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ALREADY AT 72% OF THE EU AVERAGE GDP



terms since 1995) and gross fixed investment, as Slovenia strengthened cooperation with neighbouring west European economies. The transition process is gradually changing the structure of output. The share of agriculture in the economy has dropped from 3.9% of GDP in 1995 to 2.9% in 2000. At the same time, the share of industry fell slightly (from 28.4% to 27.7%), while that of services increased (from 50.4% to 52.4%), mainly

driven by transport, financial and real estate services.

NNPP: *How would you describe the present economic situation of Slovenia?*

Mr. Šušteršič: The general macroeconomic situation of Slovenia in 2002 can be regarded as stable. Slovenia's gross domestic product is already at 72 per cent of the EU average, that is as high as that of Greece or Portugal. Economic growth has been stable for many years, and is still stable at present. Despite the current economic slowdown in Slovenia's major trading partners, it is not expected to fall below 3,5 per cent. Unemployment has been declining for a couple of years now and is currently slightly below 6 per cent. Year-end inflation fell from 8.9% in 2000 to 7% in 2002 and is expected to reach 5.6% this year. The public finance deficit has been around 1% in recent years, but may be slightly higher in 2002 as the result of the lower growth rate due to low external demand. The current account was in balance in 2002, due to low import growth because of modest domestic consumption and a decline in investment, and is expected to remain between 1 and 2 per cent of GDP in the coming years.

NNPP: *What are your primary goals in the future development of your economy?*

Mr. Šušteršič: The goals are set up in the Strategy for the economic development of Slovenia and in the pre-accession economic programme, both adopted in 2001. The main task in order to secure medium term sustainability of economic growth is to continue with the remaining structural reform, such as increasing flexibility of labor and capital markets or privatization of the banks and telecommunications, and to adopt measures that will contribute to productivity growth, especially increasing investment in human capital and technology. Macroeconomic policy has the goal of increasing stability by gradually bringing down inflation and eliminating the public deficit.

NNPP: *What are your plans to attract potential investors to further boost your economy?*

Mr. Šušteršič: The government has adopted three groups of measures in the 2001-2004 period. The first is to remove administrative barriers that hamper both foreign and domestic investment activity, such as regulations on establishment of a business, hiring and firing of employees and zoning. The second is to set up an internationally comparable system of financial incentives. The third is to aid foreign investors in obtaining land property and building sites for their economic activity. The programme is implemented by the government's Trade and Investment promotion office.

NNPP: *How could accession to the EU help to further improve the economic situation in your country?*

Mr. Šušteršič: The process of preparing for accession – that is, of setting up legal and economic systems of an open market economy – has introduced the necessary dynamics and commitment in accomplishing the needed structural reforms and adjustment. Thus, even preparing for the accession already has profound economic effects. The main economic effects of the accession itself are expected to be the additional opening of EU markets for Slovenian exporters, an increased inflow of direct investment to Slovenia, and cofinancing of major development projects by structural and cohesion funds.

NNPP: *Can you give us some figures on the development of your GDP, especially regarding the industrial area?*

Mr. Šušteršič: After a short but deep recession in 1992, Slovenia rapidly established a robust economic growth path, expanding at close to 4% annually. Real GDP growth has largely been driven by exports of goods and services (which grew by 6.2% annually in real

NNPP: *What was the impact of the market conversion on your economy?*

Mr. Šušteršič: At the time of its independence in 1991, Slovenia was the wealthiest and most open Yugoslav Republic (in 1989 accounting for 17% of total output and 26% of the export of the former Yugoslavia, though for only 8% of the population), and it implemented some market oriented reforms already in the last decade before the change in the political and economic system. However, the change of the economic system, combined with the loss of Yugoslav markets, led to a short but deep economic recession in 1992 and 1993. The return to macroeconomic stability was achieved through conservative fiscal and monetary policies. For about a decade, Slovenia has run broadly balanced budgets and domestic and external debt were maintained at low levels. Thus, the recovery after the initial transformation recession was fast and sustained.

NNPP: *Do you also experience the typical rural exodus of agriculturally educated people towards the cities as in many other European countries? What is the impact?*

Mr. Šušteršič: As mentioned, the importance of agriculture as a share of Slovenia's GDP or employment was already rather small at the beginning of transition. Therefore, the market reforms did not trigger a typical exodus of the rural labor force to the cities. However, it is true that the capital city region is growing fastest, that regional income disparities have increased and that some areas are very scarcely populated. These issues are now being addressed by a combination of regional development, industrial restructuring and agricultural policies.





