

Summary

Slovenia became a full member of the European Union (EU) on 1 May 2004. For most economic subjects the situation did not change significantly upon accession since the Slovenian economy, especially its tradable sector, had already largely adapted to the demands of the common market in the pre-accession process. Moreover, most changes that took place in the Slovenian economy over the past few years were also part of the transition and restructuring process and can hardly be solely attributed to alignment with the EU's requirements. Nevertheless, the first assessment of the effects of EU accession on economic trends in 2004 can be made after one year of EU membership.

These effects can be divided into direct and indirect ones, both of which are characteristically closely intertwined with the effects of other factors underpinning economic trends in 2004 (for a more detailed analysis, see Spring Report 2005). Hence it is often difficult to specify their impact and quantify it appropriately. The three main direct effects are the change in the foreign trade regime, the entry to the Exchange Rate Mechanism ERM II and the consequences for public finances.

The adoption of the EU's common trade policy impacted on the regional structure of external trade, the level of trade in agricultural products, food prices and the lowering of customs duty revenues in the budget. It also simplified the terms of trade by lifting customs formalities. The more visible effects of the abolition of customs protection were mainly seen in the structure of trade with agro-food products and consequently in the reduced output of the food-processing industry. The latter was additionally affected by the expiry of free-trade agreements with the countries of former Yugoslavia where customs duties on Slovenian agro-food products were raised. Slovenia seized the opportunity to enter ERM II in the first round at the end of June 2004, which necessitated changes to its monetary and exchange rate policies. The entry to the ERM II directly resulted in the exchange rate's stabilisation and its favourable impact on inflation, whereas for policy-makers it primarily signified a commitment to continue and strengthen the co-ordinated implementation of macroeconomic policies and secure the conditions for entry to the EMU. Accession to the EU brought about changes in Slovenia's obligations regarding contributions to the EU budget and disbursements from it, which have affected the volume of general government revenue and expenditure. A special sub-group of direct effects – one-off effects – are linked primarily to the adoption of the common trade policy and have affected the dynamics of import and export flows, as well as to the changed regulations regarding value-added tax (VAT) collection which, in addition to their long-term impact on VAT evasion, also caused some liquidity shortfalls in tax revenue from this source in 2004.

Indirect effects of Slovenia's entry to the EU comprise a number of changes in different areas that have been underway for a long time starting in the accession process, which are intertwined with the restructuring process that would have taken place regardless of Slovenia's EU membership. These changes mainly include shifts in the structure of manufacturing industries, the national agricultural policy reform and the harmonisation of excise duties on tobacco products that has affected price dynamics. The lowering of interest rates, although related to the anticipated entry to the ERM II, already started in 2003 and may also be regarded as an indirect effect due to its longer-lasting impact.

Key words: EU, foreign trade regime, the EU's common trade policy, free-trade agreements, countries of former Yugoslavia, agriculture, manufacturing, transport, storage and communications, tourism, private consumption, ERM II, inflation, exchange rate, interest rates, budget of the Republic of Slovenia, EU budget, foreign direct investment