

Economy

GDP per capita according to purchasing power in PPS*, EU-25 = 100

	2005
EU-25	100
Luxembourg (Grand-Duchy)	251
Ireland	139
Netherlands	126
Austria	123
Denmark	122
Belgium	118
United Kingdom	118
Sweden	115
Germany	110
Finland	111
France	108
Italy	101
Spain	98
Cyprus	89
Greece	84
Slovenia	82
Czech Republic	74
Portugal	72
Malta	72
Hungary	63
Estonia	60
Slovakia	57
Lithuania	52
Poland	50
Latvia	49

Source: Eurostat

Note: * PPS – Purchasing Power Standard

Macroeconomic indices for Slovenia in 2006

(real growth rates in %)

Real GDP growth (in %)	5.2
GDP per capita in EUR	14,808
Rate of unemployment by ILO (in %)	6.0
Labour productivity	4.0
Inflation (annual average)	2.5

Development trends

Since independence in 1991, Slovenia's economic development has been very successful, making it one of the most thriving countries in transition. Especially during the period 1995–2005, economic growth in Slovenia was stable, reaching an average of about 4%. The Slovenian economy is open, and levels of internationalisation, measured by the average share of exports and imports in gross domestic product (GDP), have increased from 51% to 65% from 1995 to 2005. Economic growth was further enhanced by an increase in the growth of private consumption and investment spending, which was most prominent in the year 1999. Higher economic growth compared to the EU average has enabled a gradual decrease in Slovenia's development lag. Thus in 2005, Slovenia reached 82% of the average GDP of the EU per capita, expressed in terms of purchasing power, which corresponds to an increase of 14 percentage points compared to 1995. This placed Slovenia in 16th place in the EU.

Following economic growth, there was also an increase in employment, which since 2004 has exceeded the European average (in 2005, employment in Slovenia was 66%, as against 63.8% in the EU). Compared to the EU average, Slovenia also has a considerably high employment rate of women (61.3% in 2005). The employment rate of older

workers remains low (30.5% in 2005), but the situation is improving. For several years, the unemployment has been slightly lower than the EU average (in 2005, 6.5% in Slovenia, as against 8.8% in the EU). Long-term unemployment is also lower than the EU average (in 2005, 3.1% in Slovenia, 3.9% in the EU).

The wages policy ensures a sound increase in wages in relation to growth in labour productivity. According to the Statistical Office of the Republic of Slovenia, the average monthly net wage in December 2006 was EUR 818.94.

On 1 January 2007, Slovenia became the first and so far the only new EU member to adopt the euro, after the European Commission and the European Central Bank made favourable assessments of Slovenia's readiness for the introduction of the

Real GDP growth (in %)		
	2005	2006 (estimate)
EU-25	1.7	2.9
Austria	2.0	3.1
Belgium	1.1	3.1
Cyprus	3.9	3.8
Czech Republic	6.1	6.0
Denmark	3.1	3.2
Estonia	10.5	11.4
Finland	2.9	5.5
France	1.2	2.2
Greece	3.7	3.8
Ireland	5.5	5.3
Italy	0.1	1.9
Latvia	10.2	11.9
Lithuania	7.6	7.5
Luxembourg (Grand-Duchy)	4.0	5.5
Hungary	4.2	3.9
Malta	3.0	2.9
Germany	0.9	2.7
Netherlands	2.0	3.1
Poland	3.5	5.8
Portugal	0.5	1.3
Slovakia	6.0	8.3
Slovenia	4.0	5.2
Spain	3.5	3.9
Sweden	2.9	4.4
United Kingdom	1.9	2.8

Source: Eurostat

common European currency and following a recommendation for Slovenia's inclusion in the EMU. Based on the assessment in convergence reports that Slovenia meets the Maastricht criteria, the political decision for Slovenia's entry to the Eurozone was taken at a European Council meeting in June 2006, while the formal decision, including the fixed and irrevocable tolar to euro conversion rate (at 239.64 tolar for 1 euro), came at the July 2006 Council of the EU of finance ministers of the euro area and Slovenia.

