.1	2.1	3.2	3.3
7	PRIVATE CONSUMPTION		2.6	2.0	2.0	3.3	3.5
	- households		2.6	1.9	2.0	3.3	3.5
	- non-profit institutions		4.8	3.6	2.0	3.3	3.5
8	GOVERNMENT CONSUMPTION		4.0	2.7	2.4	2.8	2.7
9	GROSS CAPITAL FORMATION		-4.6	3.7	3.7	8.1	7.5
	in which:						
	GROSS FIXED CAPITAL FORMATION		-0.8	3.1	3.2	7.0	7.0

Source of data: SORS, IMAD's forecasts.

Table 6a: **Main Aggregates of National Accounts**

- Current prices, SIT million

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
											Forecast		
1	**GROSS DOMESTIC PRODUCT**	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,648,401**	**4,035,518**	**4,222,404**	**4,740,995**	**5,284,501**	**5,711,600**	**6,186,800**	**6,694,900**
2	Net primary income from the rest of the world	21,023	17,528	5,680	5,048	-6,250	-14,941	6,009	3,687	-17,514	-39,414	-38,983	-41,281
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	4,228,413	4,744,682	5,266,987	5,672,186	6,147,816	6,653,619
4	Net current transfers from the rest of the world	11,273	11,625	19,472	20,701	22,890	27,809	25,746	31,179	32,100	33,713	45,249	45,867
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	4,254,159	4,775,861	5,299,087	5,705,898	6,193,065	6,699,486
6	FINAL CONSUMPTION EXPENDITURE	1,747,843	1,983,661	2,231,217	2,470,719	2,772,403	3,057,282	3,234,886	3,627,384	3,982,309	4,293,403	4,609,366	4,957,315
	- private consumption	1,300,324	1,469,142	1,638,682	1,811,730	2,034,015	2,216,174	2,391,945	2,653,063	2,896,357	3,116,774	3,358,256	3,620,029
	- government consumption	447,519	514,518	592,535	658,989	738,388	841,108	842,941	974,321	1,085,952	1,176,629	1,251,110	1,337,286
7	GROSS SAVING (7=5-6)	505,911	600,861	701,212	808,781	892,638	991,104	1,019,272	1,148,477	1,316,778	1,412,495	1,583,699	1,742,171
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-12,691	2,508	1,242	-23,959	-144,673	-130,546	-119,071	6,922	89,490	82,968	81,071	64,248
9	GROSS CAPITAL FORMATION (9=7-8)	518,602	598,353	699,970	832,740	1,037,311	1,121,650	1,138,343	1,141,555	1,227,288	1,329,527	1,502,628	1,677,923
	in which:												
	- gross fixed capital formation	474,626	574,631	679,465	800,629	999,183	1,076,840	1,085,925	1,131,961	1,209,146	1,304,477	1,452,299	1,613,010
	- changes in inventories and valuables	43,976	23,722	20,505	32,111	38,128	44,810	52,419	9,595	18,143	25,050	50,329	64,913
10	Consumption of fixed capital	390,891	463,466	522,945	580,989	634,144	706,093	759,751	857,882	965,094	1,045,247	1,134,716	1,238,149
11	NET CAPITAL FORMATION (11=9-10)	127,711	134,887	177,025	251,751	403,167	415,557	378,593	283,673	262,195	284,280	367,912	439,774

Source of data: SORS, IMAD's forecasts.

Note: The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures (SORS, March 2003). The two series are incomparable.

Table 6b: **Main Aggregates of National Accounts**

- Structure, in % (current prices)

		1995	1996	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
											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**	**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	0.1	0.1	-0.3	-0.7	-0.6	-0.6
3	GROSS NATIONAL INCOME (3=1+2)	100.9	100.7	100.2	100.2	99.8	99.6	100.1	100.1	99.7	99.3	99.4	99.4
4	Net current transfers from the rest of the world	0.5	0.5	0.7	0.6	0.6	0.7	0.6	0.7	0.6	0.6	0.7	0.7
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	101.5	101.1	100.9	100.8	100.5	100.3	100.8	100.7	100.3	99.9	100.1	100.1
6	FINAL CONSUMPTION EXPENDITURE	78.7	77.6	76.7	75.9	76.0	75.8	76.6	76.5	75.4	75.2	74.5	74.0
	-private consumption	58.5	57.5	56.4	55.7	55.8	54.9	56.6	56.0	54.8	54.6	54.3	54.1
	-government consumption	20.1	20.1	20.4	20.3	20.2	20.8	20.0	20.6	20.5	20.6	20.2	20.0
7	GROSS SAVING (7=5-6)	22.8	23.5	24.1	24.9	24.5	24.6	24.1	24.2	24.9	24.7	25.6	26.0
8	SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-0.6	0.1	0.0	-0.7	-4.0	-3.2	-2.8	0.1	1.7	1.5	1.3	1.0
9	GROSS CAPITAL FORMATION (9=7-8)	23.3	23.4	24.1	25.6	28.4	27.8	27.0	24.1	23.2	23.3	24.3	25.1
	in which:												
	-gross fixed capital formation	21.4	22.5	23.4	24.6	27.4	26.7	25.7	23.9	22.9	22.8	23.5	24.1
	-changes in inventories and valuables	2.0	0.9	0.7	1.0	1.0	1.1	1.2	0.2	0.3	0.4	0.8	1.0
10	CONSUMPTION OF FIXED CAPITAL	17.6	18.1	18.0	17.9	17.4	17.5	18.0	18.1	18.3	18.3	18.3	18.5
11	NET CAPITAL FORMATION (11=9-10)	5.7	5.3	6.1	7.7	11.1	10.3	9.0	6.0	5.0	5.0	5.9	6.6

Source of data: SORS, IMAD's forecasts.

Note: The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures (SORS, March 2003). The two series are incomparable.

