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National Accounts on the Economic Crisis in Slovenia

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National Accounts on the Economic Crisis in Slovenia

Ljubljana, 2016

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National Accounts on the Economic Crisis in Slovenia
Original title: Nacionalni računi o gospodarski krizi v Sloveniji

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The publication is available at http://www.stat.si/StatWeb/en/publications
Information provided by the Information Centre:
phone: +386 1 241 64 04
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@StatSlovenia

CIP - Kataložni zapis o publikaciji
Narodna in univerzitetna knjižnica, Ljubljana

330.534:338.124.4(497.4)(0.034.2)

STRAŽIŠAR, Nina
National accounts on the economic crisis in Slovenia [Elektronski vir] / [authors Nina Stražišar, Borut Strnad, Peter Štemberger ; infographycs and pictures by Matjaž Erker ; caricatures by Marko Kočevar ; translated by Boris Panič]. - El. knjiga. - Ljubljana : Statistical Office of the Republic of Slovenia, 2016. - (Collection Brochures)

Prevod dela: Nacionalni računi o gospodarski krizi v Sloveniji

ISBN 978-961-239-342-7 (pdf)
1. Gl. stv. nasl. 2. Strnad, Borut, 1973- 3. Štemberger, Peter, 1979-
284196608

Issued and published by the Statistical Office of the Republic of Slovenia, Ljubljana, Litostrojska cesta 54 – © SURS – Use and publication of data is allowed provided the source is acknowledged – ISBN 978-961-239-342-7

Dear reader!

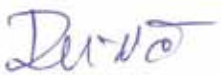
The latest economic crisis, the largest after the Great Depression in the first half of the 20th century, had an impact on all world economies, Slovenia's included. It was detected in various areas of life; it was also detected by statistics. The Statistical Office of the Republic of Slovenia therefore issued this publication, in which we show what can be learned about the economic crisis from national accounts, as national accounts are one of the areas of statistical monitoring of phenomena and the core of macroeconomic statistics.

The publication is designed as a story, which with a number of statements about the crisis makes the readers think whether the statements are true, partly true or not true. The key terminology is written bold and explained at the end of the publication or in some cases within the main text. More demanding readers, i.e. those who want to learn more, are directed to the source (by stating the serial number of the used source stated in the list of sources), so that they can improve their knowledge and continue to monitor national accounts data in the future.

The publication starts with a schematic presentation of national accounts, from data providers and data sources at the micro level to national accounts aggregates at the macro level. This is followed by four chapters: Chapter 1 brings basic national accounts concepts, Chapter 2 presents the timeline of the economic crisis, Chapter 3 describes the main characteristics of Slovenia's economy before and during the economic crisis and brings some data indicating economic recovery, and Chapter 4 shows the impact of the economic crisis on enterprises, the general government and households.

Who is the target audience of this publication? Everyone interested in the presented topic. Perhaps someone will use it as an additional didactic tool. The media disseminating statistical outputs to the general public. And, of course, our data providers.

You are invited to discover the story of the economic crisis through national accounts data.



