International Institute for Applied Systems Analysis
Schlossplatz 1 • A-2361 Laxenburg • Austria
Telephone: (+43 2236) 807 342 • Fax: (+43 2236) 71313
E-mail: publications@iiasa.ac.at • Internet: www.iiasa.ac.at

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Slovenia and the European Union: Macroeconomic Development Scenarios

Slavica Jurančič, Jasna Kondža, Saša Kovačič, Tomaž Kraigher, Jože Markič, Nataša Marzidovšek, Igor Strmšnik, Branka Tavčar and Ivanka Zakotnik (slavica.jurancic@gov.si, jasna.kondza@gov.si, sasa.kovacic@gov.si, tomaz.kraigher@gov.si, joze.markic@gov.si)

Coordinators: Igor Strmšnik and Branka Tavčar (igor.strmisnik@gov.si, branka.tavcar@gov.si, ivanka.zakotnik@gov.si)

Approved by

János Gács (gacs@iiasa.ac.at)
Project Leader, Economic Transition and Integration

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Abstract

Consistent projections are presented for Slovenia's economic development in the form of two scenarios: one assuming accession to the European Union in 2005, and another assuming that no accession takes place before 2010. If accession does not take place, the growth of GDP will fluctuate between 3 and 4 percent, while in the accession scenario it achieves 5-6% in the years before and after accession. In both scenarios some reorientation of trade to former Yugoslav regions is expected, but in case of accession the high share of trade with the EU is maintained. Budgetary policy and agreement with social partners are expected to take care of moderate wage developments, which are even more crucial in case of accession due to the increased competitive pressures. The forecasts assume not only that external conditions will be favorable, or at least not adverse, but that internal structural reforms and economic policy making will fulfill all the ambitious targets that the official national and international documents prescribe.

Foreword

This paper was prepared as a part of the PREPARITY Project supported by the European Commission. PREPARITY stands for Structural Policy and Spatial Planning in the Regions along the Boarders of Central and East European Countries in Preparation for the Eastern Enlargement of the EU. The project is managed by WIFO (the Austrian Institute of Economic Research) as well as German and Italian research institutes. The PREPARITY project consists of 16 subprojects out of which one has been carried out at the Economic Transition and Integration Project of IIASA. This paper is a part of the IIASA subproject designed to conduct country studies and a summary assessment of the expected macroeconomic developments until 2010. The output of the subproject is the study Gács J. (Ed.), *Macroeconomic Developments in the Candidate Countries with respect to the Accession Process*, December 1999, IIASA-WIFO-PREPARITY.

About the Authors

This paper was prepared by selected staff of the Institute of Macroeconomic Analyses and Development (IMAD), Gregorčičeva 27, 1000 Ljubljana, Slovenia. Tel: (386) 61-178-2112, Fax: (386) 61-178-2070.

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This paper presents consistent projections for Slovenia's economic development up to 2010. The forecasts were elaborated in the form of two scenarios assuming accession to the European Union in 2005 (Scenario +), and no accession before 2010 (Scenario -). The projection work was based on expert assessments integrated to a national account framework. Consistency of different macroeconomic aggregates was achieved by using a matrix which consisted of a chain of six national income accounts. These were: goods and services account, production account, generation of income account, distribution of income account, use of income account, capital account, and rest of the world account. The matrix facilitated the checking of internal consistency of the projections elaborated in the individual accounts.

1. European structural aid, integration into the internal European market and the date of Slovenia's accession to the European Union

Structural policy in the European Union is carried out through structural funds, cohesion policy and competition policy. Besides that, the European Investment Bank's loans for financing development programs and other special purpose funds are also instruments of structural policy.

With good and timely organization Slovenia can draw significant amounts from these sources which will to a great extent bridge the financial gap between the developmental needs of the country and the limited possibilities of their financing from domestic sources. According to the experience of the less developed member states of the European Union, the macroeconomic effects of such development aid would be extremely positive. The bulk of this aid is investment in financial and human resources, which makes them especially effective. In the period from 1989 to 1993 investment coming from European Union funds was more than 8% of total gross investment in recipient "cohesion countries" (5% in Spain, 3.5% in Portugal, 6% in Greece and 17.5% in Ireland). In the period until 1999, development aid to the same countries should exceed 14% of total investment.

The actual net financial inflow to Slovenia and its effect on development depends on the time of accession, the achieved solutions in accession negotiations (such as possible postponement of some types of contribution to the Community budget), internal organization of Slovenia, as well as its ability to make use of the potential assistance. The experience of member states shows that there are big differences between more and less successful accessions and that the so-called absorption capacity of individual countries also differ.

Therefore, it may happen that Slovenia will not be able to seize the opportunity. This would almost inevitably happen under unfavorable external circumstances (postponed date of accession should the European Union not be prepared to enlarge). Limited internal economic and political ability to perform reforms in Slovenia represents another risk factor.

Another important factor which can positively influence the economy is Slovenia's integration into the internal European market. The importance of this kind of impact was confirmed by the calculations of the effects of expansion of the internal market to the European periphery (Greece, Ireland, Spain and Portugal), carried out by a group of authors (Bradley et al., 1995) who applied the so-called HERMIN econometric models. The results show that, on average, the periphery as a whole gains less than the center of Europe, however the gains are still substantial. The smallest long-term cumulative increase in GDP as a result of the introduction of the single European market was calculated for Spain (1.55%), followed by Greece (2.48%) and Portugal (2.55%), while the most substantial rise was calculated for Ireland (2.64%).

The speed of Slovenia's integration into the European Union can thus be seen as an adequate basic factor differentiating between two development scenarios to be discussed below. This speed is a topical and most recognizable risk factor which can significantly influence the behavior of economic subjects and condition different economic policies. Two options open for Slovenia are to be analyzed, namely, accession as early as in 2005 and postponed accession at the end of the next decade. Detailed breakdown and quantification of both versions enable the formation of two developmental scenarios: Scenario of quick integration in the European Union – hereinafter referred to as Scenario (+), and Scenario of postponed integration in the European Union – hereinafter referred to as Scenario (-). The difference between the two would give the answer to the question of costs and benefits of quick or postponed integration.

2. Projection of population, employment and unemployment rates

The crucial element in maintaining the number of population is birth rate. According to the projections, population in Slovenia is likely to shrink rapidly in the next years, if the birth rate stays at its present low level. In view of the latest birth rate patterns in advanced economies it is quite unlikely that in Slovenia the birth rate would rise again to the level of the replacement of generations. It is, however, probable that it would increase again to the level of 1.5 children in a woman's lifetime – provided that adequate measures are taken regarding the stimulation of employment of young people and building homes for young families.

Another factor that influences the number of inhabitants and, even more, their age structure, is mortality. According to cultural patterns in the developed European countries and current trends, further decrease in mortality in younger age groups and thus longer life expectancy are likely. Nevertheless, a more pessimistic development is also possible, since the future age structure of the population could result in reduced capability to create economic possibilities for longer life expectancy, which in turn would therefore drop or at least stagnate. On the other hand, life expectancy cannot extend infinitely. Various projections arising from different assumptions on mortality trends are especially important in assessing the future percentage of the elderly. This percentage is much higher in the projections of longer life expectancy than in those envisaging high mortality rates.

Migration will probably be the factor least influencing the age structure of the population in Slovenia. The volume of immigration is primarily conditioned not only by economic, but also by political circumstances. From the economic point of view importance is attributed to the imbalance between supply and demand in the labor market of individual

countries in general. In addition, specific incongruence in individual professions as well as differences between individual countries in income, working and living conditions and possibilities of professional development play a role here. It can be assumed that Slovenia, currently the most developed country in transition, will continue to attract labor force from less developed countries, at first primarily from Southern- and Eastern European countries, and later on also from more distant countries. On the other hand, the Slovenian labor market is too small and insufficiently structured. Jobs offered in Slovenia will still be insufficient or not attractive enough for Slovenians in certain professions, which is why foreign workers will always migrate to Slovenia and Slovenian citizens will be employed in foreign markets.

In 1997, the Institute of Macroeconomic Analysis and Development produced several projections of population trends (Kraigher, 1998). Considering several versions of population and activity projections for the needs of scenario assessments, however, would make the scenarios too intransparent. It suffices to select only one reference projection and merely touch upon possible deviations. Based on the analysis of the assumptions and results of the above-mentioned projections made in 1997, the mean prognosticated life expectancy was determined and the mean prognosticated birth rate and migration were slightly modified. The starting point for the new reference projection was the permanent population in Slovenia as of 31 December, 1998. For population projections see Table 1.

Table 1: Reference projection of population in Slovenia in the 1999-2010 period

Year	Population as of 31 Dec.	Births	Deaths	Natural population growth	Net Migration	Total fertility	Reproduction rate	No. of deaths per 1000 inhab.	Life expectancy		Population as of 30 June	Annual growth (in %)	Age structure (in %):		
									M.	F.			0-14	15-64	65+
1999	1976494	18091	19930	-1840	0	1.23	0.60	10.08	71.07	78.73	1977414	-0.26	16.41	69.87	13.72
2000	1974945	18365	19915	-1550	0	1.26	0.61	10.08	71.30	78.92	1975720	-0.09	16.01	69.98	14.01
2001	1973821	18589	19912	-1323	200	1.28	0.62	10.09	71.53	79.10	1974383	-0.07	15.67	70.05	14.29
2002	1973125	18831	19927	-1096	400	1.30	0.63	10.10	71.76	79.29	1973473	-0.05	15.34	70.11	14.55
2003	1972807	19048	19967	-918	600	1.32	0.64	10.12	71.98	79.47	1972966	-0.03	15.02	70.18	14.80
2004	1972786	19225	20045	-820	800	1.35	0.65	10.16	72.20	79.65	1972796	-0.01	14.76	70.19	15.05
2005	1973007	19389	20168	-779	1000	1.37	0.67	10.22	72.42	79.83	1972897	0.01	14.59	70.10	15.31
2006	1973415	19534	20327	-792	1200	1.40	0.68	10.30	72.64	80.01	1973211	0.02	14.47	69.97	15.56
2007	1973949	19648	20514	-866	1400	1.42	0.69	10.39	72.86	80.18	1973682	0.02	14.41	69.77	15.82
2008	1974596	19771	20724	-953	1600	1.45	0.70	10.50	73.08	80.36	1974272	0.03	14.40	69.51	16.09
2009	1975368	19921	20949	-1028	1800	1.47	0.71	10.61	73.29	80.53	1974982	0.04	14.41	69.30	16.29
2010	1976241	20053	21180	-1127	2000	1.50	0.73	10.72	73.50	80.70	1975804	0.04	14.45	69.22	16.33

Source: IMAD Projection

Mortality projection was made on the basis of a sex/age specific mortality rates according to the latest complete mortality tables of Slovenian population in the 1993-1995 period (Šircelj et al., 1997; considered probability of death in 1994), and the analysis of mortality dynamics over the last 15 years. In the next few years no significant changes are expected in these dynamics, which is why the projection of probability of death, chosen for the period until 2010, approximately equals the average annual mortality in the past 10 years. According to this projection, by 2010 life expectancy for men would increase up to 73.5 years and for women up to 81 years.

It is assumed that birth rate would no longer decrease but gradually rise up to 1,5 children in 2010. On the basis of the present imbalance between population statistics and migration statistics it is anticipated that the corrections of the existing population records

would continue, especially as regards population with temporary residence, which is why the final balance of migration and records cleaning by 2000 would be 0. Afterwards, it would increase by 200 per year until it would reach 2000 in the year 2010.