Dr. Križanič: Well, we had a tax reform in 1999 when we abolished the sales tax and introduced a value added tax. The project was good, it was very well executed without any pressure. As value added tax is not paid by exporters, it was a relatively positive boost for the Slovenian exports and it caused a reduction in state revenue. This was the main reason behind the reduced trade balance deficit and the start of a budget deficit in Slovenia. So, Slovenia has now raised VAT from 19 to 20 per cent and is working towards introducing special taxes on

prices are somewhat liberalised in the sense that these prices cannot be held lower than the costs so they are allowed to make normal profits. All these enterprises are successful, but are not allowed to make even greater profits.

NN&PP: So, generally, these business areas are privatised, but there are not too many competitors. Are there still important areas not yet privatised?

Dr. Križanič: There will be a large privatisation of the production, transporting and distri-

ments are returning. In 2001 Slovenia spread its exports to former Yugoslavia markets to such an extent that it managed to avoid the worldwide recession till the end of the year.

NN&PP: Are you attracting investments from other countries? In which areas would you like more investment?

Dr. Križanič: The Stajerska region – the north-eastern part of Slovenia – desperately needs foreign investment. Unemployment is the highest in this region. There were several painful bankruptcies (including the TAM car manufacturer and the Metalna heavy metals manufacturer). Human capital is particularly concentrated in the knowledge of metal and car vehicle production as well as high quality textile products. The University of Maribor has a strong faculty for machinery with a strong textiles department. Over the last year there was improvement in infrastructure with highway connections between Maribor and Austria completed and with further improvements between Maribor, Ljubljana and Italy to be made by the end of 2005. A link between Maribor and Hungary will probably be completed around 2010. I hope the Slovenian economic policy will start a more active regional development policy including special initiatives for new investors in the Stajerska region. The unemployment problem in the Zasavje mining region (50km east of Ljubljana) is similar though smaller in size. The Slovenian Parliament has already approved a rehabilitation programme for this region to address the completely changed economic structure following the closing of the coalmines around 2007.



Iskratele Electronics Company.
(Photo: VITRUM)

petrol, beverages and cigarettes. Petrol is still relatively cheap here, almost the cheapest in Europe because of the small tax rise.

NN&PP: Until now you have not had a special tax on petrol?

Dr. Križanič: No, but we will have, although much lower than in the rest of Europe.

NN&PP: How about the pricing system? You had a problem with the liberation of prices because some prices in the past were still under government control. Are some prices still supported by the government?

Dr. Križanič: We have some prices that will remain under government supervision, for instance petrol. The supply here is provided entirely by just two enterprises. So there must be some control. Also the gas supply is provided by just one large company. There is a centre to control the prices with some governmental control or regulation of all these prices. So the

tribution of electricity. Privatisation is now underway. We are in the process of liberalising the electricity market in line with European regulations. And this year is the first that some of the large purchasers have been permitted to buy electricity abroad – they have been buying in Austria.

NN&PP: Since we realise the economy is growing in your country, can you give some concrete examples of this?

Dr. Križanič: The main indicator of Slovenia's successful transition is the almost 45% higher GDP in 2001 compared to 1992. GDP today is already higher than it was before 1991. Stagflation started in 1986. As well as growth there has been an improvement in stability (reduction of inflation and unemployment). Unemployment fell from 9.1% in 1993 to 5.9% in 2001 (ILO standard). However the greatest success was the reorientation of Slovenian trade from the markets of the former Yugoslavia to the western European market and the stable growth of exports to these markets. With the political stabilisation of the former Yugoslavia, Slovenian trade and invest-

NN&PP: Do you support special economic areas, such as agriculture, for example?

Dr. Križanič: The agricultural industry has a very powerful lobby in Slovenia. Farmers receive subsidies as a percentage and at a set level, so that each farmer now receives some money. Today they simply use European standards to promote this.

NN&PP: For economic development you need some organisational assistance. What kind of agencies or systems do you have to promote economic ideas, finance these ideas and assist industry?

Dr. Križanič: We have now established two agencies, the Agency for Regional Development and the Office for Economic Promotion and Foreign Investment. They have to deal with European standards of economic development promotion and they are both at the beginning of their work. This means that they are not yet included in the Slovenian budget as much as they should be. I hope this will be improved in the coming years.