Genovefa Ružić
Director-General

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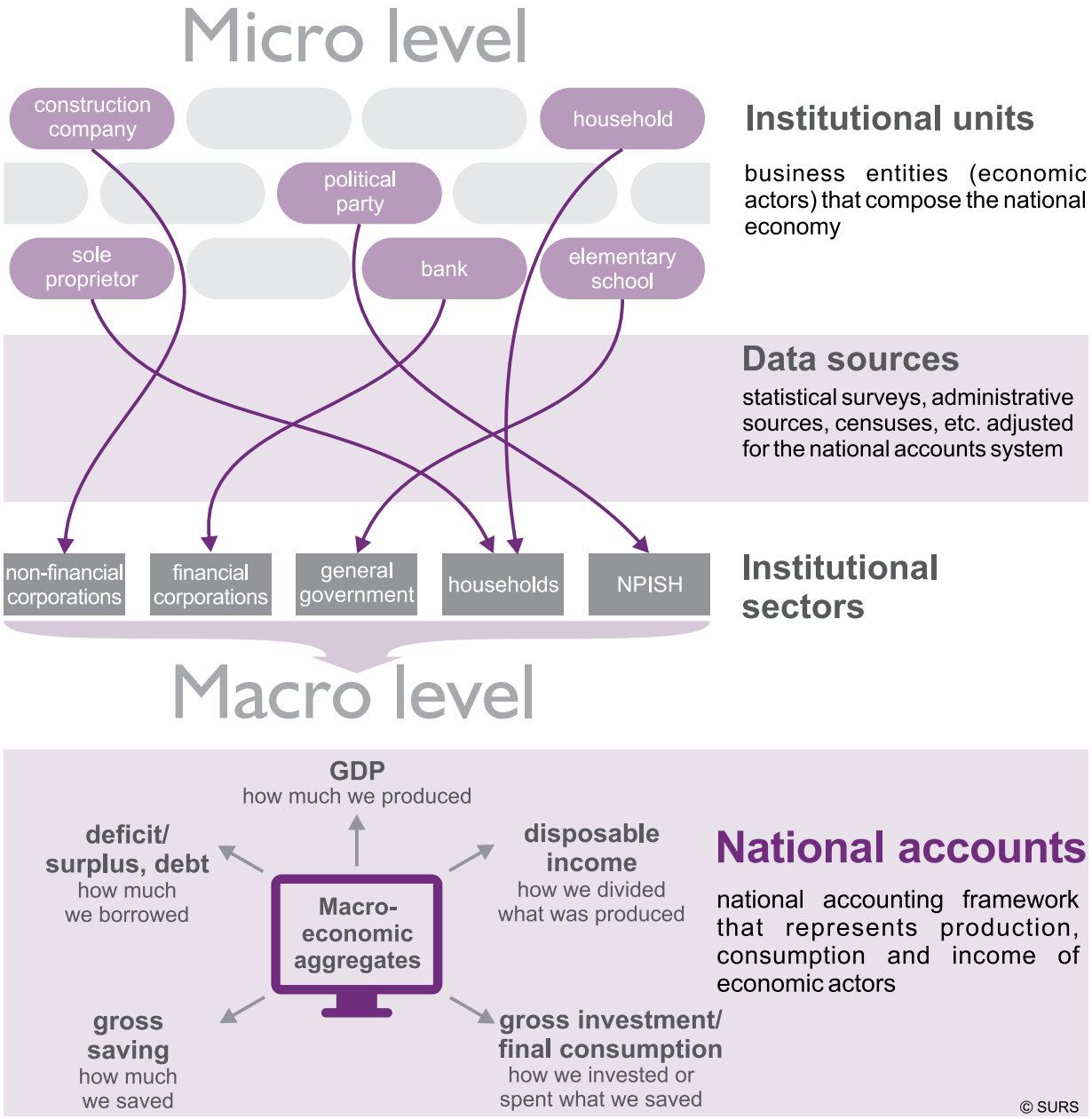
Cartoon 1: Look at that. We are now officially in recession!?

Source: Delo, 10 June 2009

1 PRESENTATION OF NATIONAL ACCOUNTS

Picture 1: **Every unit counts**



Basic statements about national accounts

Confirm or reject the statements or simply read the explanations.

National accounts tell us how much was produced, consumed, saved, borrowed, etc., by the national economy.

TRUE: National accounts are a system on the basis of which macroeconomic **aggregates** such as GDP (which is presented in detail further on) are calculated in a consistent manner. National accounts are an accounting framework for describing the national economy and its parts. With the help of diverse data sources conceptually harmonised with the system they describe the economic cycle that shows, for example, how much we produced, how we divided what was produced, how much we consumed, how much we saved, how much we borrowed, etc. (Picture 1).

National accounts provide internationally comparable data.

TRUE: **The System of National Accounts** (SNA) is based on internationally adopted standards, definitions, classifications and accounting rules. The **basic standard** of national accounts in the EU is the European System of National and Regional Accounts (ESA 2010); it is harmonised with the SNA 2008, which is valid all over the world.

The key national accounts indicator is gross domestic product (GDP).

TRUE: GDP is the most important indicator of a country's economic development. It is one figure that summarises the value of the entire production on the economic territory of a country, i.e. everything that is produced over a certain period by enterprises, the general government and households, which are collectively known as **institutional units** (Picture 1). A contribution of an individual institutional unit is not measured directly, i.e. with the value of its production, but with **value added generated** by the unit. GDP is thus the sum of value added of all institutional units plus **taxes on products** less **subsidies on products** (Infographic 1).

GDP figure is the result of one comprehensive statistical survey.

NOT TRUE: GDP is calculated on the basis of data collected with many statistical surveys, from administrative sources and even from expert estimates when complete data sources are not available (Picture 1). The quality of national accounts results largely depends on the quality of data in the entire statistical system in the country.

GDP is calculated according to three methods.

TRUE: GDP is not seen only from the point of view of production, but also from the point of view of expenditure and revenue of institutional units. Therefore, it is calculated according to three methods. Results calculated according to each method – production, expenditure and income – are harmonised. SURS calculates and publishes the data quarterly and annually (Infographic 1).

What is gross domestic product (GDP)?

GDP measures the value of all final products and services produced on the economic territory of a country (usually in one year):

- »**Product**« or production is what was created in a certain period and what is being measured.
- »**Domestic**« means that production measured was implemented on the economic territory of the country.
- »**Gross**« means that the estimate includes **consumption of fixed capital** (depreciation).