It is hard to predict the future trends in the population activity (except for the influence of the general trend of increasing retirement age). The situation on the labor market also influences the population's activity. The projection prognosticates higher levels of formal activity of the labor force (population between the ages of 15 to 64), i.e. 73% for men and 63% for women until 2010, by taking into account the present pace and growth of this ratio and the limited possibilities of employment in this period. On the one hand, the projection is justified by an increasingly older retirement age required by law and by the slightly increased number of women included in formal activities (until today, it was the highest in 1989: 63.6%). On the other hand, it is supported by the expected considerably increased inclusion of young people in regular education programs, compared to the 1980s, as well as by the projection of a relatively high productivity growth which will, according to the economic growth rates anticipated by both scenarios, prevent any pronounced rise in employment and activity of the population. If this activity level development is applied to the above-mentioned projection, the formal labor force could continue to increase until 2010, even though the total number of the population of working age is supposed to start decreasing already in 2005. Possibly, activity levels will increase faster and reach a higher level, should there be a shortage of labor force, due to either a quicker economic growth, or/and a slow-down in productivity growth. Nevertheless, activity levels should not be much lower than those anticipated by the projection. It must be taken into account that with the aging of the population there will be more and more economically dependent people which will result in a new economic trend towards higher activity of labor force. For labor force projection see Table 2.

Table 2. Projection of labor force in Slovenia in the 1999-2010 period

Year	Population in working age (15-64)		Formal activity rates			Formally active population	Annual growth (in %)	Share of women (in %)	Survey-labour force	Survey-	
	Men	Women	Total	Men	Women					activity ratio	formal ratio
1999	697596	684024	63.4	67.8	58.8	875352	0.5	45.9	980682	71.0	112.0
2000	698103	684465	63.8	68.3	59.2	881663	0.7	45.9	985817	71.3	111.8
2001	698239	684718	64.2	68.7	59.5	887652	0.7	45.9	990570	71.6	111.6
2002	698427	685092	64.6	69.2	59.9	893790	0.7	45.9	995466	72.0	111.4
2003	698997	685678	65.0	69.7	60.3	900364	0.7	45.9	1000825	72.3	111.2
2004	699090	685589	65.4	70.1	60.7	906243	0.7	45.9	1005386	72.6	110.9
2005	698243	684766	65.9	70.6	61.1	911048	0.5	45.9	1008738	72.9	110.7
2006	696955	683688	66.3	71.1	61.4	915406	0.5	45.9	1011579	73.3	110.5
2007	695175	681816	66.7	71.6	61.8	918940	0.4	45.9	1013495	73.6	110.3
2008	692989	679251	67.2	72.0	62.2	921758	0.3	45.8	1014612	73.9	110.1
2009	691203	677419	67.6	72.5	62.6	925323	0.4	45.8	1016541	74.3	109.9
2010	690547	677088	68.0	73.0	63.0	930665	0.6	45.8	1020408	74.6	109.6

Source: IMAD Projection

Survey estimates for the active population's activity are usually higher than the registered active population due to those informally employed. In the past, the ratio between the survey-estimated and the registered active population fluctuated significantly. It reached a trough in 1993 when the survey-estimated active labor force exceeded the formal labor force having active status by merely 3.8%, while the respective percentage was 12.6% in 1997 and

12.3% in 1998. It is assumed that until 2010 this ratio will decrease, since the number of formally active population will increase further and the number of informally employed people will decline.

The basic factor influencing the volume of employment in an economy is undoubtedly the pace of economic growth which, on its own is not enough to increase employment. The latter also depends on the so-called employment intensity of economic growth or (by definition related) global labor productivity growth. Growing demand for labor force and labor productivity are not mutually independent; on the contrary, they are competitive given certain (limited) possibilities of economic growth (owing to inadequate production capacities and/or limited possibilities of sales). Whether economic development will be more favorable for productivity growth or employment growth, depends on the competitive relations on (global) markets, the relative development of factors of production and relative prices of labor and capital. For projections of labor productivity, employment and unemployment see Tables 3 and 4.

Two projections of employment growth were elaborated, depending on the two scenarios of economic development. First, hypotheses were made regarding the development of productivity in both scenarios. On the basis of the estimated growth in gross domestic product and global productivity growth, projections of employment growth can be assessed as the direct difference between the rate of economic growth and productivity growth. This is known as FTE employment, i.e. full-time equivalent employment, calculated for the purposes of the statistics of national accounts.

Scenario (+) envisages that by 2002 productivity will on average increase by 3% at most annually due to the measures of active employment policy and the currently insufficient investment in means of production. After 2003, this scenario, which implies a quicker economic growth, gets more ambitious concerning productivity growth. With regard to the forecasted stronger economic growth in the period immediately after 2003, resulting from Slovenia's early accession to the European Union in 2005, it can be expected that the growth of productivity will again recuperate. The projected rate of productivity growth is approximately 4%, which means that, should productivity in the EU grow by 1.5% on average per year, according to this scenario Slovenia would by 2010 reach 60% of the average productivity in the European Union. FTE employment would increase by 1% to 2% annually, thus enabling a quick downturn in unemployment to about 5% around 2010.

It is estimated that higher employment would reduce the level of survey-estimated unemployment (according to the definition of the International Labour Organisation – ILO), although this reduction would be slightly slower than the decrease in the rate of registered unemployment, thus reducing the difference between the two rates. The reduction of the difference between the two rates is primarily based on the gradual fall in the number of presently unemployed elderly people no longer looking for employment or involved in any kind of informal activity (currently accounting for almost 50% of all registered unemployed persons).

According to Scenario (-) which anticipates slower economic growth, productivity would rise by 3% annually until, as well as after 2002, so that Slovenia would reach 55% of the average productivity in the EU by 2010. Due to slower economic growth, the FTE employment rate would stagnate by 2010 according to this scenario. In the initial period formal labor activity would also increase, although slower than the number of active population, which is why registered unemployment would fluctuate around the present rate. Owing to reduced possibilities of informal employment, the number of survey-estimated unemployed persons and the rate of survey-estimated unemployment are anticipated to increase.

Table 3. Projected development of productivity, employment and unemployment according to Scenario (+)

Year	Annual growth (in %)							Prod. Index 1997=100	Unemployment rate (in %)	
	GDP	Produc-tivity	FTE employ.	Formal Employment	Survey-estim. employment	Reg. unempl.	Survey-estim. unemp.		Reg.	Surv.-est.
1999	3.5	3.0	0.5	1.5	0.1	-5.6	2.9	107.0	13.6	8.1
2000	3.8	3.0	0.8	0.9	0.3	-0.7	3.1	110.2	13.4	8.3
2001	4.0	3.0	1.0	1.2	0.6	-2.6	0.1	113.5	13.0	8.2
2002	4.5	3.0	1.5	1.7	1.1	-6.1	-4.9	116.9	12.1	7.7
2003	5.5	4.0	1.5	1.7	1.1	-6.5	-5.2	121.6	11.2	7.2
2004	6.0	4.0	2.0	2.2	1.6	-11.8	-12.9	126.4	9.8	6.1
2005	5.5	4.0	1.5	1.7	1.1	-10.4	-10.3	131.4	8.8	5.4
2006	5.5	4.0	1.5	1.7	1.1	-12.5	-12.9	136.6	7.6	4.6
2007	5.0	4.0	1.0	1.2	0.6	-9.8	-7.4	142.1	6.9	4.3
2008	5.0	4.0	1.0	1.2	0.6	-12.2	-10.0	147.7	6.0	3.8
2009	5.0	4.0	1.0	1.2	0.6	-12.7	-9.4	153.6	5.2	3.4
2010	4.5	4.0	0.5	0.7	0.1	-2.1	8.5	159.7	5.1	3.7

Note: FTE - full time equivalent

Source: IMAD Projection

Table 4. Projected development of productivity, employment and unemployment according to Scenario (-)

Year	Annual growth (in %) (Scenario "-")							Prod. Index 1997=100	Unemployment rate (in %)	
	GDP	Produc-tivity	FTE employ.	Formal Employ-ment	Survey-estim. Employ-ment	Reg. unempl.	Survey-estim. unemp.		Reg.	Surv.-est.
1999	3.5	3.0	0.5	1.5	0.1	-5.6	2.9	107.0	13.6	8.1
2000	3.8	3.0	0.8	0.9	0.3	-0.7	3.1	110.2	13.4	8.3
2001	4.0	3.0	1.0	1.2	0.6	-2.6	0.1	113.5	13.0	8.2
2002	3.5	3.0	0.5	0.7	0.1	0.7	-4.9	116.9	13.0	8.6
2003	3.0	3.0	0.0	0.2	-0.4	4.1	11.5	120.4	13.4	9.4
2004	3.0	3.0	0.0	0.2	-0.4	3.4	10.3	123.9	13.8	10.2
2005	3.0	3.0	0.0	0.2	-0.4	2.4	8.0	127.6	14.0	10.8
2006	3.0	3.0	0.0	0.2	-0.4	2.0	7.1	131.4	14.2	11.4
2007	3.0	3.0	0.0	0.2	-0.4	1.3	5.6	135.3	14.4	12.0
2008	3.5	3.0	0.5	0.7	0.1	-2.2	1.0	139.3	14.0	12.0
2009	3.5	3.0	0.5	0.7	0.1	-1.7	1.6	143.4	13.7	12.0
2010	3.5	3.0	0.5	0.7	0.1	-0.4	2.5	147.6	13.6	12.3

Note: FTE - full time equivalent
Source: IMAD Projection

3. Economic growth

The already achieved level of economic development of Slovenia, which is higher than that of other countries in transition, and reaches the level of less developed EU member states, requires that due care is taken when predicting economic growth in the future. Under such circumstances each percentage point of economic growth is a success, especially if the

country faces the urgent need for further stabilization, restructuring of production and institutional changes. Targeted rates of economic growth between 5% and 6% are only possible in the period immediately before and after accession to the European Union. Later, a gradual decrease and approximation of the rates recorded in the developed European countries are expected.

Impacts of economic integration on economic growth are usually calculated by means of macroeconomic models. Empirical studies of Slovenia carried out so far used the models based on the theory of general equilibrium (Damijan and Caf, 1995; Potočnik and Majcen, 1996; Potočnik, 1997). These models are mainly used for calculating relative costs and benefits at the sectoral level. Results at the aggregate level are less useful, since this is a static model approach. Despite these limitations, conclusions can be made on the basis of such calculations, namely that long-term effects of Slovenia's integration on GDP growth would definitely be favorable. This is further confirmed by the already quoted calculations on the effects of expansion of the internal market to the European periphery (Greece, Ireland, Spain and Portugal).

As regards target economic growth, the scenario of quick integration into the European Union (Scenario +) is quite demanding. Annual real GDP growth of 4%-5% in the pre-accession period is prognosticated to reach 5%-6% in the period immediately before and after the accession. This would be the result of positive economic effects of Slovenia's integration into the internal EU market, and, after accession, the expected substantial investment in the development of economic and social infrastructure, entrepreneurship, technological development and human resources. To a large extent, such investment would be financed from the EU's structural aid.

