Summary

The grounds for the target development scenario of Slovenia's Development Strategy (SDS) quantify the path leading to attainment of the SDS' main objective, i.e. catching up with the average EU level of economic development (measured by GDP per capita in PPP) by 2013. To achieve this objective, Slovenia should record growth rates three percentage points higher than the advanced EU member states between 2006 and 2013.

With regard to the planned measures, the period from 2005 to 2013 covered by the grounds for the SDS target development scenario can be further divided into three shorter periods with different anticipated dynamics of economic growth. In the first period (up to 2007), when the short-term measures set out in the Strategy are to be carried out and macroeconomic policies will be aimed primarily at stabilising the economy to ensure the fulfilment of the Maastricht convergence criteria, a moderate acceleration of economic growth is foreseen. In this period productivity growth would still not substantially exceed the growth achieved in the last ten years. Similarly, no significant changes would be observed in the structure of gross domestic product (GDP) in this time. The breakthrough to a higher development level with economic growth exceeding 5% is foreseeable after 2007, when the short-term measures planned in the Strategy are to yield their first results and accelerate the growth of productivity and the economy's competitiveness, as well as employment growth. The period of accelerated economic growth, ending around 2011, would be followed by a period of a relative slowdown in growth to a level of around 5%. Provided that the SDS measures are implemented, this level would represent the new potential GDP growth while inflation could dip closer to the European average.

The economy's accelerated growth would also strongly boost employment whose growth would thus rebound to over 1% in 2007-2013. This strong employment growth, additionally supported by a more flexible labour market, would enable Slovenia to approach the Lisbon goals in the area of employment. By carrying out employment policy measures aimed at increasing employment and lengthening the activity period of employees, the Lisbon objective – a 70% employment rate for the population aged 15-64 – could be achieved by 2013 while the target 50% employment rate for people aged 55-64 would not be attained earlier than in 2016.

The Strategy projects greater investment in knowledge, particularly a rapid increase in expenditure in research and development and investment in human capital. In order to achieve the target value (3% of GDP for R&D in 2010), this expenditure will have to grow faster. It would have to record a real annual growth rate of about 13.7% in 2003-2010. Education and training play an important role in addressing the challenges posed by technological and structural changes and ageing populations. The average number of schooling years of active people would rise from 11.8 in 2003 to 12.6 in 2013, and the graduates of tertiary education should be largely employed in the private sector. Incentives for employers to invest more in people will be aimed at improving the inclusion of adults in education and introducing lifelong learning, which is also necessary in order to raise the employment rates of the elderly.

The scenarios regarding the supply side are based on the assumption that in those areas where Slovenia is still lagging behind the advanced countries target levels could be achieved more rapidly by applying the SDS measures. At the same time, this would require a restructuring of the economy in favour of stronger services (increasing the share of services in the structure of value added to 67% and in the structure of GDP to 59% by 2013), where the level of knowledge-based services would grow appreciably faster than the level of other services. Although the share of education, one of the knowledge-based services, relative to GDP would drop by 2013 mainly due to the declining size of generations, the GDP structure would record a shift in favour of higher and other education due to the promotion of tertiary education and lifelong learning set out in the SDS. Simultaneously, optimal implementation of the SDS measures could also stimulate a development breakthrough in Slovenian manufacturing enabling the advance of high-technology and medium-technology industries. These branches would thus increase their share in manufacturing's total value added to close to 50%. The overall manufacturing's share within the GDP production structure, however, is not projected to rise.

The target development scenario assumes that demand is not a limiting development factor. On one hand, we expect higher export growth and export demand due to implementation of the SDS measures further supported by more competitive exports of goods and services that generate higher value added. In turn, this will also impact on the growth of market shares in the main export markets. On the other hand, domestic demand will also be on the increase up until 2013 in both private and investment consumption where structural changes are expected. Private consumption is set to accelerate in the second scenario sub-period, i.e. after 2007, when the effects of the first Strategy measures, which would also push up the average level of households' disposable income, would already be felt. The expected dynamics of gross fixed capital formation are slightly different than those of private consumption: its growth is projected to be relatively stronger until 2007 and to decelerate slightly thereafter to total 4.5% at the end of the period.

Key words: economic growth, production function, knowledge-based production, employment, structure of GDP, consumption aggregates