Table 7: **Employment and Productivity**

		1995	1996	1997	1998	1999	2000*	2001	2002	2003	2004	2005
									Estimate	Forecast		
PERSONS IN EMPLOYMENT (full-time equivalent)		**824.7**	**816.7**	**812.5**	**812.6**	**822.6**	**895.2**	**902.9**	**902.2**	**904.4**	**911.5**	**918.7**
Annual growth rate (in %), Total:		**1.0**	**-1.0**	**-0.5**	**0.0**	**1.2**	**1.1**	**0.9**	**-0.1**	**0.2**	**0.8**	**0.8**
A+B	**Agriculture and fishing**	**-0.2**	**-9.0**	**-2.7**	**0.4**	**-2.6**	**-4.1**	**-0.2**	**-1.7**	**-0.8**	**-1.2**	**-0.2**
C:F	**Industries**	**0.4**	**-3.6**	**-3.3**	**-2.0**	**-0.3**	**0.2**	**0.3**	**-1.4**	**-1.6**	**-0.4**	**-1.1**
C	Mining and quarrying	1.2	-9.3	-1.3	-2.6	-5.3	-15.5	-6.9	-0.2	-5.6	-6.8	-7.2
D	Manufacturing	-1.3	-5.3	-5.0	-2.1	-1.7	-0.3	0.4	-1.9	-1.8	-1.1	-1.8
E	Electricity, gas and water supply	2.5	4.0	-3.1	-5.6	0.0	-1.7	-0.3	0.1	-4.2	-4.7	-5.6
F	Construction	9.8	4.2	4.4	-1.0	6.3	4.5	0.6	0.3	-0.1	3.6	2.7
G:P	**Services, total**	**1.7**	**2.4**	**2.1**	**1.6**	**2.9**	**2.3**	**1.5**	**1.2**	**1.8**	**2.0**	**2.3**
G	Wholesale, retail, trade, repair	1.9	1.3	1.1	0.2	1.5	1.6	-0.3	-0.1	0.8	0.6	1.1
H	Hotels and restaurants	0.9	4.5	-0.3	1.1	0.0	2.0	-1.4	-1.5	0.6	0.7	1.4
I	Transport, storage, communications	-2.8	-1.0	-0.6	0.4	1.0	1.4	1.6	-2.9	-0.6	-0.1	0.9
J	Financial intermediation	2.9	0.0	3.9	2.2	1.1	3.1	2.4	7.8	5.2	5.3	4.9
K	Real estate, renting and business activities	7.6	4.1	1.6	4.4	4.6	2.6	5.0	2.2	2.9	4.2	4.4
L	Public administration and com. soc. sec.	-0.3	6.1	6.3	2.0	3.8	3.9	3.5	3.3	3.2	3.2	2.6
M	Education	2.6	3.1	3.0	1.2	2.3	1.1	1.4	2.0	1.7	1.7	1.6
N	Health and social work	1.4	3.4	2.0	3.5	6.7	4.1	1.7	3.5	2.9	2.8	2.8
O	Other community and personal activities	1.8	2.2	6.0	1.3	5.9	2.5	0.7	2.7	2.4	2.6	2.9
P	Private households with employed persons							12.3	-10.7	0.0	0.4	0.4

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Table 7: **Employment and Productivity**

		1995	1996	1997	1998	1999	2000*	2001	2002	2003	2004	2005
									Estimate	Forecast		
PRODUCTIVITY OF LABOUR (Value added on a person in full-time equivalent employment)												
(ECU, EUR, current prices)		**14,922**	**15,693**	**17,073**	**18,439**	**19,528**	**21,419**	**20,991**	**22,403**	**23,556**	**25,258**	**27,186**
Annual growth rate (in %), Total:**		**2.5**	**4.4**	**5.2**	**3.6**	**3.3**	**4.0**	**2.5**	**3.4**	**3.1**	**3.5**	**3.5**
A+B	**Agriculture and fishing**	**1.7**	**11.0**	**-0.2**	**2.7**	**0.5**	**3.2**	**0.7**	**2.8**	**1.4**	**1.7**	**1.6**
C:F	**Industries**	**2.5**	**6.9**	**10.0**	**6.4**	**4.9**	**6.7**	**3.5**	**5.9**	**5.2**	**5.6**	**6.0**
C	Mining and quarrying	-0.3	12.3	4.5	2.7	6.7	16.7	1.8	7.1	6.5	7.7	7.7
D	Manufacturing	3.8	7.2	12.2	6.9	4.9	9.0	4.7	6.6	6.0	6.7	7.2
E	Electricity, gas and water supply	-2.2	-2.7	7.5	6.9	-0.8	4.6	6.7	5.4	5.0	5.9	5.9
F	Construction	-0.6	8.7	3.2	5.7	8.9	-1.6	-2.7	2.9	2.7	3.2	3.2
G:P	**Services, total**	**2.3**	**1.7**	**1.6**	**1.8**	**1.9**	**1.8**	**2.0**	**1.7**	**1.5**	**1.8**	**1.8**
G	Wholesale, retail, trade, repair	4.8	1.6	1.7	2.6	4.8	0.8	2.1	2.6	2.4	2.9	2.9
H	Hotels and restaurants	2.5	-0.1	3.9	-0.2	3.1	7.7	7.8	3.2	3.0	3.5	3.5
I	Transport, storage, communications	8.9	3.7	4.9	4.7	2.1	3.2	2.3	3.8	3.4	4.1	4.1
J	Financial intermediation	0.6	11.0	-3.7	2.3	2.2	2.7	2.9	1.4	1.3	1.5	1.5
K	Real estate, renting and business activities	-4.2	0.1	0.9	-2.0	0.1	0.4	-1.0	-0.4	-0.3	-0.4	-0.4
L	Public administration and com. soc. sec.	3.4	-0.7	3.8	2.9	1.6	1.8	2.3	0.9	1.3	0.9	1.3
M	Education	0.3	-2.0	1.8	1.9	1.1	2.6	0.7	0.6	0.8	0.8	0.8
N	Health and social work	0.7	2.9	1.1	-1.7	-0.3	0.0	0.8	0.0	0.0	0.0	0.0
O	Other community and personal activities	0.3	2.7	-1.8	4.4	-0.3	2.0	1.9	0.5	0.6	0.5	0.6
P	Private households with employed persons							-0.1	0.0	0.0	0.0	0.0

Source of data: SORS, IMAD's estimates.

Notes: * real growth rates, calculated out of unrevised data, ** real growth rates in SIT, constant prices 1995 (up to the year 2000) and 2000, from 2001.

Table 8: **Balance of Payments**

- In EUR million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
								Forecast		
I. CURRENT ACCOUNT	**32**	**43**	**-108**	**-664**	**-583**	**31**	**393**	**357**	**347**	**274**
1. TRADE BALANCE	**-671**	**-684**	**-708**	**-1,164**	**-1,227**	**-690**	**-261**	**-224**	**-309**	**-391**
1.1. Exports fob	6,671	7,438	8,088	8,103	9,574	10,448	11,083	11,623	12,378	13,563
1.2. Imports fob	7,342	8,122	8,796	9,267	10,801	11,138	11,344	11,846	12,687	13,954
2. SERVICES	511	561	447	330	489	560	592	605	629	646
2.1. Receipts	1,704	1,810	1,804	1,763	2,052	2,194	2,416	2,527	2,709	2,861
- Transport	384	412	481	490	534	559	633	658	701	739
- Travel	989	1,048	971	900	1,045	1,121	1,141	1,191	1,278	1,347
- Other	331	350	352	373	473	514	642	678	731	774
2.2. Expenditure	1,193	1,249	1,357	1,434	1,562	1,634	1,824	1,922	2,080	2,215
- Transport	327	327	366	357	385	356	386	407	442	472
- Travel	481	463	501	512	556	594	641	670	718	757
- Other	385	459	490	565	621	684	797	845	921	s986
1-2. GOODS AND SERVICES	**-160**	**-123**	**-261**	**-835**	**-738**	**-130**	**331**	**381**	**320**	**255**
Exports	8,375	9,248	9,893	9,867	11,626	12,642	13,499	14,150	15,087	16,424
Imports	8,534	9,372	10,154	10,701	12,364	12,772	13,168	13,768	14,767	16,169
3. FACTOR SERVICES	**122**	**66**	**49**	**58**	**29**	**17**	**-80**	**-170**	**-167**	**-176**
3.1. Receipts	330	346	368	400	471	516	517	481	505	524
- Labour income	187	182	183	194	204	203	200	186	205	214
- Investment income	143	165	184	206	268	313	317	295	300	310
3.2. Expenditure	208	281	319	342	442	499	597	650	671	700
- Profits from direct investment	19	23	24	23	29	30	36	36	38	40
- Interest	189	257	294	319	413	469	561	614	633	660
4. UNREQUITED TRANSFERS	**70**	**101**	**104**	**112**	**125**	**144**	**142**	**145**	**193**	**196**
4.1. Receipts	200	230	266	316	371	436	477	500	656	788
4.2. Expenditure	130	129	162	203	245	293	336	355	463	592