Higher economic growth is expected already in the pre-accession period of 2001-2005 as a result of positive progress of events. The European Commission is expected to announce the date of its Eastern enlargement soon, and if Slovenia manages to hold the position among the most successful applicant countries, this could already be an important factor in improving further the county risk and encouraging FDI inflows. There are other factors involved, such as the EU Association Agreement which was signed by Slovenia. It determined the exact timetable for a complete opening up of the Slovenian capital market till 2002. Thus, Slovenia could benefit from the integration effects into the EU internal market already in the pre-accession period. In the years to come there will be a number of positive effects of better functioning of Slovenia's domestic market due to the ongoing institution building process. Slovenia is adopting new regulations which are in line with the EU Acquis. This is expected to create a favorable and EU compatible economic environment, thereby boosting the economic growth process significantly.

Slovenia signed the Europe Agreement with the EU, free trade agreements with EFTA and CEFTA, and a number of bilateral free trade agreements with various countries. The agreements with the EU and EFTA are asymmetrical. These integrations abolished their customs tariffs imposed on the majority of industrial products, while in Slovenia the tariffs will only be lifted gradually by the year 2001. In principle, this leaves some space for the so-called static effects (the effects of trade creation and diversion) as devised in the classical customs union theory.

Effective tariff protection in Slovenia was reduced significantly already in the times of the former Yugoslavia and in the first few months of Slovenia's independence. In 1986 it was still 53.0%, but fell to 7.03% in 1993. Producers have, therefore, already overcome the first shock of foreign trade liberalization and reorientation from domestic to international markets. Further liberalization (protection rate should fall to 5.85% until 2001) should thus not affect considerably either the trade balance or the level of domestic production.

For some sectors, in the coming years, adjustment to new demand may be painful as they will find themselves on the losers' side. But in the case of Slovenia the cost of adjustment should still be relatively low, and benefits relatively large (see Gros and Vandile, 1995). The more the product structure of exports resembles the structure in the partner states, the lower the costs of adjustment. In Slovenia, the similarity with the EU is obvious. The correlation coefficient of the Slovenian export structure with that in the EU is as high as that of the Netherlands (Slovenia 68%, the Netherlands 66%, Greece 18%, Portugal 44%, Ireland 34%, Spain 87%, Italy 82%, Germany 96%, France 95%, Belgium 91%). Thus, most of the adjustment costs have already been paid.

One of the most important effects of integration are the benefits of increased efficiency (supply effect) due to greater competition between producers. The effects of supply are, in fact, of micro-economic type. They are translated to macro-economic effects through lower prices, which go hand in hand with higher productivity of production factors. Greater efficiency implies a number of changes in production due to elimination of the so called X-technical deficiencies and a more optimal use of production factors. Greater competition in Slovenia should eliminate inefficient companies and lead to economic restructuring (creative destruction). Even if the number of competitors does not increase considerably, the higher potential for entry to the market itself changes the behavior on the market and creates a more competitive environment.

The scenario assumes that the present level of economic development of Slovenia will make the country eligible for considerable inflows from the Community budget. In 1997, GDP per capita by purchasing power parity in Slovenia was 69% of the average reported by the EU, and GDP per capita measured by current euro represented 43% of the European Union average. In 1997, the level of domestic prices averaged 62% of the European level, with the greatest lags being recorded in the prices of postal services, medical care, house rents, education and other services. For price level and GDP growth at current exchange rate and PPP see Table 5.

If only the assumed economic growth was taken into account in the calculation of future economic development, Slovenia would, already in 2002, exceed 75% of the average development in the European Union, which is the limit separating large and small net receivers of EU structural aid. According to data from SORS, the Slovenian Statistical Office, Slovenia is currently approaching the European Union average level by 1.5 structural points annually. Slovenia's economic development in the 1993-97 period increased by as much as 6 structural points, i.e. up to 69% of the average EU level. Should such trends persist, Slovenia would have significantly exceeded 75% of the economic development of the European Union level till accession. However, simultaneously the level of domestic prices will rapidly increase, given the persevering difference between domestic and average European inflation. Thus only slow increase in the internal purchasing power of the gross domestic product is expected in Slovenia, despite the high rate of economic growth. Thereby Slovenia is expected to exceed the level of 75% of EU average only in 2005, when the EU average will drop due to the accession of a group of candidate countries. Consequently, Slovenia as a whole country would still be eligible for the European Structural Funds as Objective 1 region in the EU Financial Perspective 2007-2013. Later, it would benefit from the so-called "transitional status" and from the European Cohesion Fund reserved for the countries with a per capita income below 90% of the average of the EU. The whole period will be long enough to carry out the necessary restructuring and raise the level of development of not only the human resources but also the social and economic infrastructure in the country. The experience of previous enlargements of the European Union show that due to accession domestic prices started moving closer to the European average although none of the less developed countries has actually reached that average (price level indices in 1996: Ireland

92%, Spain 83%, Greece 76%, Portugal 68%). Prices in Slovenia currently stand at 62% of the European price level, which allows for some room in price differential.

Towards the end of the decade the positive short-term effects of integration are envisaged to be gradually exhausted, while the long-term effects of the enhanced production factors will probably still be active.

Table 5. GDP per capita at purchasing power parity

SCENARIO (+)	1997	2000	2001	2002	2003	2004	2005	2010
Real GDP growth rate	4.6	3.7	4.0	4.5	5.5	6.0	5.5	4.5
Number of inhabitants (in 000)	1,987	1,976	1,974	1,973	1,973	1,973	1,973	1,976
National price level (in % of EU average)	62.0	70.0	71.3	72.5	73.4	73.9	74.2	76.1
Purchasing Power Parity (PPP)	111.8	138.3	143.1	146.9	150.0	151.9	152.7	156.8
GDP deflator - Slovenia	8.8	6.2	3.8	3.5	3.0	2.6	2.1	2.5
GDP deflator - EU average	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Exchange rate SIT/EURO	180.40	197.70	200.60	202.60	204.50	205.50	205.90	205.90
GDP per capita - PPP - EU average	18960	21498	22389	23498	24519	25585	24294	30050
GDP per capita - PPP - Slovenia	13000	14482	15115	15884	16826	18054	19539	27376
GDP per capita - in current EURO - Slovenia	8111	10133	10779	11516	12343	13348	14488	20844
GPP per capita- in current EURO-Slovenia (in % of EU av.)	43	47	48	49	50	52	60	69
GPP per capita - PPP - Slovenia (in % of EU average)	69.0	67.4	67.5	67.6	68.6	70.6	80.4	91.1
SCENARIO (-)	1997	2000	2001	2002	2003	2004	2005	2010
Real GDP growth rate	4.6	3.7	4.0	3.5	3.0	3.0	3.0	3.5
Number of inhabitants (in 000)	1,987	1,976	1,974	1,973	1,973	1,973	1,973	1,976
National price level (in % of EU average)	62.0	70.0	71.3	72.5	73.4	73.9	74.2	76.1
Purchasing Power Parity (PPP)	111.8	138.3	143.1	146.9	150.0	151.9	152.7	156.8
GDP deflator - Slovenia	8.8	6.2	3.8	3.5	3.0	2.6	2.1	2.5
GDP deflator - EU average	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Exchange rate SIT/EURO	180.40	197.70	200.60	202.60	204.50	205.50	205.90	205.90
GDP per capita - PPP - EU average	18960	21498	22389	23498	24519	25585	26696	33022
GDP per capita - PPP - Slovenia	13000	14482	15115	15884	16665	17458	18358	23368
GDP per capita - in current EURO - Slovenia	8111	10133	10779	11516	12225	12907	13613	17792
GPP per capita- in current EURO-Slovenia (in % of EU av.)	43	47	48	49	50	50	51	54
GPP per capita - PPP - Slovenia (in % of EU average)	69.0	67.4	67.5	67.6	68.0	68.2	68.8	70.8

The development scenario of postponed integration into the European Union (Scenario -) promises much poorer results. According to this scenario, Slovenia would only benefit from the so-called pre-accession structural assistance (ISPA, SAPARD and PHARE instruments). The amounts already allocated to Slovenia are minimal (around EUR 50 million annually). This would make possible 3% to 4% economic growth. If Slovenia does not enter the European Union in the first round of enlargement, i.e., if it fails to accede by the middle of the next decade, it will have to carry the burden of restructuring mostly itself. With such an outcome, at the end of the next decade GDP in Slovenia would be far below the level which could have been reached with accession.

To develop according to either of the two scenarios, Slovenia will have to meet the conditions set by the European Union already for the pre-accession aid. At the Luxembourg Summit in December 1997, the European Council gave green light to the official negotiations on the accession of Slovenia to the European Union. The principal document for the period of approximation is the Accession Partnership. This document stipulates short- and medium-term priorities that Slovenia must fulfil, defines the available financial assistance for the realization of these priorities, and sets out the conditions for obtaining them. The Slovene National Programme for the Adoption of the Acquis has also focused on these priorities. Thus, both scenarios assume that Slovenia will implement the adopted program of harmonization of its legislation and institutions within the set deadlines. Should this process be successful, this would mean meeting the conditions for joining the European Union already in 2005. In case enlargement of the European Union is postponed, fulfilling the pre-accession priorities would be a guarantee for the realization of Scenario (-), which is also very ambitious with regard to economic growth and implementation of reforms. The realization of the latter does not mean that Slovenia would stop being considered as potential member of the EU; in fact, its accession would be postponed together with the expected benefits from the integration into the internal market and structural policy of the European Union.

Besides legal and institutional adjustments, in the course of the preparations for membership attention must also be paid to general economic policy. A stable macroeconomic environment is a precondition for a favorable climate for the introduction of structural measures in the candidate countries. The economy is more efficient in a stable macroeconomic environment since the economic entities are better informed and therefore can take long-term business decisions. Macroeconomic stability is hence essential for meeting the Copenhagen criteria for joining the European Union. Economic policy itself is a constituent part of the acquis, especially in terms of coordinating EU policies in the framework of the Economic and Monetary Union (EMU). Also in this area, both scenarios anticipate an economic policy harmonized with the EU, as set out in the document “Joint Assessment of Medium-term Economic Policy Priorities”, signed by the European Commission and Slovenia in 1998.

4. International economic relations of Slovenia

Export growth in both scenarios is in accordance with the assumption of higher economic growth which will be driven by exports. Both scenarios count on the real growth in exports of goods, the rate of which is expected to be higher than that of the gross domestic product. This higher rate is achieved mainly due to improved international competitiveness of the manufacturing sector as a result of better cost competitiveness in manufacturing, and integration and opening up of the domestic market as a consequence of the implementation of the Association Agreement and the National Programme for the Adoption of the Acquis. For projections of international trade see Table 6.

In the long run, the Slovenian market is much too small to provide sufficiently for domestic demand. In addition, domestic demand is expected to be limited by the anticipated incomes policy, which will guarantee that labor costs grow slower than labor productivity. Just a slightly faster growth in imports than the growth in exports is forecast to cover the import requirements of domestic production (import of resource materials) and of growing investments (import of equipment and technology).

Slovenia is not likely to be exposed to the negative effect of trade diversion after full accession to the EU, as the common tariff that will be imposed against third countries will be lower than the present tariff level in Slovenia. According to the theory of customs union, a

common customs tariff could help replace expensive domestic products with cheaper ones from the EU and, at the same time, could prevent cheap imports from third countries. But in fact, third countries (especially developing countries) could even increase their access to the Slovenian market as Slovenia will be obliged to adopt the current EU international obligations including the preferential treatment for imports from these third countries. On the other hand, Slovenia will be able to take advantage of the existing trade arrangements of the EU which will open the way to the markets in third countries. The membership in the EU will strengthen Slovenia's negotiating position in international organizations and will bring numerous benefits to the Slovenian economy in relation to third countries as Slovenia's interests will be better represented. The final effect will depend also on the relative cost-price competitiveness of Slovenian products.