Important macroeconomic indices for Slovenia			
Real growth rates (in %)	2005	2006	2007 forecast
GROSS DOMESTIC PRODUCT	4.0	5.2	4.7
Structure in value added in %			
Agriculture, forestry, fishing (A+B)	2.5	2.3	2.3
Industry and construction (C+D+E+F)	34.1	34.7	34.4
Industry (C+D+E)	28.2	28.3	27.9
Construction F	5.9	6.3	6.6
Services (G...P)	63.4	63.0	63.3
GDP per capita in EUR	13,807	14,808	15,900
GDP per capita in US\$	17,167	18,569	20,575
Rate of unemployment by ILO in %	6.6	6.0	5.7
Labour productivity (GDP per employee)	3.7	4.0	3.8
Gross wage per employee	2.2	2.2	2.9
Inflation (average in %)	2.5	2.5	2.2
INTERNATIONAL TRADE - BALANCE OF PAYMENTS STATISTICS			
Exports of goods and services- real ¹	10.5	10.0	9.7
Imports of goods and services- real ¹	7.0	10.4	8.7
Current account balance in EUR m	-547	-773	-629
Average exchange rate SIT/US\$, BS	192.7	191.0	
Average exchange rate SIT/EUR, BS	239.6	239.6	
Foreign exchange reserves in EUR m	8,833	8,005	
External debt in EUR m	19,614	23,718	
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS (share in GDP, in %)			
Private consumption	54.9	54.0	53.4
Government consumption	19.6	19.3	19.1
Gross fixed capital formation	24.4	25.8	26.2
Source: Statistical Office of the Republic of Slovenia, Bank of Slovenia; Spring Forecast of Economic Trends 2007, IMAD.			
Note 1) Balance of payments statistics (import F.O.B., export F.O.B.); changes in exchange rates and prices in foreign markets eliminated by the calculation of real rates.			

The labour market

Labour market trends follow the increased economic growth rate. They are also influenced by economic policy measures in the field of employment. In accordance with the proposed reforms of the labour market (tax and pension scheme reform), one can expect, provided the economic environment remains favourable, continuing employment growth. These expectations mainly reflect the influence of a gradual decrease in the payroll tax and the influences of the amended legislation on the obligations of the unemployment allowance and social aid recipients, which focuses on the stimulation of their activity. Another unexploited possibility for greater flexibility and higher employment lies in part-time employment.

Number of employees per sector in 2005		
	In thousands	Structure in %
Farming, hunting, forestry, fisheries	9.8	1.3
Mining, manufacturing, energy	243.7	32.0
Construction	56.7	7.4
Trade and repair services, tourism, traffic and communications	170.8	22.4
Financial intermediation, real estate, business services	99.5	13.1
Other service activities	181.2	23.8

Source: Statistical Office of the Republic of Slovenia

Knowledge for development

Slovenia is strengthening the factors, which support a knowledge-based society. In late 2005, the Resolution on the National Research and Development Programme for the Period 2006-2010 was adopted as the central development document for research and development. The amount of public funds from the national budget for research and development is set to increase, with the objective of reaching 1% of the GDP by 2010. According to data published in the European Innovation Scoreboard 2005 (EIS), Slovenia made progress in the field of innovation, innovativeness and patent applications in 2005 and is second among new EU members (and 14th overall among EU countries) in relation to scores on the summary innovation index. In 2003, Slovenia filed 50.43 patent applications per million residents (the EU average was 136.6).

Measures in industrial policy for the stimulation of cooperation between R&D activities and the business sector are included in the Programme of Measures to Promote Entrepreneurship and Competitiveness for the Period 2007-2013.

The Young Basic Researchers for Business and Industry Programme stimulates a flow of knowledge into the business sector, as it stipulates the funding of basic research projects of young researchers from companies.

The measures for the stimulation of new innovative companies include establishing an infrastructure for economic developmental logistic platforms, which will create an environment favourable for newly created spin-off companies and other new, innovative companies, as well as a number of financial measures for the support of young innovative companies.