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Table 8: **Balance of Payments**

- In EUR million

	1996	1997	1998	1999	2000	2001	2002
II. CAPITAL AND FINANCIAL ACCOUNT	**-34**	**-111**	**53**	**625**	**542**	**-108**	**-423**
A. CAPITAL ACCOUNT	**-1**	**1**	**-1**	**-1**	**4**	**-4**	**2**
1. Capital transfers	1	2	0	0	1	1	3
2. Non-produced non-financial assets	-2	-1	-1	-1	3	-5	-1
B. FINANCIAL ACCOUNT	**-32**	**-112**	**54**	**625**	**538**	**-104**	**-425**
1. Direct investment	133	267	199	55	77	415	1,828
- Foreign in Slovenia	138	295	194	99	149	562	1,949
- Domestic abroad	-6	-28	5	-45	-72	-148	-122
2. Portfolio investment	508	212	82	324	185	80	-69
3. Other long-term capital	-209	549	-81	159	462	849	-242
3.1. Assets	-344	230	-405	-540	-576	234	-915
3.2. Liabilities	134	319	324	699	1,038	615	673
4. International reserves	-463	-1,141	-146	88	-187	-1,448	-1,941
III. STATISTICAL ERRORS	2	68	55	40	41	77	30

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 EUR; current exchange rates

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
									Forecast		
1.	Exports of goods	6,671	7,438	8,088	8,103	9,574	10,448	11,083	11,623	12,378	13,563
	investment goods	803	942	1,045	1,023	1,230	1,431	1,559	1,650	1,782	1,967
	intermediate goods	3,007	3,386	3,672	3,807	4,684	5,088	5,303	5,590	6,016	6,633
	consumer goods	2,861	3,110	3,372	3,273	3,661	3,929	4,221	4,382	4,580	4,964
2.	Exports of services	1,704	1,810	1,804	1,763	2,052	2,194	2,416	2,527	2,709	2,861
3.	**EXPORTS TOTAL**	**8,375**	**9,248**	**9,893**	**9,867**	**11,626**	**12,642**	**13,499**	**14,150**	**15,087**	**16,424**
4.	Imports of goods	7,342	8,122	8,796	9,267	10,801	11,138	11,344	11,846	12,687	13,954
	investment goods	1,184	1,310	1,570	1,788	1,948	1,972	2,031	2,114	2,274	2,534
	intermediate goods	4,207	4,735	5,025	5,100	6,443	6,578	6,681	6,957	7,455	8,163
	consumer goods	1,951	2,078	2,202	2,379	2,410	2,587	2,633	2,775	2,958	3,257
5.	Imports of services	1,193	1,249	1,357	1,434	1,562	1,634	1,824	1,922	2,080	2,215
6.	**IMPORTS TOTAL**	**8,534**	**9,372**	**10,154**	**10,701**	**12,364**	**12,772**	**13,168**	**13,768**	**14,767**	**16,169**
7.	BALANCE	-160	-123	-261	-835	-738	-130	331	381	320	255
	Services	511	561	447	330	489	560	592	605	629	646
	Goods	-671	-684	-708	-1,164	-1,227	-690	-261	-224	-309	-391
8.	Exports to imports ratio (in %)	91	92	92	87	89	94	98	98	98	97

Continued on the next page.

Table 9: **Exports and Imports of Goods and Services by End-use of Products**

- Percentage change at annual rate (in %)

		1997	1998	1999	2000	2001	2002	2003	2004	2005
								Forecast		
1.	Exports of goods	11.5	8.7	0.2	18.2	9.1	6.1	4.9	6.5	9.6
	investment goods	17.3	10.9	-2.0	20.2	16.4	9.0	5.9	8.0	10.3
	intermediate goods	12.6	8.4	3.7	23.0	8.6	4.2	5.4	7.6	10.3
	consumer goods	8.7	8.4	-2.9	11.9	7.3	7.4	3.8	4.5	8.4
2.	Exports of services	6.2	-0.3	-2.3	16.3	6.9	10.1	4.6	7.2	5.6
3.	**EXPORTS TOTAL**	**10.4**	**7.0**	**-0.3**	**17.8**	**8.7**	**6.8**	**4.8**	**6.6**	**8.9**
4.	Imports of goods	10.6	8.3	5.4	16.6	5.0	1.9	4.4	7.1	10.0
	investment goods	10.6	19.9	13.9	8.9	1.3	2.9	4.1	7.6	11.4
	intermediate goods	12.5	6.1	1.5	26.3	2.1	1.6	4.1	7.2	9.5
	consumer goods	6.5	6.0	8.0	1.3	7.3	1.8	5.4	6.6	10.1
5.	Imports of services	4.7	8.7	5.6	9.0	4.6	11.6	5.4	8.2	6.5
6.	**IMPORTS TOTAL**	**9.8**	**8.3**	**5.4**	**15.5**	**3.3**	**3.1**	**4.6**	**7.3**	**9.5**

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

Table 10a: **Foreign trade by geographical area**

- In EUR million

	EXPORTS (f.o.b.)							IMPORTS (f.o.b.)						
	1996	1997	1998	1999	2000	2001	2002	1996	1997	1998	1999	2000	2001	2002
TOTAL	6,637	7,405	8,053	8,031	9,492	10,347	10,962	7,536	8,287	8,999	9,478	10,984	11,344	11,571
DEVELOPED INDUSTRIAL COUNTRIES	4,665	5,125	5,738	5,820	6,706	7,046	7,249	5,860	6,375	7,205	7,560	8,595	8,753	8,946
EUROPEAN UNION	4,286	4,703	5,271	5,303	6,056	6,432	6,509	5,089	5,586	6,242	6,527	7,444	7,675	7,869
Germany	2,032	2,174	2,289	2,466	2,575	2,715	2,714	1,635	1,713	1,860	1,945	2,082	2,178	2,216
Italy	881	1,103	1,113	1,103	1,290	1,290	1,323	1,274	1,380	1,510	1,586	1,917	2,004	2,069
France	478	409	665	460	672	703	734	741	867	1,117	1,033	1,128	1,205	1,190
United Kingdom	129	133	143	160	203	290	268	167	213	208	290	337	292	278
Netherlands	100	109	127	135	164	172	183	156	177	200	196	230	219	240
Belgium	61	75	140	125	106	112	97	116	132	138	140	159	176	170
Spain	35	47	61	71	91	100	116	136	176	207	219	286	295	356
Denmark	38	48	67	75	89	97	97	33	41	49	50	57	63	67
Greece	18	21	20	23	26	33	36	10	13	17	23	24	36	51
Ireland	3	5	4	8	15	15	14	23	23	31	36	41	42	39
Portugal	10	12	11	11	17	17	22	4	10	12	10	13	17	19
Luxembourg	2	1	3	9	4	3	8	6	9	15	17	21	25	29
Austria	440	501	553	584	714	773	774	668	698	713	757	906	944	956
Finland	16	16	17	16	24	30	27	31	37	38	50	63	62	72
Sweden	43	49	58	57	66	82	97	89	97	127	175	180	115	116
EFTA	66	76	87	106	136	134	207	199	171	185	226	230	192	202
Switzerland	54	62	69	84	111	108	180	143	143	153	204	175	170	186
Norway	10	12	14	17	19	19	22	54	26	31	21	53	20	15
Liechtenstein	2	2	3	3	5	6	4	1	1	1	1	1	1	1
Iceland	0	0	1	2	1	1	1	1	1	0	0	1	0	0

Cont. on the next page.