Table 6: International trade – balance of payments statistics (at the exchange rate in 1999)

SCENARIO (+)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports of goods and services (growth in %)	4.5	5.0	7.5	7.7	8.2	8.5	8.7	8.8	8.9	9.0	9.2
Exports of goods and services, % of GDP	56.3	56.8	58.5	59.7	61	62.7	64.7	67	69.5	72.1	75.4
Imports of goods and services (growth in %)	4.9	5.4	7.7	7.9	8.4	8.8	8.9	9.0	9.1	9.2	9.5
Imports of goods and services, % of GDP	58.5	59.3	61.1	62.4	63.8	65.8	67.9	70.5	73.2	76.1	79.8
Current account balance (millions of USD)	-190	-242	-302	-358	-424	-511	-597	-707	-836	-983	-1190
Current account balance (% of GDP)	-0.9	-1.1	-1.3	-1.5	-1.7	-1.9	-2.1	-2.4	-2.7	-3.0	-3.5
SCENARIO (-)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports of goods and services (growth in %)	4.5	5.0	5.3	5.4	5.5	5.6	5.5	5.2	5.5	5.5	5.5
Exports of goods and services, % of GDP	56.3	56.8	57.8	59.1	60.6	62.1	63.6	65.0	66.2	67.5	68.8
Imports of goods and services (growth in %)	4.9	5.4	5.5	4.8	5.0	5.0	4.9	5.0	5.0	5.0	5.5
Imports of goods and services, % of GDP	58.5	59.3	60.4	61.5	62.6	63.8	65.0	66.3	67.2	68.2	69.5
Current account balance (millions of USD)	-190	-242	-316	-259	-206	-137	-64	-44	25	106	100
Current account balance (% of GDP)	-0.9	-1.1	-1.4	-1.1	-0.9	-0.6	-0.2	-0.2	0.1	0.4	0.3

Source of data: IMAD estimates.

An increase in the absolute volume of exports can only be achieved (also because of environmental restrictions) by raising the share of value added per unit of exported goods. Livelier investment activity combined with a better supply of high-quality imported materials is expected to lead to the production of new products which will be more competitive on international markets. Only an extensive (quantitative) rise in exports within the framework of the given product ranges is subject to restrictions of bulk and environmental protection, as well as to limitations imposed by foreign demand – a development orientation unsuitable for Slovenia.

The gradual liberalization of capital flows will increase Slovenia's participation in international capital movements. Scenario (+) anticipates the augmentation of capital outflows from the private sector (e.g. establishing companies abroad or crediting purchases of Slovenian exports). In addition to international loans for infrastructure and greater assistance from the European Union through the PHARE, ISPA and SAPARD programs, inflows are also expected to rise owing to increased foreign direct investment. The latter would be assisted primarily by completion of privatization and restructuring, the consolidation of the legal order, further macroeconomic stabilization, a favorable credit rating for Slovenia, and lower country risk. For the projection of FDI see Table 7.

Table 7. FDI in Slovenia according to Scenario (+) (in million USD)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FDI	321	165	100	200	300	350	400	450	500	550	500	450	400	350

Source of data: BS, IMAD estimates.

More accelerated growth in the domestic service sector is expected to be reflected in a greater international exchange of services with rapid expansion in export and import volumes, and with a slight surplus.

According to Scenario (+), foreign trade deficit is projected to gradually increase, reaching approximately USD 2,865 million by 2010. The surplus in the invisible part of the balance of payments (unrequited transfers and trade in factor services) is unlikely to fully cover the trade deficit. The deficit on the current account should stay within sustainable limits, i.e. up to 3.5% of GDP. Net inflow of capital accumulated abroad should raise readily available domestic investment funds as well as facilitate and accelerate restructuring. It would be advantageous if financing were to come through direct capital flows as much as possible (i.e. from European Structural Funds and the European Cohesion Fund), thus guaranteeing that the inflows are predominantly used for development.

In the 2000-2010 period, Scenario (-) anticipates an average growth of 5.3% in export of goods and services and 5.1% in imports. Due to the postponed participation of Slovenia in the integration processes the real growth rates in international trade forecast by this scenario would be approximately one third lower than in the case of Slovenia's quick accession to the European Union. With limited investment activity and less inflows from foreign direct investment, Slovenian companies would be delayed in restructuring their production capacities for more competitive products in the global market. This means that Slovenia should later try to make up for any lags in quality factors of competitiveness such as export prices or the technological structure of exports.

According to the slower accession scenario, exports and imports of goods would in real terms increase by approximately 68% by 2010. In the same period, the visible current account deficit would firm up at around USD 960 million or 3.3% of the gross domestic product. Economic growth stimuli will be coming from foreign demand, which is why international trade of goods will have to grow faster than the gross domestic product. To ensure that goods exports increase in real terms somewhat faster (5.5%) than imports (5.1%), a restrictive incomes policy will be needed (wages rising slower than labor productivity). Furthermore, exports would at the same time be encouraged by imports of intermediate goods and capital equipment. This would be most obvious after 2003, when goods exports should start to increase faster than imports up until 2010.

Both development scenarios envisage greater regional diversification in the exchange of goods. The share of exports to EU member states is expected to fall (although in real terms their volume should increase) as exports to other countries would rise, especially to CEFTA countries and those emerged from the former Yugoslavia (see Table 8).

In Scenario (+), i.e. quicker accession to the European Union, Slovenia is forecast to reduce the share of its exports to the European Union by approximately 5.5 structural points by 2005 simultaneously with a surge in the absolute volume of exports to this area. We estimate that in this case the drop will primarily be the consequence of partial reorientation of Slovenian exports to the markets of the former Yugoslavia (in association with the planned co-operation of Slovenia in achieving economic stability in Southeast Europe). By 2005 exports to the former Yugoslavia are anticipated to rise by about 4.5 structural points. Once the situation in the Balkans has settled and the Slovenian economy integrated into the internal

market, the share of the markets of the European Union are expected to increase again. After 2005 the effects of economy of scale will start showing and thus, by 2010, the share of exports to the markets of the European Union could again reach approximately the same level as in 1998, only at a higher nominal level of exports than before.

Table 8. Regional orientation of export of goods, structure in %

	1998	2005	2010
SCENARIO (+)			
Goods exports	100.0	100.0	100.0
- EU member states	65.5	60.0	65.0
- the former Yugoslavia	15.4	20.0	17.5
- other countries	19.1	20.0	17.5
SCENARIO (-)			
Goods exports	100.0	100.0	100.0
- EU member states	65.5	60.0	60.0
- the former Yugoslavia	15.4	20.0	20.0
- other countries	19.1	20.0	20.0

Source: SORS, IMAD estimates.

Anticipated trends in the structural shares of export until 2005 are similar in both scenarios. In case Slovenia's membership in the European Union is delayed, the share of its exports to the European Union is expected to stabilize at 60% in 2010, which is about 5.5 structural points less than in 1998. A regionally diversified export structure would be established at a nominally lower level, where the export to the countries that emerged from the former Yugoslavia would represent one fifth of total Slovenian exports.

5. Exchange rate and competitiveness

A relative balance between demand and supply on the foreign exchange market should be ensured by a deficit on the current account on the one hand, and the inflow of capital from abroad, on the other. In case of imbalance the exchange rate regulation system currently in force enables the Bank of Slovenia to intervene in order to prevent large foreign exchange fluctuations. Should the inflation rate drop, the fluctuations of the nominal and real effective tolar exchange rates could stabilize between 0,5% and 1% by 2005 (see Table 9).

The completion of privatization, the restructuring of manufacturing together with technological modernization, as well as a larger volume of foreign direct investment will gradually enable labor productivity to grow. Among others, the above-average labor productivity growth in manufacturing (by 4.5% in the period until 2005, and 6.5% afterwards) will be the consequence of further cuts in the number of employees in favor of the service sector. In combination with the continued modest growth of the compensation of employees (around 2.5% annually in real terms) this will ensure the continuous growth in international competitiveness starting already after 2002.

Table 9. International competitiveness indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exchange rate SIT / EURO	197.7	200.6	202.6	204.5	205.5	205.9	205.9	205.9	205.9	205.9	205.9
Exchange rate SIT / USD	179.0	177.5	179.3	181.0	181.9	182.3	182.3	182.3	182.3	182.3	182.3
Nominal effective tolar exchange rate (previous year =100)	97.2	99.0	99.0	99.1	99.5	99.8	100.0	100.0	100.0	100.0	100.0
Real effective tolar exchange rate (previous year=100)	101.7	101.1	100.6	100.3	100.2	100.1	100.4	100.4	100.6	100.6	100.7
Unit labour costs * (previous year =100)	101.9	101.3	100.4	99.2	99.1	98.7	98.9	98.4	98.3	98.1	97.9

Note: *in the basket of currencies, in manufacturing.

6. Incomes and Budgetary Policies

Both development scenarios forecast that the incomes policy will be able to maintain the positive trend from recent years, when gross wage per employee on average grew slower than labor productivity. The agreement between social partners on wage policy in the 1999-2001 period is expected to ensure that wages increase at a moderate rate. Such a policy of conscious agreement on slower growth in the purchasing power of wages is urgent in order to promote competitiveness, thus assuring survival in spite of increasing globalization and relatively slow growth of unit labor costs in developed countries.

Wages in the corporate sector are set by collective agreements as negotiated between employers and employees. Through the process of ownership concentration, the role of owners in defining the level of wages will increase. In the sectors of public administration, education, health care and social security growth in gross wages per employee will have to be adjusted to the available budgetary funds.

In the wage policy of the corporate sector the problems of wage leveling occur in the lower tariff brackets as a result of a higher minimum wage. In the public sector, problems appear also on the level of the base wage for the least demanding jobs, which is lower than that in the corporate sector. This results in constant pressures to add new annexes to the individual branch collective agreements. Within the tripartite agreements, where the equal role of public sector trade unions will have to be recognized, priority will have to be given to the above-mentioned problems. It is expected that by finding solutions to these gross wage per employee will increase slightly faster than desirable from the point of view of the national economy. In general, wage policy will have to ensure that the rise of gross wage per employee is consistently slower than the growth of labor productivity. According to Scenario (+), gross wage per employee would have to lag slightly more behind labor productivity than so far, and also more than according to the alternative Scenario (-), because it is necessary to increase the competitiveness of the economy. If, after 2006, the lag in Scenario (-) had been maintained, it could slow down the growth of competitiveness (see Table 10).

The budgetary framework takes into account the international financial flows which will gain much importance once Slovenia becomes a member of the European Union. On the one hand, there is the contribution of the state budget to the Community budget (part of VAT, customs and import duties, etc.), and on the other, there is the structural aid of the European Union to Slovenia and agricultural financial transfers. Even more important than net financial flows will be gross inflows, and those funds activated domestically by development aid as a result of the principle of co-financing in the EU. According to this principle, development aid

may be just an additional financial incentive and must not replace domestic resources originally allocated for development. The developmental scenarios also take into account the psychological effects caused by development assistance. The focus of economic policy will be shifted from status and legal matters (ownership restructuring, denationalization, privatization, etc.) to development. As far as budgetary effects are concerned, the difference between the two scenarios is big. In the case of postponed accession to the European Union, Slovenia can only count on what is known as pre-accession aid.