Transport infrastructure

In 2005, the state road network included 5,847 km of state roads, with more than 400 km of motorways. In 2006, 22.3 km of new sections were opened, and work continued on 82.8 km of sections under construction, while construction began on 47.5 km of road sections. Slovenia has rail links with all neighbouring countries. In the area of rail infrastructure, action is being undertaken to invest in the renovation and modernisation of the rail infrastructure on corridors V and X. The Port of Koper, which in the last few years has seen an increase of cargo and passenger traffic, has good links with Central and Eastern Europe. Slovenia has three international airports. In the renovation of the Ljubljana Airport, the phase



Koper is an important port for Austria, southern Germany and the Central European states.

of reconstructing the old passenger terminal and the building of a new terminal was begun. The modernisation of the infrastructure at Maribor Airport is continuing.

The most important economic activities

Slovenia is increasingly becoming a service economy. In the period 1995-2005, the structure of the Slovenian economy was marked by the growing importance of the service sector, which in 2005 created 63.4% of added value, an increase of 3 percentage points compared to 1995. A relatively high rate of added value is also created by the industrial sector (28.2% in 2005), the most important being manufacturing (24.6%). Agriculture, which declined considerably as an element in the economic structure, accounted for a mere 2.5% of added value (it was 4.2% in 1995).

The structural shifts in services indicate an increase in the importance of knowledge-based services. These services, which, according to OECD classifications, include telecommunications, business and financial services were the fastest growing market services of the past decade. In 2005, they represented almost 16% of the added value of the Slovenian economy. Important market services reaching above average growth rates in the past ten years were certain so-called traditional services, such as land transportation (chiefly road haulage), agency services and wholesaling.

In the manufacturing sector, technology-intensive production activities are becoming more and more important. The combined shares of the chemical, electrical equipment, machinery and transport industries, which, according to OECD classifications, qualify as highly and moderately technology-intensive activities, have risen from 33.6 in 1995 to 41% of added value in the manufacturing sector. With the exception of motor vehicle and vessel manufacturing, these activities, together with the metal products industry, represent the four most prominent activities in the Slovenian manufacturing sector. Among other activities which are less technology-intensive, fast growth has been achieved since 1995 in the aforementioned metal products industry (especially steel) and rubber manufacturing. Another major activity is the food industry, although its added value share has been gradually decreasing since 2000.



In the shopping centres of Mercator and Merkur.



The five leading Slovenian companies in terms of net profit in 2006

1. Lek Pharmaceutical Company d.d., Ljubljana
2. Krka Pharmaceuticals d.d., Novo mesto
3. Telekom Slovenije d.d., Ljubljana
4. Mercator Group d.d., Ljubljana
5. Mobitel d.d., Mobile Telecommunications, Ljubljana

Source: Agency of the Republic of Slovenia for Public Legal Records and Related Services (Aipes)

Tourism in Slovenia

Tourism presents an important development and business opportunity for Slovenia. Given the current level of development and existing potential, tourism could become one of the leading sectors of the Slovenian economy in the next few years, thus significantly contributing to Slovenia's development goals, and particularly the economic objectives, stipulated in Slovenia's Development Strategy 2007-2013.

The basic policies of Slovenia's tourism for the next five years (2007-2011) are defined in the Development Plan and Policies of Slovenian Tourism 2007-2011 (DPPST) and in the Marketing Strategy of Slovenian Tourism 2007-2011. Tourist policies for the coming period will focus on increasing both global competitiveness and tourist capacities, which translate into the following quantitative goals: increasing the volume of tourism i.e. the number of tourists by 6%, the number of overnight stays by 4%, foreign currency revenues by 8%, and tourist spending, and raising awareness about Slovenian tourism.

Bled is world famous for its glacial lake, its island with the church and the castle.





Velika Planina with its unique shepherds' huts architecture.

In 2006, tourist accommodation facilities in Slovenia recorded 2,484,605 arrivals and 7,722,267 overnight stays. In comparison to 2005 the number of overnight stays by both domestic and foreign tourists increased by 2%, respectively. In 2006, foreign guests accounted for 58% of all overnight stays, of which almost 70% came from seven countries: Italy (20%), Austria (15%), Germany (14%), United Kingdom (7%), Croatia (6%), Hungary (3%) and the Russian Federation (2%). According to the Bank of Slovenia, foreign currency revenues in 2006 increased by almost 4% over 2005, which confirmed that tourist products had been developing in the right direction – towards achieving added value.

On the European and global scale, Slovenian tourism is becoming increasingly more competitive, which was confirmed by 44th place (the upper part of the rankings) on the World Economic Forum's list of countries in terms of travel and tourism competitiveness. The report, which included 124 countries, was based on 13 factors of tourism competitiveness.