Table 10a: **Foreign trade by geographical area**

- In EUR million

	EXPORTS (f.o.b.)							IMPORTS (f.o.b.)						
	1996	1997	1998	1999	2000	2001	2002	1996	1997	1998	1999	2000	2001	2002
OTHER OECD	272	301	340	364	440	400	447	467	482	657	673	738	732	715
in which:														
United States of America	196	215	225	243	293	273	297	260	254	263	275	325	333	333
Other countries	76	86	115	121	147	128	150	207	228	394	398	413	399	382
OTHER DEVELOPED COUNTRIES	42	44	40	47	74	80	85	105	136	121	134	183	154	160
DEVELOPING COUNTRIES	1,967	2,277	2,310	2,207	2,784	3,301	3,713	1,675	1,911	1,794	1,917	2,388	2,591	2,625
COUNTRIES OF EX- YUGOSLAVIA	1,106	1,229	1,244	1,220	1,486	1,750	1,952	567	525	528	539	648	604	575
Croatia	683	742	727	631	750	894	955	472	412	385	418	487	451	419
Macedonia	136	132	142	167	171	147	159	57	50	42	35	53	30	26
Bosnia and Hercegovina	210	255	283	342	408	445	492	12	26	41	52	63	70	69
FR Yugoslavia	77	100	92	80	157	264	347	26	37	60	34	45	53	61
FORMER USSR COUNTRIES	312	384	297	201	309	460	509	189	250	194	189	286	361	337
in which:														
Russian Federation	238	290	212	122	210	315	320	166	220	160	150	251	315	264
CEFTA COUNTRIES	385	458	540	585	752	828	954	518	638	692	801	997	1,081	1,094
in which:														
Czech Republic	117	130	133	149	165	188	201	189	207	236	264	273	278	288
Slovakia	46	50	65	58	76	93	132	74	92	80	86	144	160	162
Hungary	84	107	126	136	183	175	196	191	259	217	252	320	352	341
Poland	113	138	161	179	245	271	305	39	52	69	104	150	161	168
Romania	18	22	38	39	53	65	79	19	15	43	43	61	95	98
Bulgaria	7	11	17	24	30	36	42	6	13	47	52	49	35	36
OTHER EUROPEAN COUNTRIES	10	7	6	6	8	12	13	14	2	2	2	2	6	2
OTHER DEVELOPING COUNTRIES	154	199	223	195	229	250	285	387	496	378	386	455	539	617
UNCLASSIFIED	5	3	5	4	2	0	0	1	1	0	1	1	0	0

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

Tabela 10b: **Foreign trade by geographical area**

- Structure in %

	EXPORTS (f.o.b.)							IMPORTS (f.o.b.)						
	1996	1997	1998	1999	2000	2001	2002	1996	1997	1998	1999	2000	2001	2002
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	70.3	69.2	71.3	72.5	70.7	68.1	66.1	77.8	76.9	80.1	79.8	78.2	77.2	77.3
EUROPEAN UNION	64.6	63.5	65.5	66.0	63.8	62.2	59.4	67.5	67.4	69.4	68.9	67.8	67.6	68.0
Germany	30.6	29.4	28.4	30.7	27.1	26.2	24.8	21.7	20.7	20.7	20.5	19.0	19.2	19.2
Italy	13.3	14.9	13.8	13.7	13.6	12.5	12.1	16.9	16.7	16.8	16.7	17.5	17.7	17.9
France	7.2	5.5	8.3	5.7	7.1	6.8	6.7	9.8	10.5	12.4	10.9	10.3	10.6	10.3
United Kingdom	1.9	1.8	1.8	2.0	2.1	2.8	2.4	2.2	2.6	2.3	3.1	3.1	2.6	2.4
Netherlands	1.5	1.5	1.6	1.7	1.7	1.7	1.7	2.1	2.1	2.2	2.1	2.1	1.9	2.1
Belgium	0.9	1.0	1.7	1.6	1.1	1.1	0.9	1.5	1.6	1.5	1.5	1.4	1.6	1.5
Spain	0.5	0.6	0.8	0.9	1.0	1.0	1.1	1.8	2.1	2.3	2.3	2.6	2.6	3.1
Denmark	0.6	0.6	0.8	0.9	0.9	0.9	0.9	0.4	0.5	0.5	0.5	0.5	0.6	0.6
Greece	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.1	0.2	0.2	0.2	0.2	0.3	0.4
Ireland	0.0	0.1	0.0	0.1	0.2	0.1	0.1	0.3	0.3	0.3	0.4	0.4	0.4	0.3
Portugal	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Luxembourg	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	0.3
Austria	6.6	6.8	6.9	7.3	7.5	7.5	7.1	8.9	8.4	7.9	8.0	8.2	8.3	8.3
Finland	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.4	0.4	0.4	0.5	0.6	0.5	0.6
Sweden	0.6	0.7	0.7	0.7	0.7	0.8	0.9	1.2	1.2	1.4	1.8	1.6	1.0	1.0
EFTA	1.0	1.0	1.1	1.3	1.4	1.3	1.9	2.6	2.1	2.1	2.4	2.1	1.7	1.7
Switzerland	0.8	0.8	0.9	1.0	1.2	1.0	1.6	1.9	1.7	1.7	2.2	1.6	1.5	1.6
Norway	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.7	0.3	0.3	0.2	0.5	0.2	0.1
Liechtenstein	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Iceland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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Tabela 10b: **Foreign trade by geographical area**