Table 10. Movements in gross domestic product, labour productivity and real gross wage per employee in the 2000-2010 period, percent

SCENARIO (+)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Gross domestic product	3,8	4,0	4,5	5,5	6,0	5,5	5,5	5,0	5,0	5,0	4,5
Labour productivity	3,0	3,0	3,0	4,0	4,0	4,0	4,0	4,0	4,0	4,0	4,0
Gross wage per employee	2,5	2,3	1,8	2,5	2,5	2,5	2,5	2,8	2,8	3,0	3,0
SCENARIO (-)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Gross domestic product	3,75	4,0	4,5	3,5	3,0	3,0	3,0	3,0	3,5	3,5	3,5
Labour productivity	3,0	3,0	3,0	3,0	3,0	3,0	3,0	3,0	3,0	3,0	3,0
Gross wage per employee	2,5	2,3	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0	2,0

Source of data: IMAD estimates.

Over the next few years, the reform of the pension system will alleviate the pressure toward increasing budgetary outflows for pensions, or at least maintain them at the present level. The pension system will be reformed gradually in Slovenia, thus the budget shouldn't suffer additional burdens at the start. Part of the reform is the introduction of additional voluntary pension insurance schemes which are expected to influence the level of savings and the development of capital markets positively.

Thrift in spending public finance resources and a considerable restructuring of budgetary outlays will also be dictated by the new tasks arising from Slovenia's integration into the European Union. New outlays related to the implementation of structural reforms and harmonization with the regulations effective in the EU will have to be included in the budget without further burdening the corporate sector or increasing the budgetary outflows (as a percent of gross domestic product). The budget deficit will have to be maintained within sustainable limits, i.e. a more or less balanced public finance will have to be re-established (see Table 11).

Economic theoreticians see increased competition strictly as an advantage of economic integration. A problem appears in practice in that part of the domestic economy which was protected with various forms of passive and active protectionist measures prior to the integration. Simultaneously with the opening of the market, subsidies and other forms of state aids to the economy will be reduced in Slovenia to the level and form comparable to the European ones. This can be a serious problem in the future that can no longer be solved with the so-called "national budget intended for rehabilitation". A new economic policy of early discovery of problems and reacting to them in the form of state aid for promoting development in line with the rules of the internal market will be required (environmental protection projects, encouraging small and medium sized companies, regional development aid, technological partnerships, horizontal employment incentives, etc.). State aid in the 1992-94 period averaged 1.7% of GDP in the 12 member states of the EU. The range between the countries was from 2.6% in Germany to 0.4% in Great Britain. Currently, state aid in Slovenia on average is higher, but already on the decrease.

In case Scenario (+) is carried out, as a result of high EU adaptation costs, general government expenditure as a ratio of the gross domestic product is expected to increase gradually till 2005. After accession, the ratio would grow further because of the EU structural funds which will affect both the revenue and the expenditure sides of the state budget. Payments to the EU budget and transfers from Structural Funds and the Cohesion Fund can be expected. Due to the Structural Funds co-financing principle there will be a need to assure additional funds from domestic financial resources to co-finance development programs. As a result, the total public finance intervention of the state will increase, nonetheless lower state involvement can be expected in a number of fields.

Table 11: Consolidated balance of public financing in the 1998-2010 period (as percent of GDP)

SCENARIO (+)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2010**
General government revenue	43.0	43.5	44.2	44.4	44.6	45.0	45.5	46.5	46.5
General government expenditure	43.8	44.5	44.7	44.9	45.1	45.3	46.5	47.5	47.5
Surplus/deficit	-0.8	-1.0	-0.5	-0.5	-0.5	-0.3	-1.0	-1.0	-1.0
SCENARIO (-)									
General government revenue	43.0	43.5	44.2	44.4	44.6	45.0	45.0	45.0	45.0
General government expenditure	43.8	44.5	44.7	44.9	45.1	45.3	45.3	45.2	46.0
Surplus/deficit	-0.8	-1.0	-0.5	-0.5	-0.5	-0.3	-0.3	-0.2	-1.0

Source of data: IMAD estimates.

7. Inflation

Lower prices as a result of higher efficiency (supply effect) due to competition between an increased number of manufacturers and benefits of the economy of scale are some of the most important effects of economic integrations. In Slovenia it is expected that increased competition will eliminate inefficient companies and lead to the restructuring of the economy (creative destruction). Even if the number of competitors does not significantly increase, their potential entry should change the behavior of the participants in the market, i.e. create a more competitive environment. Exploiting the economy of scale on an expanded market similarly affects the reduction of costs and prices. Savings are possible at the level of individual plants, companies as a whole, individual branches, regions, and the entire national economy.

After the establishment of the internal market, restructuring in the European Union member states was primarily carried out on the capital market, i.e. by means of mergers and acquisitions. In most cases this happened within individual nations (70%). The share of international acquisitions within the European Union increased (from 15.5% in the 1986-89 period to 18.7% in the 1990-95 period). In this last period, the share of acquisitions by non-member states of the European Union dropped by 4 percentage points. The reason for this type of restructuring in Europe in the first half of the 1990s can be found in the need for quick adjustment to the changed market environment. Under such circumstances companies find it difficult to implement gradual changes. Other reasons for the above-mentioned restructuring include increased liquidity of the capital market, greater importance of institutional investors and more efficient functioning of these markets owing to their deregulation. Deregulation also

increased transparency and access to information as well as the number of companies listed on the stock exchange and their relative share in the economy.

In the European manufacturing sector such development led to the concentration of economic activities. The level of concentration in the European Union rose by 2.3 percentage points in the 1987-93 period. The most important improvement was seen in technologically intensive industries, industries related to procurement (e.g. telecommunications), food industry and the electric appliances industry. The results of a Eurostat survey carried out among companies (Economic Commission, 1996b) showed that large companies benefited most from the internal market. The most substantial cost-cuts arose from cheaper input materials (new opportunities for cheaper resources) and lower production and distribution expenses.

In principle, higher concentration and larger companies can also represent a threat to competition due to potential monopolies. As regards the effects of competition, there is a popular theory (Smith and Venables, 1988) according to which European multinationals are supposed to pursue a price segmentation policy (oligopolistic competition on the domestic market and free competition in foreign markets). Empirical data on the results of the establishment of the internal European market (Economic Commission, 1996b) do not confirm this thesis. Statistical analysis of the price/expense margin confirms its dramatic decrease (by 0.2 percentage points annually since 1987). In the so-called Cecchini report, issued by the European Commission prior to the introduction of the internal market (Emerson et al., 1988), the long-term price reduction owing to the introduction of the internal market was assessed at 5.25%. Surveys in Austria assessed the effect of membership in the European Union on price reduction in the five-year period (1995-2000) at 3.3% (WIFO, 1994) or 5.1% (Richter, 1994). After the accession, the expected price reduction actually occurred in Austria, especially for agricultural products and food. Admittedly, the Austrian example is not particularly relevant to Slovenia (high agricultural protection in Austria prior to its accession), but also the prices of industrial goods dropped in relative terms: in 1994 they grew on average by 2.5% compared to 1995 when the respective increase was only 1.3%.

Liberalization of financial services and capital movements will reduce the prices of financial services. A simulation for Austria (WIFO, 1994) estimated that interest rates upon the entry in the European Union will drop by 0.5 percentage points. In addition, it was forecast that the integration will eliminate the differences between German and Austrian interest rates. In total, interest rates in Austria were expected to fall by 1 percentage point. The foreseen reduction of the price of financial services was 10%, of inflation one half percentage point, and of the cumulative growth of GDP 0.6%. Mark-ups in Austria were expected to decrease significantly as well. A detailed study (Guger et al., 1990) showed that labor productivity in trade should have increased by 9% until 2000. This should also have affected prices in all other sectors.

Increased competition in the single market triggered reductions in the prices of telecommunications, air transport (in the 1986-94 period prices were reduced by almost 20% mainly due to discount flights), banking services and cargo road transport. In the service sector, trade and goods transport benefited most. On the basis of a sample of 1,000 European large companies (European Commission, 1996b) the share of logistics expenses in total income was assessed to have decreased by 30%. Expenses in international cargo road transport were reduced by approximately 6%. Significant benefits from higher efficiency and productivity in the internal European market were also noted in the liberalized sector of telecommunications.

Slovenia meets the fiscal criteria for integration into the European Monetary Union, but not the monetary criteria (average annual inflation and interest rates). Fulfilling these

criteria is important because of the internal stability of the economy. Further curbing inflation to a rate comparable to EU levels therefore remains one of the key goals of the Slovenian economic policy.

The success of further inflation cuts does not depend on monetary policy alone, which played a key role in reducing inflation in the 1992-1996 period, but also on successful incomes policies, controlled prices, further liberalization, deregulation, opening of the market, promotion of competition, trends in import prices (especially of crucial strategic raw materials), and foreign exchange fluctuations. Given the successful and coordinated action of all economic policy components, which directly or indirectly influence price movements, it is estimated that the average annual inflation rate in Slovenia could fall to a level comparable to the European levels by 2005 (see Table 12).

Table 12. Forecasts and estimates of inflation movements in the 1999-2005 period, growth rates in %

	1999	2000	2001[1]	2002	2003	2004	2005[2]
Inflation (annually)	8.8	3.8	3.7	3.1	3.1	2.2	2.0
Inflation (average)	6.8	6.2	3.8	3.5	3.0	2.6	2.1

Note: [1]Until 2001 forecasts were prepared in co-operation with the Ministry of Finance and The Bank of Slovenia.
[2]The average inflation value corresponds to the Maastricht criterion for the EU calculated for 1998.
Source: Methodology, IMAD calculations

Before prices charged by public utilities are adjusted to their efficiency level and before all price discrepancies are eliminated, inflation cannot be curbed any quicker. Price discrepancies, however, are more pronounced only in telecommunications and postal services. In 1999, the Slovenian Government prepared a program of price liberalization within the National Programme for the Adoption of the Acquis by the end of 2002. A new law on price control was adopted which regulates the interventionist role of the state with the aim of protecting the public interest, and draw up potential measures of the government in the area of price control. A regulative framework (cross-sectoral regulator) is being set up where total price deregulation will not be possible, owing to the nature of prices - especially in the field of natural monopolies and other parts of the economic infrastructure. This single regulator will provide a balanced price policy and systemic solutions for individual sectors.

The Bank of Slovenia's priority goal in monetary policy prior to the accession is to reduce the inflation rate and stabilize prices. Thist is being achieved by setting annual targets in money aggregates in the broadest sense and by restrictive monetary policy within the limits permitted by other policies that influence the inflation rate. Decreased inflation should bring about a reduction in real interest rates and an automatic abolition of the indexation mechanisms. At the same time, co-ordination of all the policies influencing the price level will be necessary, especially the incomes policy (which should keep wage rises below the productivity growth), and the fiscal policy providing a balanced budget.

8. Major risk factors of the fulfilment of Scenario (+)

Fulfillment of Scenario (+) depends on a number of conditions and presumptions. Probably the most important ones are the willingness and preparedness of the EU to enlarge. This should be reflected in an early announcement of the date of the first round of Eastern enlargement, fast track conclusion of EU membership negotiations, willingness of the EU to

grant the new entrants reasonable transition periods, and sufficient technical and financial assistance in the pre-accession period.

The second crucial presumption is the expected business tendencies and a generally favorable economic environment on the markets of Slovenia's major trading partners. These should stimulate international foreign trade relations and enable Slovenia's economic integration into the EU market. A possible economic crisis or any form of closing up of the EU internal market would have an extremely negative impact on Slovenia's small and EU-dependent economy.