The vision of Slovenian tourism is to develop a tourist destination with a diverse and high quality tourist offer specialising in short-term stays, while at the same time offering appealing and diverse integrated tourist products that can render Slovenia a popular destination for longer stays. After

Cultural and sport events

Ljubljana and Maribor are important European festival cities, which have built their reputation on events such as the International Biennial of Graphic Arts, the International Summer Festival, the International Jazz Festival, Druga godba (a world music festival), the LIFFE Film Festival (all in Ljubljana), and the Lent Multicultural Festival (in Maribor). As a host country for important sporting events, Slovenia is best known among Alpine skiing, cross-country skiing and ski-jumping enthusiasts. Kranjska Gora and Pohorje host Alpine Skiing World Cup races. Planica, on the other hand, is the cradle of ski-jumping, and has become a traditional venue for world-class ski-jumping competitions. Each year, the best competitors in cross-country skiing and the biathlon come to the Pokljuka Plateau looking for World Cup points.

all, Slovenia is one of the relatively undiscovered European destinations – pristine, authentic and traditional, while at the same time modern, innovative and easily negotiable, due to its size, offering unique cosiness and comfort, unspoilt nature, rich cultural heritage, and plenty of opportunities to enjoy active and relaxing holidays.

Tradition and the modern spirit of Slovenian tourism are embraced in the new slogan and logo i.e. the new trademark of Slovenia's tourism. **I FEEL SLOVENIA** is a slogan that reflects the essence of Slovenia: everyone who visits it, falls in love with it.

The role of small and medium-sized companies

In the business environment, small and medium-sized companies or enterprises (SME) are key elements in a successful and dynamic economy, primarily due to their ability to react promptly to new business opportunities and their timely transformation of innovative ideas into new products. Before Slovenia's independence, the driving power of the country's economic development lay in large companies. However, the development of the economy and society after 1991 allowed for the release of entrepreneurial initiative, which in turn enabled an increase in the number of companies and a shift in their size structure in favour of small businesses. In the period 1990-1994, the number of companies increased by almost two thirds, and, following a period of stagnation, the trend has continued in the past few years. In 2005, the number of companies increased, for the second year running, by 4.3%. Most new companies were created in the manufacturing and business services sectors. In the past few years, there has been a noticeable increase in the number of small enterprises; the increase in the number of medium-sized companies is moderate, while the number of large companies is decreasing.

In Slovenia, SMEs play a key role in creating new jobs, contributing to a more competitive environment and generating considerable income and added value for the whole of the economy. They have the largest share of the service sector, where they ensure the most jobs.

Also, new jobs are created mainly in small and medium-sized companies, and the importance of small businesses is growing in terms of revenues and added value. In 2005, all the

companies in Slovenia combined generated a total of 63,003 million euros in revenues, the share of SMEs amounting to 62.4%. In the same year, all Slovenian companies created a total of 15,270 million euros in added value, with the share of SMEs amounting to 58.7%.

Slovenia in the globalised world

Globalisation offers Slovenia an opportunity to develop an active strategy to draw profit from its advantages and at the same time to share responsibility for the control of globalisation-related risks at the international level. In the preparatory phase of the strategy addressing globalisation-related challenges, it is a sensible approach for small countries to give priority to joining regional organisations and use them as a vehicle for joining global production systems, as well as world trade and finance.

Regional integration allows for more intensive cooperation in the fields of manufacturing and trade, which are not subject to globalisation to the same extent as science or technology.

Regional integration also creates a temporary shield from certain negative effects of globalisation, as joint measures enable more efficient adaptation to the challenges of globalisation. Slovenia can achieve this by being a member of the EU.