- Structure in %

	EXPORTS (f.o.b.)							IMPORTS (f.o.b.)						
	1996	1997	1998	1999	2000	2001	2002	1996	1997	1998	1999	2000	2001	2002
OTHER OECD	4.1	4.1	4.2	4.5	4.6	3.9	4.1	6.2	5.8	7.3	7.1	6.7	6.5	6.2
in which:														
United States of America	3.0	2.9	2.8	3.0	3.1	2.6	2.7	3.5	3.1	2.9	2.9	3.0	2.9	2.9
Other countries	1.1	1.2	1.4	1.5	1.5	1.2	1.4	2.7	2.8	4.4	4.2	3.8	3.5	3.3
OTHER DEVELOPED COUNTRIES	0.6	0.6	0.5	0.6	0.8	0.8	0.8	1.4	1.6	1.3	1.4	1.7	1.4	1.4
DEVELOPING COUNTRIES	29.6	30.7	28.7	27.5	29.3	31.9	33.9	22.2	23.1	19.9	20.2	21.7	22.8	22.7
COUNTRIES OF EX- YUGOSLAVIA	16.7	16.6	15.4	15.2	15.7	16.9	17.8	7.5	6.3	5.9	5.7	5.9	5.3	5.0
Croatia	10.3	10.0	9.0	7.9	7.9	8.6	8.7	6.3	5.0	4.3	4.4	4.4	4.0	3.6
Macedonia	2.0	1.8	1.8	2.1	1.8	1.4	1.4	0.8	0.6	0.5	0.4	0.5	0.3	0.2
Bosnia and Hercegovina	3.2	3.4	3.5	4.3	4.3	4.3	4.5	0.2	0.3	0.5	0.5	0.6	0.6	0.6
FR Yugoslavia	1.2	1.4	1.1	1.0	1.7	2.5	3.2	0.3	0.4	0.7	0.4	0.4	0.5	0.5
FORMER USSR COUNTRIES	4.7	5.2	3.7	2.5	3.3	4.5	4.6	2.5	3.0	2.2	2.0	2.6	3.2	2.9
in which:														
Russian Federation	3.6	3.9	2.6	1.5	2.2	3.0	2.9	2.2	2.7	1.8	1.6	2.3	2.8	2.3
CEFTA COUNTRIES	5.8	6.2	6.7	7.3	7.9	8.0	8.7	6.9	7.7	7.7	8.5	9.1	9.5	9.5
in which:														
Czech Republic	1.8	1.8	1.7	1.9	1.7	1.8	1.8	2.5	2.5	2.6	2.8	2.5	2.5	2.5
Slovakia	0.7	0.7	0.8	0.7	0.8	0.9	1.2	1.0	1.1	0.9	0.9	1.3	1.4	1.4
Hungary	1.3	1.4	1.6	1.7	1.9	1.7	1.8	2.5	3.1	2.4	2.7	2.9	3.1	2.9
Poland	1.7	1.9	2.0	2.2	2.6	2.6	2.8	0.5	0.6	0.8	1.1	1.4	1.4	1.5
Romania	0.3	0.3	0.5	0.5	0.6	0.6	0.7	0.3	0.2	0.5	0.5	0.6	0.8	0.9
Bulgaria	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.1	0.2	0.5	0.5	0.4	0.3	0.3
OTHER EUROPEAN COUNTRIES	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.1	0.0
OTHER DEVELOPING COUNTRIES	2.3	2.7	2.8	2.4	2.4	2.4	2.6	5.1	6.0	4.2	4.1	4.1	4.8	5.3
UNCLASSIFIED	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

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

- Current prices, SIT million

	CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2001	2002
		ACTUAL							Provisional
I.	**TOTAL GENERAL GOVERNMENT REVENUES**	**958,186**	**1,091,815**	**1,222,587**	**1,397,903**	**1,590,017**	**1,726,724**	**1,967,786**	**2,083,859**
	TAX REVENUES	**916,328**	**1,032,285**	**1,156,099**	**1,302,752**	**1,499,430**	**1,599,594**	**1,798,344**	**1,909,595**
	TAXES ON INCOME AND PROFIT	**160,370**	**196,930**	**227,624**	**252,936**	**273,818**	**311,429**	**357,877**	**395,045**
	Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634	289,102	319,822
	Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795	68,775	75,223
	SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	496,371	552,574	620,908	681,816
	TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071	83,369	93,897
	Payroll tax	809	14,943	33,994	42,058	51,454	63,849	79,031	88,994
	Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222	4,338	4,903
	TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513	32,965	34,428
	DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895	673,380	672,703
	TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089	29,607	31,341
	OTHER TAXES	451	241	208	787	100	23	238	365
	NON-TAX REVENUES	**39,564**	**56,851**	**60,924**	**88,230**	**79,825**	**110,035**	**148,455**	**144,877**
	CAPITAL REVENUES, VOLONTARY DONATIONS	**2,294**	**2,678**	**5,565**	**6,920**	**10,762**	**17,095**	**20,987**	**29,387**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	59,212	66,199	80,435	91,116

Cont. on the next page.

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

- Per cent share, relative to GDP (current prices)

	CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000	2000	2001	2002
		ACTUAL								Provisional
I.	**TOTAL GENERAL GOVERNMENT REVENUES**	**43.1**	**42.7**	**42.0**	**43.0**	**43.6**	**42.8**	**40.9**	**41.5**	**39.4**
	TAX REVENUES	**41.2**	**40.4**	**39.8**	**40.0**	**41.1**	**39.6**	**37.9**	**37.9**	**36.1**
	TAXES ON INCOME AND PROFIT	**7.2**	**7.7**	**7.8**	**7.8**	**7.5**	**7.7**	**7.4**	**7.5**	**7.5**
	Personal income tax	6.6	6.8	6.7	6.6	6.3	6.4	6.1	6.1	6.1
	Corporate income tax	0.6	0.9	1.2	1.2	1.2	1.3	1.2	1.5	1.4
	SOCIAL SECURITY CONTRIBUTIONS	16.3	14.7	13.8	13.8	13.6	13.7	13.1	13.1	2.9
	TAXSES ON PAYROLL AND WORKFORCE	0.2	0.7	1.3	1.4	1.5	1.7	1.6	1.8	1.8
	Payroll tax	0.0	0.6	1.2	1.3	1.4	1.6	1.5	1.7	1.7
	Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	TAXES ON PROPERTY	0.6	0.6	0.7	0.9	0.7	0.7	0.6	0.7	0.7
	DOMESTIC TAXES ON GOODS AND SERVICES	13.4	13.7	14.2	14.7	16.5	14.9	14.3	14.2	12.7
	TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS	3.5	3.0	2.0	1.5	1.3	0.9	0.9	0.6	0.6
	OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	NON-TAX REVENUES	**1.8**	**2.2**	**2.1**	**2.7**	**2.2**	**2.7**	**2.6**	**3.1**	**2.7**
	CAPITAL REVENUES, VOLONTARY DONATIONS	**0.1**	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.4**	**0.4**	**0.6**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6	1.6	1.6	1.7	1.7

Source of data: MF, MF Bulletin, calculated by the 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	2002
		A C T U A L							Provisional
II.	**TOTAL EXPENDITURE**	**957,273**	**1,083,586**	**1,256,668**	**1,423,494**	**1,613,314**	**1,781,444**	**2,030,977**	**2,241,482**
	CURRENT EXPENDITURE	**169,751**	**192,816**	**223,184**	**262,658**	**298,448**	**342,767**	**406,696**	**450,858**
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	116,560	131,911	155,275	174,026
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	149,900	178,612	191,705
	INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	60,956	72,809	85,127
	CURRENT TRANSFERS	**694,218**	**783,390**	**914,039**	**1,031,185**	**1,147,096**	**1,267,732**	**1,425,336**	**1,574,355**
	SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951	63,161	60,435
	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077	821,358	910,391
	Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	398,925	441,645	508,292	566,881
	OTHER CURRENT DOMESTIC TRANSFERS	10,315	12,311	13,813	28,806	37,012	36,059	32,525	36,648
	CAPITAL EXPENDITURE - TOTAL	**93,304**	**107,379**	**121,181**	**140,364**	**167,770**	**170,945**	**198,945**	**216,269**
	CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	111,003	127,996	128,733
	CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942	70,949	87,536
III.	**SURPLUS / DEFICIT (I. - II.)**	**913**	**8,230**	**-34,081**	**-25,591**	**-23,297**	**-54,720**	**-63,191**	**-157,623**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	42,687	43,894	47,491	52,723	58,751	66,199	80,435	91,116

Cont. on the next page.