The third crucial presumption is the ability of the domestic economic policy to take over all the necessary obligations and conduct the reforms according to the determined schedule of accession. Delay in the fulfillment of the EU Association Agreement and failure in the realization of the National Programme for the Adoption of the Acquis would mean a serious threat to the EU accession process. Delay in one field of economic policy could easily reflect in delays in other fields and consequently lead to an inconsistent schedule of reforms. This would inevitably increase adaptation costs following EU membership.

Further macroeconomic stabilization is another crucial presumption. Inflation rate and nominal interest rates should be reduced to EU levels till 2005, if the opening up of the capital market as prescribed in the EU Association Agreement is successfully realized. Otherwise speculative inflows of portfolio investment can occur, leading to a higher risk of capital withdrawal and financial vulnerability of the country. It is crucial that such inflows do not lead to any deficits in public finance accounts. The main macroeconomic indicators of the two scenarios are given in Table 13.

Table 13. Main macroeconomic indicators of Slovenia; Scenario (+) and Senario (-) (real growth rates in percent unless otherwise indicated)

SCENARIO (+)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP	3.75	4.0	4.5	5.5	6.0	5.5	5.5	5.0	5.0	5.0	4.5
Employment rate	0.8	1.0	1.5	1.5	2.0	1.5	1.5	1.0	1.0	1.0	0.5
Rate of registered employment in %	13.4	13.0	12.1	11.2	9.8	8.8	7.6	6.9	6.0	5.2	5.1
Labour productivity	3.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Gross wage per employee	2.5	2.3	1.8	2.5	2.5	2.5	2.5	2.8	2.8	3.0	3.0
Exports of goods and services	4.5	5.0	7.5	7.7	8.2	8.5	8.7	8.8	8.9	9.0	9.2
- share in GDP in %	56.3	56.8	58.5	59.7	61.0	62.7	64.7	67.0	69.5	72.1	75.4
Imports of goods and services	4.9	5.4	7.7	7.9	8.4	8.8	8.9	9.0	9.1	9.2	9.5
- share in GDP in %	58.5	59.3	61.1	62.4	63.8	65.8	67.9	70.5	73.2	76.1	79.8
Current account balance (millions of USD)	-190	-242	-302	-358	-424	-511	-597	-707	-836	-983	-1190
Final consumption (private and government)	3.6	3.6	3.8	5.0	5.6	5.2	5.7	5.6	5.4	5.4	5.4
- share in GDP in %	76.1	75.8	75.3	75.0	74.7	74.4	74.5	74.9	75.2	75.5	76.2
Gross fixed capital formation	6.6	6.4	7.0	7.0	7.0	7.0	5.7	5.0	5.0	5.0	5.0
- share in GDP in %	25.6	26.2	26.8	27.2	27.4	27.8	27.9	27.9	27.9	27.9	28.0
Inflation (annual average)	6.2	3.8	3.5	3.0	2.6	2.1	2.2	2.2	2.4	2.4	2.5
USD exchange rate (annual average)	179.0	177.5	179.3	181.0	181.9	182.3	182.3	182.3	182.3	182.3	182.3

Table 13 (continued)

SCENARIO (-)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP	3.75	4.0	3.5	3.0	3.0	3.0	3.0	3.0	3.5	3.5	3.5
Employment rate	0.8	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5
Rate of registered employment in %	13.4	13.0	13.0	13.4	13.8	14.0	14.2	14.4	14.0	13.7	13.6
Labour productivity	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Gross wage per employee	2.5	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Exports of goods and services	4.5	5.0	5.3	5.4	5.5	5.6	5.5	5.2	5.5	5.5	5.5
- share in GDP in %	56.3	56.8	57.8	59.1	60.6	62.1	63.6	65.0	66.2	67.5	66.8
Imports of goods and services	4.9	5.4	5.5	4.8	5.0	5.0	4.9	5.0	5.0	5.0	5.5
- share in GDP in %	58.5	59.3	60.4	61.5	62.6	63.8	65.0	66.3	67.2	68.2	69.5
Current account balance (millions of USD)	-190	-242	-316	-259	-206	-137	-64	-44	25	106	100
Final consumption (private and government)	3.6	3.6	3.2	2.6	2.3	2.4	2.3	2.9	3.3	3.7	3.5
- share in GDP in %	76.1	75.8	75.6	75.3	74.8	74.3	73.8	73.8	73.6	73.6	73.8
Gross fixed capital formation	6.6	6.4	5.0	3.1	3.0	3.0	3.0	3.5	3.5	3.5	3.5
- share in GDP in %	25.6	26.2	26.6	26.6	26.6	26.6	26.6	26.7	26.7	26.7	26.7
Inflation (annual average)	6.2	3.8	3.5	3.0	2.6	2.1	2.2	2.2	2.4	2.4	2.5
USD exchange rate (annual average)	179.0	177.5	179.3	181.0	181.9	182.3	182.3	182.3	182.3	182.3	182.3

Source of data: IMAD estimates.

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APPENDIX

Table A1. Value added by activities and gross domestic product

SCENARIO + in SIT million, 1999 prices

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
A Agriculture, hunting, forestry	135,679	138,461	140,607	142,786	144,286	145,801	147,332	148,879	150,367	151,871	153,390	154,924
B Fishing	422	422	422	422	422	422	422	422	422	422	422	422
C Mining and quarrying	36,795	37,549	37,549	36,798	36,062	34,997	33,947	32,929	31,941	30,983	30,053	29,152
D Manufacturing	835,379	860,858	891,418	923,955	961,375	1,003,195	1,050,345	1,097,610	1,145,905	1,194,033	1,244,183	1,287,729
E Electricity, gas and water supply	99,728	102,770	103,849	105,459	107,093	109,289	110,983	112,703	114,393	116,109	117,851	119,619
F Construction	169,138	177,680	188,430	198,887	211,914	226,854	243,869	262,159	279,199	297,347	315,188	330,947
G Wholesale, retail, trade, repair	350,487	361,002	373,818	392,695	419,595	449,177	478,598	509,946	543,092	576,764	611,370	641,938
H Hotels and restaurants	86,913	89,564	92,296	97,880	104,291	111,643	118,956	126,747	134,352	142,816	151,385	158,955
I Transport, storage, communications	262,790	275,930	291,244	307,408	326,006	347,360	368,375	388,820	410,205	432,766	456,568	479,396
J Financial intermediation	145,141	151,673	159,332	168,972	180,039	191,832	203,438	215,746	227,612	240,130	253,338	266,004
K Real estate, renting and business activities	367,017	381,697	397,156	413,241	438,223	469,118	494,920	524,615	550,846	579,490	610,203	640,713
L Public administration and com. soc. sec.	181,851	189,125	195,839	204,750	214,066	226,056	237,359	249,345	261,937	275,557	290,162	303,364
M Education	184,431	191,650	198,454	207,483	218,999	233,343	245,010	258,608	271,668	285,795	301,084	316,259
N Health and social work	172,987	180,858	188,498	198,959	210,411	224,192	236,523	249,863	262,470	276,118	290,780	305,455
O Other community and personal activities	113,141	118,290	123,083	129,908	137,768	147,482	155,653	164,532	172,825	181,820	192,093	201,794
FISIM	-69,184	-70,533	-71,944	-73,023	-74,118	-75,193	-76,321	-77,466	-78,628	-79,807	-81,004	-82,219
1 TOTAL VALUE ADDED (basic prices)	3,072,717	3,186,995	3,310,049	3,456,580	3,636,432	3,845,567	4,049,406	4,265,457	4,478,606	4,702,215	4,937,065	5,154,451
2. CORRECTIONS 2,3	519,284	539,705	565,720	593,598	636,506	683,748	729,022	775,783	814,695	855,685	898,736	943,949
3 GROSS DOMESTIC PRODUCT (3=1+2)	**3,592,000**	**3,726,701**	**3,875,769**	**4,050,178**	**4,272,938**	**4,529,315**	**4,778,427**	**5,041,240**	**5,293,300**	**5,557,900**	**5,835,800**	**6,098,400**
TOTAL VALUE ADDED	3,072,717	3,186,995	3,310,049	3,456,580	3,636,432	3,845,567	4,049,406	4,265,457	4,478,606	4,702,215	4,937,065	5,154,451
in which:												
1 Agriculture, forestry, fishing (A+B)	136,101	138,883	141,029	143,208	144,708	146,223	147,754	149,300	150,789	152,293	153,812	155,346
2 Industry and construction (C+D+E+F)	1,141,040	1,178,856	1,221,246	1,265,099	1,316,445	1,374,335	1,439,143	1,505,401	1,571,439	1,638,472	1,707,275	1,767,447
Industry (C+D+E)	971,901	1,001,177	1,032,816	1,066,211	1,104,530	1,147,481	1,195,275	1,243,242	1,292,240	1,341,125	1,392,087	1,436,499
Construction F	169,138	177,680	188,430	198,887	211,914	226,854	243,869	262,159	279,199	297,347	315,188	330,947
3 Services (G...O)	1,864,760	1,939,789	2,019,719	2,121,296	2,249,398	2,400,202	2,538,830	2,688,222	2,835,005	2,991,257	3,156,982	3,313,878
4 FISIM	-69,184	-70,533	-71,944	-73,023	-74,118	-75,193	-76,321	-77,466	-78,628	-79,807	-81,004	-82,219

Source of data: Estimates IMAD.

Table A2. Value added by activities and gross domestic product

SCENARIO - in SIT million, 1999 prices

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
A Agriculture, hunting, forestry	135,679	138,461	140,607	142,786	144,214	145,656	147,113	148,584	150,813	153,150	155,524	157,857
B Fishing	422	422	422	422	422	422	422	422	422	422	422	422
C Mining and quarrying	36,795	37,549	37,549	36,798	36,062	34,980	33,931	32,913	32,584	32,258	31,935	31,616
D Manufacturing	835,379	860,858	891,418	918,606	948,002	976,442	1,002,806	1,027,876	1,048,433	1,076,217	1,104,736	1,133,460
E Electricity, gas and water supply	99,728	102,770	103,849	105,459	107,041	109,128	110,765	112,426	114,675	116,452	118,257	120,031
F Construction	169,138	177,680	188,430	197,003	203,898	211,035	218,421	226,066	233,978	242,986	252,341	262,435
G Wholesale, retail, trade, repair	350,487	361,002	373,818	387,088	400,443	414,258	428,550	443,549	459,073	478,584	499,881	522,376
H Hotels and restaurants	86,913	89,564	92,296	95,111	98,440	102,328	106,370	110,625	114,497	119,706	125,153	130,785
I Transport, storage, communications	262,790	275,930	291,244	304,496	316,675	329,184	342,187	355,874	368,330	385,089	402,610	420,728
J Financial intermediation	145,141	151,673	159,332	167,378	173,990	180,949	188,187	195,715	203,543	212,805	222,487	232,608
K Real estate, renting and business activities	367,017	381,697	397,156	411,255	421,331	431,864	442,661	453,727	467,339	484,808	502,019	519,841
L Public administration and com. soc. sec.	181,851	189,125	195,839	202,791	207,760	212,954	218,278	223,735	230,536	238,720	247,084	255,855
M Education	184,431	191,650	198,454	205,499	210,533	215,797	221,192	226,721	233,614	241,907	250,495	259,387
N Health and social work	172,987	180,858	188,498	195,189	199,971	205,347	210,686	216,248	223,252	231,177	239,384	247,882
O Other community and personal activities	113,141	118,290	123,082	127,451	130,642	134,168	137,716	141,467	146,465	151,946	157,395	163,031
FISIM	-69,184	-70,533	-71,944	-73,023	-74,118	-75,230	-76,359	-77,504	-78,666	-79,846	-81,044	-82,260
1 TOTAL VALUE ADDED (basic prices)	3,072,717	3,186,995	3,310,048	3,424,310	3,525,305	3,629,281	3,732,924	3,838,444	3,948,887	4,086,381	4,228,681	4,376,054
2. CORRECTIONS 2,3	519,284	539,705	565,721	587,110	606,458	626,436	650,465	676,447	701,413	726,618	752,719	779,746
3 GROSS DOMESTIC PRODUCT (3=1+2)	**3,592,000**	**3,726,701**	**3,875,769**	**4,011,420**	**4,131,763**	**4,255,717**	**4,383,388**	**4,514,891**	**4,650,300**	**4,813,000**	**4,981,400**	**5,155,800**
TOTAL VALUE ADDED	3,072,717	3,186,995	3,310,048	3,424,310	3,525,305	3,629,281	3,732,924	3,838,444	3,948,887	4,086,381	4,228,681	4,376,054
in which:												
1 Agriculture, forestry, fishing (A+B)	136,101	138,883	141,029	143,208	144,636	146,078	147,535	149,006	151,235	153,572	155,946	158,279
2 Industry and construction (C+D+E+F)	1,141,040	1,178,856	1,221,246	1,257,866	1,295,002	1,331,584	1,365,922	1,399,280	1,429,670	1,467,913	1,507,270	1,547,541
Industry (C+D+E)	971,901	1,001,177	1,032,816	1,060,863	1,091,104	1,120,550	1,147,501	1,173,215	1,195,692	1,224,927	1,254,929	1,285,107
Construction F	169,138	177,680	188,430	197,003	203,898	211,035	218,421	226,066	233,978	242,986	252,341	262,435
3 Services (G...O)	1,864,760	1,939,789	2,019,718	2,096,258	2,159,785	2,226,849	2,295,825	2,367,661	2,446,649	2,544,743	2,646,509	2,752,493
4 FISIM	-69,184	-70,533	-71,944	-73,023	-74,118	-75,230	-76,359	-77,504	-78,666	-79,846	-81,044	-82,260