External trade

The rate of internationalisation of the Slovenian economy, measured by the average export and import share in GDP, is relatively high, which is characteristic of small countries, and is increasing. In the period 1995-2005, it increased from 51% to 65% of GDP, while the EU average for the same period hovered between 30% and 37%. The rate of internationalisation is mainly increasing because of the greater integration of the trade in goods in international trade flows, while the share of trade in services in GDP has remained relatively low. In merchandise exports, the share of high and medium technology industries recorded the strongest growth, while the share of low technology goods has fallen. This reflects development trends in the Slovenian economy, and corresponds to the strategic orientation of the country's economy to strengthen technology-intensive activities. In the export of services, the share of transport

services increased most, which is linked to merchandise exports. The share of exports of knowledge based services (computing, finance, telecommunications, insurances and other business services) also increased, while the share of the travel services declined. In the merchandise export structure, the biggest share was in machinery and equipment, followed by manufactures, classified by material (the greatest share was in metals and metal products, as well as in rubber and paper products), chemicals and miscellaneous manufactured articles (an important share was in furniture, clothes and various instruments). In the import of goods, these product groups have the highest shares, but also important are food products and energy products.

According to data from the Slovenian Chamber of Commerce and Industry, in 2006 the most important Slovenian exporting companies were: Revoz, Gorenje, Krka, Lek, Impol, Sava Tyres, Cimos, Prevent Global, and Adria Mobil.

The regional structure of Slovenian merchandise exports indicates that most Slovenian goods are exported to EU countries. The restructuring of Slovenian foreign trade in the direction of strengthening trade with the EU started in the early 1990's, when Slovenia lost markets in the former Yugoslavia. The share of trade between Slovenia and the EU in total foreign merchandise trade reached relatively high levels even prior to Slovenia's EU membership (in the period 1996-2004, average exports of 69%, imports of 79%). Slovenia's membership of the EU has further accelerated the growth of trade. EU membership in 2004 brought changes to foreign trade policy, as the Slovenian market became part of the internal EU market, while Slovenia adopted common EU trade policies.

The regional structure of Slovenia's merchandise trade in the years 2003-2005; the most important foreign trade partners (in %)

	EXPORT			IMPORT		
	2003	2004	2005	2003	2004	2005
EU countries	58.4	66.5	67.9	67.3	82.3	80.9
EFTA countries	1.6	1.3	1.5	1.8	1.7	1.4
USA	3.6	3.1	2.0	2.4	1.2	0.9
Countries of Former Yugoslavia	17.4	17.6	17.2	5.0	5.7	6.5
Countries of Former Soviet Union	4.9	4.7	4.8	3.1	2.5	2.5

Source: Statistical Office of the Republic of Slovenia

For Slovenia, the adoption of EU foreign trade policy meant not only that Slovenia had accepted the common customs tariff and that trade in sensitive products became free, but also that border controls and procedures were abolished, which in turn lowered costs.

More favourable trade conditions due to the abolition of border controls and the fact that Slovenia became better known in the countries, with which the volume of trade had previously been relatively low, thus had a positive effect on the strengthening of trade with the EU. The increase in exports was especially accelerated in relation to certain EU members, which had not been traditional trade partners in the past (such as Greece, Belgium, Denmark, Ireland, Sweden, and Portugal). On a limited scale, the abolition of other free trade arrangements following Slovenia's EU membership had a negative effect on the increase of exports to the markets of the former Yugoslavia.

Foreign investments

The business and investment environment in Slovenia is gradually improving. Apart from a well-educated labour force, Slovenia has in recent years increased investment in the improvement of industrial zones, and systematically eliminated administrative obstacles relating to business and investments, which is reflected by a slight increase in inward and outward direct investment in 2006. At the beginning of August 2005, the Government adopted a programme for the stimulation of direct foreign investment for the period 2005-2009.

Another important indicator of how the Slovenian economy is integrated into the international business environment is the direct investment by foreign investors in Slovenia (inward investment) and of Slovenian investors in foreign countries (outward investment).

In the period 1995-2005, the share of inward investment as a percentage of GDP increased from 9.5% to 21.9%, while the share of outward investment went from 2.6% to 10.9%. The record year for inward investment was 2002, largely because of the partial privatisation of the Nova Ljubljanska banka bank and the take-over of the Lek pharmaceutical company. The inflow of foreign investment in the following years was relatively lower. Since 2000, outward investment has been constantly and rapidly increasing, and, to a large

Direct foreign investments (as of 31 December 2005)

INWARD

(total value: 5,976.9 million euros)

Countries	%
Austria	29
Switzerland	16
Netherlands	11
France	9
Germany	9
Italy	6
Croatia	5
Belgium	4
Czech Republic	2
United Kingdom	2