Table 12: **Consolidated General Government Expenditure; GFS - IMF Methodology**

- Per cent share, relative to GDP (current prices)

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000	2000	2001	2002
		ACTUAL								Provisional
II.	**TOTAL EXPENDITURE**	**43.1**	**42.4**	**43.2**	**43.8**	**44.2**	**44.2**	**42.2**	**42.8**	**42.4**
	CURRENT EXPENDITURE	**7.6**	**7.5**	**7.7**	**8.1**	**8.2**	**8.5**	**8.1**	**8.6**	**8.5**
	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	3.0	3.2	3.3	3.2	3.2	3.3	3.1	3.3	3.3
	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.4	3.0	3.1	3.3	3.6	3.7	3.6	3.8	3.6
	INTEREST PAYMENTS	1.2	1.2	1.2	1.3	1.4	1.5	1.4	1.5	1.6
	CURRENT TRANSFERS	**31.3**	**30.7**	**31.4**	**31.7**	**31.4**	**31.4**	**30.0**	**30.1**	**29.8**
	SUBSIDIES	1.9	1.4	1.4	1.5	1.7	1.5	1.4	1.3	1.1
	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	17.6	17.4	17.9	17.6	17.8	18.1	17.3	17.3	17.2
	Current transfers to public institutions and public utilities	11.4	11.5	11.8	11.7	10.9	10.9	10.5	10.7	10.7
	OTHER CURRENT DOMESTIC TRANSFERS	0.1	0.1	0.1	0.9	1.0	0.9	0.9	0.7	0.7
	CAPITAL EXPENDITURE - TOTAL	**4.2**	**4.2**	**4.2**	**4.3**	**4.6**	**4.2**	**4.0**	**4.2**	**4.1**
	CAPITAL EXPENDITURE	2.6	2.5	2.3	2.5	3.0	2.8	2.6	2.7	2.4
	CAPITAL TRANSFERS	1.6	1.7	1.8	1.8	1.6	1.5	1.4	1.5	1.7
III.	**SURPLUS / DEFICIT (I. - II.)**	**0.0**	**0.3**	**-1.2**	**-0.8**	**-0.6**	**-1.4**	**-1.3**	**-1.3**	**-3.0**
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY (they are consolidated)	1.9	1.7	1.6	1.6	1.6	1.6	1.6	1.7	1.7

Source of data: MF, MF Bulletin, calculated by the IMAD.

Table 13: **Population and Labour Force**

- Numbers in thousands, indicators in percents

	1995	1996	1997	1998	1999	2000
POPULATION, as at 30 June (in thousand)	**1987.5**	**1991.2**	**1986.8**	**1982.6**	**1985.6**	**1990.3**
Age structure (in perc.s): 0-14 years	18.4	17.8	17.2	16.8	16.4	15.9
15-64 years	69.3	69.5	69.7	69.8	69.9	70.1
65 years and more	12.3	12.7	13.0	13.4	13.7	14.0
LABOUR FORCE (A=B+C1)	**952.0**	**946.0**	**978.0**	**978.0**	**959.0**	**968.0**
Persons in employment (B)	**882.0**	**878.0**	**906.0**	**901.0**	**886.0**	**901.0**
Persons in paid employment (B1)*	642.0	634.7	651.2	652.5	671.0	683.0
Formaly self-employed persons (B2)	109.6	109.6	92.2	92.7	87.5	85.1
Unformaly employed (B3=B-B1-B2)	130.5	133.7	162.6	155.8	127.5	132.8
Survey unemployed -ILO standard (C1)	**70.0**	**69.0**	**72.0**	**77.0**	**73.0**	**68.0**
Registered unemployed persons (C2)	**121.5**	**119.8**	**125.2**	**126.1**	**119.0**	**106.6**
LABOUR MARKET INDICATORS (in perc.s)						
Participation rate (15-64 years)	**68.0**	**66.7**	**68.7**	**68.8**	**67.7**	**67.8**
men	73.5	71.5	73.2	73.3	72.3	72.2
women	62.4	62.0	64.0	64.1	63.0	63.2
Participation rate (65 years and more)	7.0	6.6	8.3	9.4	8.1	8.3
Employment rate (15-64 years)	**62.9**	**61.9**	**63.5**	**63.3**	**62.5**	**62.9**
men	67.7	66.2	68.0	67.6	66.9	67.2
women	58.0	57.7	59.0	58.9	57.8	58.5
Employment rate (55-64 years)	23.5	22.9	23.5	24.2	22.2	22.5
Unemployment rate - ILO definition (C1/A)	**7.4**	**7.3**	**7.4**	**7.9**	**7.6**	**7.0**
men	7.7	7.5	7.1	7.7	7.3	6.8
women	7.0	7.0	7.6	8.1	7.9	7.3
young people (15-24 years)	18.8	18.8	17.6	18.6	18.1	16.8
Registered unemployed rate (C2/(B1+B2+C2)	**13.9**	**13.9**	**14.4**	**14.5**	**13.6**	**12.2**
men	14.2	13.8	13.6	13.4	12.4	11.1
women	13.6	14.0	15.3	15.7	15.0	13.5
Structure of persons in employment according to survey						
in agriculture	10.4	10.2	12.7	11.5	10.2	10.0
in industry and construction	43.2	42.3	40.2	39.4	38.3	38.1
in services	46.3	47.5	47.0	49.1	51.5	51.9
ANNUAL GROWTH RATES (%)						
Persons in employment	**3.6**	**-0.5**	**3.2**	**-0.6**	**-1.7**	**1.7**
Persons in paid employment*	-0.8	-1.1	2.6	0.2	2.8	1.8
Formaly self-employed persons	4.2	0.1	-15.9	0.5	-5.6	-2.7
Unformaly employed	32.5	2.5	21.6	-4.1	-18.2	4.2
Registered unemployed	**-4.4**	**-1.4**	**4.5**	**0.7**	**-5.7**	**-10.4**
Labour force	1.7	-0.6	3.4	0.0	-1.9	0.9
Working age population	-0.1	0.5	0.1	-0.1	0.3	0.5
Population	**-0.1**	**0.2**	**-0.2**	**-0.2**	**0.1**	**0.2**
Population, 65 years and more	3.4	3.2	2.4	2.6	2.5	2.2

Cont. on the next page.