Source of data: Estimates IMAD.

Table A3. Cost structure of gross domestic product

SCENARIO +											in SIT million, 1999 prices	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1 GROSS DOMESTIC PRODUCT (1=2+3-4+5)	3,592,000	3,726,701	3,875,769	4,050,178	4,272,938	4,529,315	4,778,427	5,041,240	5,293,300	5,557,900	5,835,800	6,098,400
2 Compensation of employees	1,862,472	1,914,621	1,970,146	2,033,190	2,116,551	2,213,912	2,306,896	2,403,786	2,512,554	2,629,373	2,757,236	2,896,839
Gross wages and salaries	1,635,783	1,680,905	1,729,184	1,783,795	1,855,933	1,940,263	2,020,933	2,104,954	2,199,677	2,298,662	2,408,998	2,529,448
Employees' actual soc. cont.	226,689	233,716	240,962	249,395	260,618	273,649	285,963	298,831	312,877	330,710	348,238	367,391
3 Taxes on production and imports	633,770	656,572	683,173	714,389	753,805	798,941	843,040	889,537	938,841	994,936	1,054,599	1,117,856
Taxes on products	523,143	550,131	572,173	597,908	630,760	668,571	705,306	744,059	784,983	832,082	882,006	934,927
Import duties	44,109	37,267	39,354	42,109	45,098	48,300	51,730	55,351	59,225	63,490	68,061	72,961
Other taxes on production	66,518	69,174	71,646	74,372	77,947	82,071	86,004	90,127	94,633	99,365	104,532	109,968
4 Subsidies	75,323	75,323	75,323	74,461	58,763	41,623	43,959	46,764	49,102	51,557	53,877	56,032
5 Gross operating surplus and gross mixed income (5=6+7)	1,171,081	1,230,831	1,297,773	1,377,060	1,461,345	1,558,085	1,672,450	1,794,681	1,891,007	1,985,148	2,077,841	2,139,737
in which:												
6 Gross operating surplus	796,456	840,519	890,880	951,792	1,012,685	1,082,507	1,161,158	1,250,229	1,343,996	1,444,795	1,548,821	1,649,494
Consumption of fixed capital	579,027	601,030	625,071	652,079	687,943	729,220	769,327	811,640	852,222	888,016	926,200	969,732
Net operating surplus	217,429	239,489	265,809	299,713	324,743	353,287	391,830	438,588	491,773	556,780	622,620	679,762
7 Gross mixed income	374,625	390,312	406,893	425,268	448,660	475,578	511,292	544,453	547,011	540,352	529,020	490,243
Consumption of fixed capital	65,137	67,091	69,775	72,903	76,913	81,528	86,012	90,741	95,713	97,359	102,568	105,964
Net mixed income	309,488	323,220	337,118	352,365	371,746	394,050	425,280	453,712	451,298	442,993	426,452	384,279

Source of data: Estimates IMAD.

Table A4. Cost structure of gross domestic product

SCENARIO -											in SIT million, 1999 prices	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1 GROSS DOMESTIC PRODUCT (1=2+3-4+5)	3,592,000	3,726,701	3,875,769	4,011,420	4,131,763	4,255,717	4,383,388	4,514,891	4,650,300	4,813,000	4,981,400	5,155,800
2 Compensation of employees	1,862,472	1,914,621	1,970,145	2,015,459	2,053,753	2,092,774	2,132,537	2,173,054	2,271,376	2,376,947	2,492,520	2,599,698
Gross wages and salaries	1,635,783	1,680,905	1,729,183	1,768,473	1,801,827	1,835,810	1,870,433	1,905,709	1,991,466	2,081,082	2,180,973	2,274,755
Employees' actual soc. cont.	226,689	233,716	240,962	246,986	251,925	256,964	262,103	267,345	279,910	295,865	311,546	324,943
3 Taxes on production and imports	633,770	656,572	683,173	707,016	728,719	751,278	774,580	798,664	842,978	893,391	946,591	993,920
Taxes on products	523,143	550,131	572,173	592,211	609,964	628,257	647,097	666,510	703,168	745,358	790,079	829,583
Import duties	44,109	37,267	39,354	41,597	44,009	46,650	49,449	52,367	56,033	60,067	63,971	67,170
Other taxes on production	66,518	69,174	71,646	73,208	74,746	76,371	78,034	79,788	83,777	87,966	92,540	97,167
4 Subsidies	75,323	75,323	75,323	75,323	75,323	75,323	75,323	75,323	79,089	83,044	86,781	90,252
5 Gross operating surplus and gross mixed income (5=6+7)	1,171,081	1,230,831	1,297,774	1,364,268	1,424,614	1,486,988	1,551,594	1,618,495	1,615,036	1,625,706	1,629,070	1,652,433
in which:												
6 Gross operating surplus	796,456	840,519	890,880	944,138	991,879	1,041,270	1,092,505	1,145,631	1,231,554	1,323,920	1,419,243	1,490,205
Consumption of fixed capital	579,027	601,030	625,071	646,949	666,357	686,348	706,938	728,146	764,554	796,665	830,922	855,849
Net operating surplus	217,429	239,489	265,809	297,190	325,522	354,923	385,567	417,485	467,000	527,255	588,321	634,355
7 Gross mixed income	374,625	390,312	406,894	420,130	432,736	445,718	459,089	472,864	383,482	301,786	209,827	162,229
Consumption of fixed capital	65,137	67,091	69,775	72,217	74,383	76,615	78,913	81,281	95,713	97,359	102,568	105,964
Net mixed income	309,488	323,220	337,119	347,913	358,352	369,103	380,176	391,583	287,769	204,427	107,259	56,265

Source of data: Estimates IMAD.

Table A5. Gross domestic product by expenditure categories

SCENARIO +												in million SIT
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	current prices	1999 prices and exchange rate										
1 GROSS DOMESTIC PRODUCT (1= 4+5+8)	3,592,000	3,726,701	3,875,769	4,050,178	4,272,938	4,529,315	4,778,427	5,041,240	5,293,300	5,557,900	5,835,800	6,098,400
2 EXPORTS OF GOODS AND SERVICES	2,007,180	2,097,503	2,201,434	2,367,533	2,550,898	2,761,219	2,997,166	3,259,268	3,546,083	3,861,685	4,209,236	4,596,486
3 IMPORTS OF GOODS AND SERVICES	2,079,750	2,180,618	2,297,281	2,473,138	2,667,403	2,890,265	3,143,307	3,421,646	3,729,595	4,068,988	4,443,335	4,865,451
4 EXTERNAL TRADE BALANCE (4=2-3)	-72,570	-83,115	-95,847	-105,605	-116,505	-129,045	-146,141	-162,379	-183,511	-207,303	-234,098	-268,966
5 FINAL CONSUMPTION (5=6+7)	2,736,489	2,836,171	2,938,279	3,049,706	3,203,620	3,381,448	3,555,632	3,756,906	3,966,656	4,181,816	4,408,759	4,645,147
6 PRIVATE CONSUMPTION	1,992,125	2,064,772	2,140,068	2,220,889	2,336,320	2,469,370	2,600,120	2,755,682	2,915,372	3,075,865	3,245,298	3,423,513
7 GOVERNMENT CONSUMPTION	744,364	771,399	798,211	828,817	867,300	912,078	955,512	1,001,224	1,051,285	1,105,952	1,163,461	1,221,634
8 GROSS CAPITAL FORMATION (8=9+10)	928,081	973,646	1,033,337	1,106,077	1,185,823	1,276,912	1,368,937	1,446,713	1,510,155	1,583,387	1,661,139	1,722,218
9 GROSS FIXED CAPITAL FORMATION	894,741	953,561	1,014,939	1,085,885	1,161,797	1,243,022	1,329,934	1,405,640	1,475,922	1,549,718	1,627,203	1,708,564
10 CHANGES IN INVENTORIES	33,340	20,085	18,398	20,192	24,026	33,891	39,003	41,074	34,234	33,669	33,936	13,655

Source of data: Estimates IMAD.

Table A6. Gross domestic product by expenditure categories

SCENARIO -											in million SIT	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	current prices	1999 prices and exchange rate										
1 GROSS DOMESTIC PRODUCT	3,592,000	3,726,701	3,875,770	4,011,420	4,131,763	4,255,717	4,383,388	4,514,891	4,650,300	4,813,000	4,981,400	5,155,800
2 EXPORTS OF GOODS AND SERVICES	2,007,180	2,097,503	2,201,434	2,318,110	2,443,288	2,577,669	2,722,019	2,871,730	3,021,060	3,187,218	3,362,515	3,547,453
3 IMPORTS OF GOODS AND SERVICES	2,079,750	2,180,618	2,297,281	2,423,632	2,539,638	2,665,478	2,797,594	2,934,308	3,081,023	3,235,075	3,396,828	3,583,654
4 EXTERNAL TRADE BALANCE (4=2-3)	-72,570	-83,115	-95,847	-105,522	-96,350	-87,809	-75,575	-62,579	-59,964	-47,857	-34,314	-36,201
5 FINAL CONSUMPTION (5=6+7)	2,736,489	2,836,171	2,938,279	3,031,163	3,110,497	3,183,011	3,258,092	3,334,093	3,429,603	3,542,020	3,674,199	3,802,796
6 PRIVATE CONSUMPTION	1,992,125	2,064,772	2,140,068	2,210,063	2,269,773	2,322,173	2,376,637	2,431,504	2,504,450	2,591,887	2,695,562	2,789,907
7 GOVERNMENT CONSUMPTION	744,364	771,399	798,211	821,099	840,724	860,838	881,455	902,589	925,154	950,133	978,637	1,012,889
8 GROSS CAPITAL FORMATION (8=9+10)	928,081	973,645	1,033,337	1,085,779	1,117,616	1,160,516	1,200,872	1,243,376	1,280,661	1,318,837	1,341,514	1,389,205
9 GROSS FIXED CAPITAL FORMATION	894,741	953,561	1,014,939	1,065,686	1,099,049	1,132,286	1,165,980	1,200,960	1,242,994	1,286,499	1,331,526	1,378,130
10 CHANGES IN INVENTORIES	33,340	20,084	18,399	20,093	18,568	28,229	34,892	42,415	37,667	32,338	9,988	11,075

Source of data: Estimates IMAD.