OUTWARD

(total value: 2,969.9 million euros)

Countries	%
Croatia	27
Netherlands	19
Serbia and Montenegro	17
Bosnia in Herzegovina	9
Poland	4
FYR Macedonia	4
Germany	3
Russian Federation	3

Source: Public Agency of RS for
Entrepreneurship and Foreign
Investments (JAPTI)

extent, focusing on the countries of the former Yugoslavia, new EU members and Russia. EU membership and particularly the adoption of the common currency offer opportunities for an increase in foreign investment, as business risks are reduced and new investment opportunities arise. With the improvement in conditions for investment, the business environment and the implementation of the policy for the stimulation of foreign investment, Slovenia will become a more attractive destination for investors.

Economic and tax reforms

In June 2005, the Government of the Republic of Slovenia adopted the Slovenia's Development Strategy. Its main objectives include exceeding the average level of the EU's economic development and increasing employment in line with the Lisbon Strategy goals in the next ten years; improving the quality of living and the welfare of each individual, measured by the indicators of human development, health, social risks and social cohesion; enforcing the sustainability principle as the fundamental quality criterion in all areas of development, including the goal of sustained population growth; and developing into a globally recognisable and renowned country through a characteristic development pattern, cultural identity and active engagement in the international community.

The Development Strategy gives priority status to five tasks in order to meet the above goals: a competitive economy and faster economic growth; effective generation, two-way flow and application of the knowledge needed for economic development and quality jobs; an efficient and less costly state; a modern social state and higher employment, integration of measures to achieve sustainable development. In November 2005, the Slovenian Government adopted the Framework of Economic and Social Reforms for Increasing the Welfare in Slovenia, which includes proposals for a number of measures to assist in the implementation of Slovenia's Development Strategy. The implementation of the reforms will raise the potential GDP growth rate above 5%. This presents a key contribution to the fulfilment of the objectives set by the Development Strategy, which, as a consequence, will also have a positive effect on the long-term sustainability of public finances.

In the first year after the adoption of the Framework of Economic and Social Reforms, important measures were

taken in the tax and social fields. At the end of 2005, a law was adopted which gradually abolishes the payroll tax, which will help alleviate the burden on the economy, as well as enable a greater employment rate of highly qualified experts and the faster growth of market investment. The tax laws, passed in the autumn of 2006, allow for a simplified tax system, a reduced progressivity in personal income tax and a gradual decrease in the corporate income tax rate. The positive effects of the tax reform on employment are further supported by legislative changes in the labour market, which will also positively affect the willingness to accept jobs offered, and by changes in the coordination of social transfers, which will provide additional motivation to work among less qualified persons. The measures to promote higher employment among older workers (the strategy of active ageing) will contribute to improving the long-term sustainability of public finances. In 2006, the Government gave priority to an active employment policy. Besides an increase in employment, the long-term objectives of the policy also include improving the education and qualifications of the active population and reducing the number of long-term unemployed persons, unemployed persons with no vocational education, and young unemployed persons.

Economic growth will also be positively affected by measures in the microeconomic field. The government has endeavoured to create a more supportive business environment for enterprises, as well as a friendlier and more cost-effective public administration. A programme to eliminate administrative obstacles was adopted and progress has been made in reducing court backlogs.

In 2006, considerable advances were made in improving the operating conditions of the financial market, which is a key element for success within the monetary union. Competition in telecommunications became noticeably more prominent. In order to increase economic growth, it is important to make investments in transport infrastructure, especially the rail network, as well as investments in the education and information infrastructure. Challenges remain, as Slovenia must continue the privatisation process and attract more direct foreign investment. Important new measures were also adopted in the field of research and development, which will have a long-term positive effect on economic growth.



www.mg.gov.si

Ministry of the Economy

www.umar.gov.si

Institute of Macroeconomic Analysis
and Development

www.gzs.si

Chamber of Commerce and Industry
of Slovenia

www.stat.si

Statistical Office of the RS

www.investslovenia.org

Invest Slovenia

www.sloveniapartner.com

Gateway to Slovenian business

www.gzs.si/sloexport

Sloexport

www.sycp.si

Slovenia Your Cooperation Partner

www.slovenia.info

Slovenian Tourist Board