Table 13: **Population and Labour Force**

- Numbers in thousands, indicators in percents

	2001	2002	2003	2004	2005
			Forecast		
POPULATION, as at 30 June (in thousand)	**1992.0**	**1995.7**	**1996.0**	**1996.8**	**1997.0**
Age structure (in perc.s): 0-14 years	15.6	15.2	14.8	14.4	14.1
15-64 years	70.1	70.2	70.4	70.4	70.4
65 years and more	14.3	14.6	14.9	15.1	15.4
LABOUR FORCE (A=B+C1)	**979.0**	**971.0**	**972.7**	**976.5**	**980.0**
Persons in employment (B)	**916.0**	**910.0**	**911.4**	**918.9**	**926.1**
Persons in paid employment (B1)*	694.8	697.9	702.7	710.5	717.6
Formaly self-employed persons (B2)	84.2	85.6	84.6	83.5	82.5
Unformaly employed (B3=B-B1-B2)	137.0	126.5	124.1	124.9	126.0
Survey unemployed -ILO standard (C1)	**63.0**	**62.0**	**61.3**	**57.6**	**53.9**
Registered unemployed persons (C2)	**101.9**	**102.6**	**96.6**	**92.4**	**87.2**
LABOUR MARKET INDICATORS (in perc.s)					
Participation rate (15-64 years)	**68.3**	**67.8**	**67.8**	**67.9**	**68.2**
men	73.1	72.2	72.0	72.0	72.1
women	63.5	63.3	63.4	63.7	64.0
Participation rate (65 years and more)	8.2	7.1	7.0	6.9	6.8
Employment rate (15-64 years)	**63.9**	**63.4**	**63.4**	**63.9**	**64.3**
men	68.7	68.2	68.9	69.3	69.6
women	58.9	58.6	59.3	59.9	60.4
Employment rate (55-64 years)	25.0	24.4	24.6	27.3	30.2
Unemployment rate - ILO definition (C1/A)	**6.4**	**6.4**	**6.3**	**5.9**	**5.5**
men	5.9	5.9	5.9	5.6	5.3
women	7.0	6.8	6.8	6.2	5.8
young people (15-24 years)	18.1	16.7	16.8	16.1	15.4
Registered unemployed rate (C2/(B1+B2+C2)	**11.6**	**11.6**	**10.9**	**10.4**	**9.8**
men	10.4	10.4	10.0	9.8	9.3
women	12.9	13.1	12.0	11.2	10.4
Structure of persons in employment according to survey					
in agriculture	10.4	9.3	9.3	9.2	9.2
in industry and construction	38.5	38.5	37.8	37.3	36.6
in services	51.1	52.2	52.8	53.5	54.2
ANNUAL GROWTH RATES (%)					
Persons in employment	**1.7**	**-0.7**	**0.2**	**0.8**	**0.8**
Persons in paid employment*	1.7	0.4	0.7	1.1	1.0
Formaly self-employed persons	-1.1	1.7	-1.3	-1.2	-1.2
Unformaly employed	3.1	-7.6	-1.9	0.7	0.8
Registered unemployed	**-4.5**	**0.8**	**-5.9**	**-4.3**	**-5.6**
Labour force	1.1	-0.8	0.2	0.4	0.4
Working age population	0.1	0.3	0.2	0.2	0.0
Population	**0.1**	**0.2**	**0.0**	**0.0**	**0.0**
Population, 65 years and more	2.4	2.5	1.6	1.9	2.0

Source of data: SORS, IPDIS, IMAD's estimates.
Note: * 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**

- Numbers in thousands, indicators in percents

	1995	1996	1997	1998	1999	2000
FORMAL LABOUR FORCE, year-end	**873.1**	**867.0**	**871.1**	**868.3**	**880.5**	**873.1**
Formal employment	746.4	742.5	742.5	741.7	766.2	768.5
Registered unemployment	126.8	124.5	128.6	126.6	114.3	104.6
Registered unemployment rate, end of year (%)	**14.5**	**14.4**	**14.8**	**14.6**	**13.0**	**12.0**
New first-time job seekers	**25.7**	**25.6**	**25.4**	**25.1**	**25.7**	**22.7**
of whom became unemployed	22.1	21.1	17.9	18.6	19.6	20.5
- in % of the generation	86.3	82.4	70.4	74.1	76.5	90.3
Additional number of work permits for foreigners	**2.6**	**0.2**	**-2.9**	**-0.5**	**2.6**	**2.9**
- share of foreigners in formaly active population	4.5	4.7	4.6	4.0	4.3	4.6
Employed having lost their jobs	**57.5**	**65.4**	**60.6**	**58.4**	**61.1**	**61.8**
- on 100 persons in formal employment	7.7	8.8	8.1	7.8	8.1	8.1
Registered unemployed having found a job	**60.0**	**54.6**	**56.1**	**55.4**	**62.4**	**60.2**
- on 100 persons in formal employment	8.0	7.3	7.5	7.4	8.2	7.8
Retirements (-)	**11.5**	**14.8**	**15.1**	**14.8**	**15.1**	**14.8**
of which: registered unemployed persons	3.8	4.9	5.0	4.9	4.9	7.0
Deaths (-)	**2.8**	**2.7**	**2.7**	**2.7**	**2.7**	**2.5**
Other inflows into formal labour force (net)	-12.2	-14.6	-0.6	-9.9	1.7	-15.7
of which:other persons who found a job (net)	0.0	14.3	12.3	8.4	27.1	8.9
other deleted from unemployment registers (-)	12.2	28.9	12.9	18.2	25.4	24.6
- on 100 registered unemployed	10.1	24.1	10.3	14.5	21.4	23.1
Education structure of school-leavers (estimated, %)						
- low or no education	36.7	31.3	38.0	34.3	25.3	15.5
- vocational education	23.4	24.2	21.8	19.5	18.4	18.9
- finished secondary school	20.2	21.8	17.1	23.3	32.1	36.5
- graduates	19.7	22.6	23.0	23.0	24.2	29.1

Cont. on the next page.

Table 14: **Labour force flows during the year**

- Numbers in thousands, indicators in percents

	2001	2002	2003	2004	2005
			Forecast		
FORMAL LABOUR FORCE, year-end	**886.4**	**881.5**	**881.7**	**885.2**	**886.2**
Formal employment	782.1	781.9	788.5	796.2	801.2
Registered unemployment	104.3	99.6	93.2	89.0	85.0
Registered unemployment rate, end of year (%)	**11.8**	**11.3**	**10.6**	**10.1**	**9.6**
New first-time job seekers	**25.6**	**28.3**	**27.4**	**26.8**	**25.7**
of whom became unemployed	21.9	21.4	19.8	18.7	17.4
- in % of the generation	85.6	75.7	72.4	69.8	67.7
Additional number of work permits for foreigners	**-8.8**	**2.1**	**0.0**	**1.0**	**0.0**
- share of foreigners in formaly active population	4.3	4.4	4.4	4.5	4.5
Employed having lost their jobs	**65.8**	**66.0**	**63.8**	**62.4**	**61.4**
- on 100 persons in formal employment	8.4	8.4	8.1	7.9	7.7
Registered unemployed having found a job	**52.7**	**52.2**	**54.4**	**56.4**	**58.2**
- on 100 persons in formal employment	6.8	6.7	6.9	7.1	7.3
Retirements (-)	**14.6**	**14.8**	**15.1**	**15.4**	**15.9**
of which: registered unemployed persons	7.6	6.9	6.4	6.8	7.3
Deaths (-)	**2.5**	**2.5**	**2.4**	**2.4**	**2.3**
Other inflows into formal labour force (net)	13.6	-18.0	-9.8	-6.6	-6.6
of which:other persons who found a job (net)	41.0	14.8	19.3	15.2	10.4
other deleted from unemployment registers (-)	27.4	32.8	29.1	21.8	17.0
- on 100 registered unemployed	26.9	31.9	30.1	23.6	19.5
Education structure of school-leavers (estimated, %)					
- low or no education	29.6	11.5	22.6	20.9	22.3
- vocational education	22.4	21.1	20.1	18.7	18.6
- finished secondary school	21.9	42.6	27.3	26.7	24.5
- graduates	26.1	24.8	30.0	33.7	34.6