Table A7. Supply and use of resources

SCENARIO +											in million SIT	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	current prices	1999 prices and exchange rate										
1 GROSS DOMESTIC PRODUCT	3,592,000	3,726,701	3,875,769	4,050,178	4,272,938	4,529,315	4,778,427	5,041,240	5,293,300	5,557,900	5,835,800	6,098,400
2 Primary income (revenues)	84,075	87,615	91,155	91,155	92,040	93,810	95,580	97,350	98,235	99,120	100,890	100,890
3 Primary income (expenditure)	57,525	58,410	60,180	61,065	61,065	61,950	62,835	63,720	63,720	64,605	65,490	65,490
4 GROSS NATIONAL INCOME (4=1+2-3)	3,618,550	3,755,906	3,906,744	4,080,268	4,303,913	4,561,175	4,811,172	5,074,870	5,327,815	5,592,415	5,871,200	6,133,800
5 Current transfers from the rest of the world	49,560	51,330	53,985	55,755	56,640	58,410	60,180	61,950	63,720	65,490	67,260	67,260
6 Current transfers to the rest of the world	29,205	30,975	31,860	33,630	34,515	36,285	37,170	38,940	39,825	40,710	42,480	44,250
7 GROSS NATIONAL DISPOSABLE INCOME (7=4+5-6)	3,638,905	3,776,261	3,928,869	4,102,393	4,326,038	4,583,300	4,834,182	5,097,880	5,351,710	5,617,195	5,895,980	6,156,810
8 Final private and government consumption	2,736,489	2,836,171	2,938,279	3,049,706	3,203,620	3,381,448	3,555,632	3,756,906	3,966,656	4,181,816	4,408,759	4,645,147
- Private consumption	1,992,125	2,064,772	2,140,068	2,220,889	2,336,320	2,469,370	2,600,120	2,755,682	2,915,372	3,075,865	3,245,298	3,423,513
- Government consumption	744,364	771,399	798,211	828,817	867,300	912,078	955,512	1,001,224	1,051,285	1,105,952	1,163,461	1,221,634
9 GROSS NATIONAL SAVINGS (9=7-8)	902,416	940,091	990,590	1,052,687	1,122,418	1,201,852	1,278,551	1,340,974	1,385,054	1,435,379	1,487,221	1,511,663
10 Current account balance	-25,665	-33,555	-42,747	-53,390	-63,405	-75,060	-90,386	-105,739	-125,101	-148,008	-173,918	-210,556
11 GROSS CAPITAL FORMATION (11=9-10)	928,081	973,646	1,033,337	1,106,077	1,185,823	1,276,912	1,368,937	1,446,713	1,510,155	1,583,387	1,661,139	1,722,218
				structure in GDP in %								
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 Primary income (revenues)	2.3	2.4	2.4	2.3	2.2	2.1	2.0	1.9	1.9	1.8	1.7	1.7
3 Primary income (expenditure)	1.6	1.6	1.6	1.5	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.1
4 GROSS NATIONAL INCOME (4=1+2-3)	100.7	100.8	100.8	100.7	100.7	100.7	100.7	100.7	100.7	100.6	100.6	100.6
5 Current transfers from the rest of the world	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.1
6 Current transfers to the rest of the world	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7
7 GROSS NATIONAL DISPOSABLE INCOME (7=4+5-6)	101.3	101.3	101.4	101.3	101.2	101.2	101.2	101.1	101.1	101.1	101.0	101.0
8 Final private and government consumption	76.2	76.1	75.8	75.3	75.0	74.7	74.4	74.5	74.9	75.2	75.5	76.2
- Private consumption	55.5	55.4	55.2	54.8	54.7	54.5	54.4	54.7	55.1	55.3	55.6	56.1
- Government consumption	20.7	20.7	20.6	20.5	20.3	20.1	20.0	19.9	19.9	19.9	19.9	20.0
9 GROSS NATIONAL SAVINGS (9=7-8)	25.1	25.2	25.6	26.0	26.3	26.5	26.8	26.6	26.2	25.8	25.5	24.8
10 Current account balance	-0.7	-0.9	-1.1	-1.3	-1.5	-1.7	-1.9	-2.1	-2.4	-2.7	-3.0	-3.5
11 GROSS CAPITAL FORMATION (11=9-10)	25.8	26.1	26.7	27.3	27.8	28.2	28.6	28.7	28.5	28.5	28.5	28.2

Source of data: Estimates IMAD.

Table A7. Supply and use of resources (continued)

SCENARIO +	real growth rates in %										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1 GROSS DOMESTIC PRODUCT	3.75	4.0	4.5	5.5	6.0	5.5	5.5	5.0	5.0	5.0	4.5
2 Primary income (revenues)	4.2	4.0	0.0	1.0	1.9	1.9	1.9	0.9	0.9	1.8	0.0
3 Primary income (expenditure)	1.5	3.0	1.5	0.0	1.4	1.4	1.4	0.0	1.4	1.4	0.0
4 GROSS NATIONAL INCOME (4=1+2-3)	3.8	4.0	4.4	5.5	6.0	5.5	5.5	5.0	5.0	5.0	4.5
5 Current transfers from the rest of the world	3.6	5.2	3.3	1.6	3.1	3.0	2.9	2.9	2.8	2.7	0.0
6 Current transfers to the rest of the world	6.1	2.9	5.6	2.6	5.1	2.4	4.8	2.3	2.2	4.3	4.2
7 GROSS NATIONAL DISPOSABLE INCOME (7=4+5-6)	3.8	4.0	4.4	5.5	5.9	5.5	5.5	5.0	5.0	5.0	4.4
8 Final private and government consumption	3.6	3.6	3.8	5.0	5.6	5.2	5.7	5.6	5.4	5.4	5.4
- Private consumption	3.6	3.6	3.8	5.2	5.7	5.3	6.0	5.8	5.5	5.5	5.5
- Government consumption	3.6	3.5	3.8	4.6	5.2	4.8	4.8	5.0	5.2	5.2	5.0
9 GROSS NATIONAL SAVINGS (9=7-8)	4.2	5.4	6.3	6.6	7.1	6.4	4.9	3.3	3.6	3.6	1.6
10 Current account balance											
11 GROSS CAPITAL FORMATION (11=9-10)	4.9	6.1	7.0	7.2	7.7	7.2	5.7	4.4	4.8	4.9	3.7

Source of data: Estimates IMAD.

Table A8. Supply and use of resources

SCENARIO - **in million SIT**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	current prices	1999 prices and exchange rate										
1 GROSS DOMESTIC PRODUCT	3,592,000	3,726,701	3,875,770	4,011,420	4,131,763	4,255,717	4,383,388	4,514,891	4,650,300	4,813,000	4,981,400	5,155,800
2 Primary income (revenues)	84,075	87,615	91,155	90,270	91,155	92,040	92,925	93,810	94,695	95,580	96,465	97,350
3 Primary income (expenditure)	57,525	58,410	60,180	60,180	61,065	61,065	61,950	62,835	63,720	64,605	65,490	65,490
4 GROSS NATIONAL INCOME (4=1+2-3)	3,618,550	3,755,906	3,906,745	4,041,510	4,161,853	4,286,692	4,414,363	4,545,866	4,681,275	4,843,975	5,012,375	5,187,660
5 Current transfers from the rest of the world	49,560	51,330	53,985	54,870	55,755	56,640	57,525	58,410	59,295	60,180	61,065	61,950
6 Current transfers to the rest of the world	29,205	30,975	31,860	35,400	35,400	36,285	37,170	38,055	38,055	38,940	38,940	39,825
7 GROSS NATIONAL DISPOSABLE INCOME (7=4+5-6)	3,638,905	3,776,261	3,928,870	4,060,980	4,182,208	4,307,047	4,434,718	4,566,221	4,702,515	4,865,215	5,034,500	5,209,785
8 Final private and government consumption	2,736,489	2,836,171	2,938,279	3,031,163	3,110,497	3,183,011	3,258,092	3,334,093	3,429,603	3,542,020	3,674,199	3,802,796
- Private consumption	1,992,125	2,064,772	2,140,068	2,210,063	2,269,773	2,322,173	2,376,637	2,431,504	2,504,450	2,591,887	2,695,562	2,789,907
- Government consumption	744,364	771,399	798,211	821,099	840,724	860,838	881,455	902,589	925,154	950,133	978,637	1,012,889
9 GROSS NATIONAL SAVINGS (9=7-8)	902,416	940,091	990,591	1,029,818	1,071,711	1,124,036	1,176,627	1,232,128	1,272,912	1,323,195	1,360,301	1,406,989
10 Current account balance	-25,665	-33,555	-42,747	-55,962	-45,905	-36,480	-24,245	-11,249	-7,749	4,358	18,786	17,784
11 GROSS CAPITAL FORMATION (11=9-10)	928,081	973,646	1,033,338	1,085,778	1,117,616	1,160,516	1,200,872	1,243,376	1,280,661	1,318,837	1,341,514	1,389,205
					structure in GDP in %							
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 Primary income (revenues)	2.3	2.4	2.4	2.3	2.2	2.2	2.1	2.1	2.0	2.0	1.9	1.9
3 Primary income (expenditure)	1.6	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3
4 GROSS NATIONAL INCOME (4=1+2-3)	100.7	100.8	100.8	100.8	100.7	100.7	100.7	100.7	100.7	100.6	100.6	100.6
5 Current transfers from the rest of the world	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2
6 Current transfers to the rest of the world	0.8	0.8	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
7 GROSS NATIONAL DISPOSABLE INCOME (7=4+5-6)	101.3	101.3	101.4	101.2	101.2	101.2	101.2	101.1	101.1	101.1	101.1	101.0
8 Final private and government consumption	76.2	76.1	75.8	75.6	75.3	74.8	74.3	73.8	73.8	73.6	73.8	73.8
- Private consumption	55.5	55.4	55.2	55.1	54.9	54.6	54.2	53.9	53.9	53.9	54.1	54.1
- Government consumption	20.7	20.7	20.6	20.5	20.3	20.2	20.1	20.0	19.9	19.7	19.6	19.6
9 GROSS NATIONAL SAVINGS (9=7-8)	25.1	25.2	25.6	25.7	25.9	26.4	26.8	27.3	27.4	27.5	27.3	27.3
10 Current account balance	-0.7	-0.9	-1.1	-1.4	-1.1	-0.9	-0.6	-0.2	-0.2	0.1	0.4	0.3
11 GROSS CAPITAL FORMATION (11=9-10)	25.8	26.1	26.7	27.1	27.0	27.3	27.4	27.5	27.5	27.4	26.9	26.9

Sources of data: estimates IMAD.