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

Table 15: **Gross capital formation**

- Current prices in SIT million

	1995	1996	1997	1998	1999	2000	2000	2001
Gross capital formation	**518,603**	**598,353**	**699,970**	**832,740**	**1,037,311**	**1,121,650**	**1,138,345**	**1,141,555**
Gross fixed capital formation	474,626	574,631	679,465	800,629	999,183	1,076,840	1,085,925	1,131,961
Tangible fixed assets	463,356	559,814	656,187	773,386	957,133	1,035,101	1,036,093	1,073,404
Buildings and construction works	208,261	282,443	342,592	389,695	488,853	522,311	545,585	547,925
Residental buildings	73,711	91,524	113,600	128,590	147,466	152,123	157,589	164,759
Other buildings and construction	134,550	190,919	228,992	261,105	341,387	370,188	387,997	383,167
Producer' durable goods	243,410	264,374	297,152	363,186	442,641	491,202	481,103	515,854
Transport equipment	66,787	67,394	67,328	85,565	97,893	109,863	104,370	110,659
Personal cars	34,407	35,709	34,321	39,422	46,649	50,210	37,512	42,357
Other motor vehicles and equipment	32,380	31,685	33,007	46,143	51,244	59,653	66,858	68,302
Other machinery and equipment	176,623	196,980	229,824	277,621	344,748	381,339	376,733	405,195
Breeding stock and orchard development	4,489	3,711	4,103	4,377	6,178	4,200	9,404	9,625
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	48,800	55,825
Increase of the value of non-produced non-financial assets	476	544	802	1,833	3,004	2,815	1,032	2,731
Change in inventories	43,762	23,470	20,324	31,813	37,599	44,238	51,564	7,428
Finished goods	11,700	5,858	-7,020	9,059	1,670	9,428	13,362	5,291
Work in progress	4,714	8,583	3,892	8,458	8,029	11,770	13,922	361
Materials and supplies	1,562	-6,515	6,796	-372	11,527	2,456	3,094	-5,537
Goods for resale	25,785	15,544	16,656	14,668	16,373	20,584	21,187	7,313
Acquisitions less disposals of valuables	215	252	181	298	529	572	855	2,167

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Table 15: **Gross capital formation**

- Structure in % (current prices)

	1995	1996	1997	1998	1999	2000	2000	2001
Gross capital formation	**100.0**	**100.0**	**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	95.4	99.2
Tangible fixed assets	89.3	93.6	93.7	92.9	92.3	92.3	91.0	94.0
Buildings and construction works	40.2	47.2	48.9	46.8	47.1	46.6	47.9	48.0
Residental buildings	14.2	15.3	16.2	15.4	14.2	13.6	13.8	14.4
Other buildings and construction	25.9	31.9	32.7	31.4	32.9	33.0	34.1	33.6
Producer' durable goods	46.9	44.2	42.5	43.6	42.7	43.8	42.3	45.2
Transport equipment	12.9	11.3	9.6	10.3	9.4	9.8	9.2	9.7
Personal cars	6.6	6.0	4.9	4.7	4.5	4.5	3.3	3.7
Other motor vehicles and equipment	6.2	5.3	4.7	5.5	4.9	5.3	5.9	6.0
Other machinery and equipment	34.1	32.9	32.8	33.3	33.2	34.0	33.1	35.5
Breeding stock and orchard development	0.9	0.6	0.6	0.5	0.6	0.4	0.8	0.8
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	4.3	4.9
Increase of the value of non-produced non-financial assets	0.1	0.1	0.1	0.2	0.3	0.3	0.1	0.2
Change in inventories	8.4	3.9	2.9	3.8	3.6	3.9	4.5	0.7
Finished goods	2.3	1.0	-1.0	1.1	0.2	0.8	1.2	0.5
Work in progress	0.9	1.4	0.6	1.0	0.8	1.0	1.2	0.0
Materials and supplies	0.3	-1.1	1.0	0.0	1.1	0.2	0.3	-0.5
Goods for resale	5.0	2.6	2.4	1.8	1.6	1.8	1.9	0.6
Acquisitions less disposals of valuables	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2

Source of data: SORS.

Note: *Until 2000 costs of transactions with existing and new fixed assets are not classifief as a special group of fixed assets (they are included with the group they refer to).

The table shows two data series. The first one has a base year of 1995. The secod one has a base year of 2000 and is based on the revised national accounts figures.

Table 16: **Indicators of International Competitiveness**

- Annual growth in %

	1995	1996	1997	1998	1999	2000	2001	2002	2003
								Estimate	Forecast
Effective exchange rate [1]									
Nominal	-0.5	-9.8	-5.4	-2.6	-5.5	-8.1	-5.8	-2.9	-0.9
Real [2]	10.3	-2.9	0.7	4.0	-0.7	-1.9	-0.1	2.7	2.9
Unit labour cost in total economy [3]									
In SIT nominal	13.0	5.9	6.2	5.1	5.3	11.0	9.3	6.8	5.0
In the basket of currencies - relative [6]	10.4	-5.2	0.2	2.2	-1.3	0.7	1.0	2.6	2.7
Unit labour cost in manufacturing [4]									
In SIT nominal	9.8	6.9	7.3	5.9	7.3	4.2	8.5	6.1	4.1
In the basket of currencies [4]	9.3	-3.5	1.5	3.1	1.4	-4.2	2.2	3	3.2
In the basket of currencies - relative [6]	9.8	-5.3	4.6	4.3	0.8	-3.3	0.7	1.7	2.3
Components [5]									
Compensation of employees - real [7]	4.9	3.9	3.4	3.4	2.9	2.6	1.8	2.1	2.1
Net wages and other remunerations	6.8	7.7	4.3	3.1	2.5	1.9	0.8	1.6	1.7
Tax burden on wages [8]	-0.6	-2.6	-0.5	0.6	0.4	0.6	0.6	0.2	0.2
Labour productivity	8.4	6.7	4.5	5.4	1.8	7.2	1.7	3.5	3.5
Prices / effective exchange rate	12.9	-0.8	2.5	5.1	0.3	0.1	2.1	4.3	4.6

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] National account's statistics,
[4] For enterprises and companies with 3 or more employees,
[5] Only domestic factors,
[6] Relative to growth in unit labour costs in 7 main OECD trading partners,
[7] Deflated by consumer prices,
[8] The ratio of gross wages and employers' contributions to net wages.

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