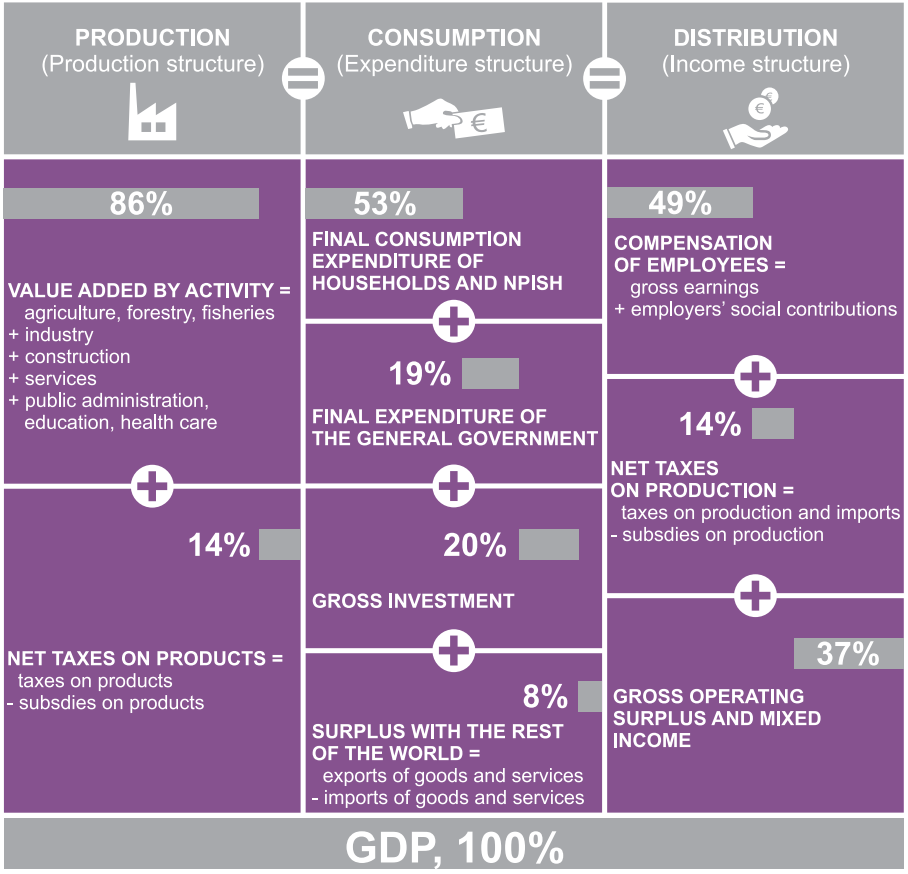
Gross domestic product without consumption of fixed capital is net domestic product.

"While the GDP and the rest of the national income accounts may seem to be arcane concepts, they are truly among the great inventions of the twentieth century.«

Paul A. Samuelson, Nobel laureate for economics, and William D. Nordhaus, economist (in Landerfeld 2000, p. 6)

As regards expenditure, the largest share of GDP is that of final consumption expenditure of households and NPISH (in 2014; 53%) and as regards income that of compensation of employees (in 2014: 49%).

Infographic 1: **GDP calculation according to three methods, Slovenia, 2014**



© SURS

Source: SURS ([7], [38], [39])

Table 1: **Top 5 EU-28 Member States with the highest GDP, current prices, 2014**

	million EUR	EUR/capita
1. Germany	2,915,650	35,391
2. United Kingdom	2,222,912	34,458
3. France	2,132,449	35,076
4. Italy	1,616,254	26,585
5. Spain	1,058,469	22,780

Source: Eurostat ([2], [6])

Economies of the mentioned five countries are the biggest in Europe. In 2014, the top five economies together produced 71% of total EU GDP.

With a GDP of EUR 37,303 million (EUR 18,100 per capita), Slovenia was 23rd in the EU and represented 0.4% of total EU GDP.

Basic statements about main (macroeconomic) aggregates

Confirm or reject the statements or simply read the explanations.

Main aggregates of national accounts, a common name for main macroeconomic aggregates.

PARTLY TRUE: The best known and most frequently used main national accounts aggregate is GDP. Also calculated are gross national income (GNI), gross disposable income, gross saving, net lending (+) / net borrowing (–) and some other aggregates (Table 2).

Table 2: **Main aggregates of national accounts, current prices, Slovenia, 2014**

	million EUR
Gross domestic product	37,303
Gross national income	37,245
Gross disposable income	36,792
Gross saving	9,799
Net lending (+) / net borrowing (–)	2,600

Source: SURS ([7])

In 2014, GDP in Slovenia was EUR 37,303 million and the surplus (net lending) was EUR 2,600 million.

National accounts do not measure systematically and in detail only the entire economy but also its components.

TRUE: Within **sector accounts**, macroeconomic aggregates (Picture 1) are also calculated for individual groups of economic entities, for so-called **institutional sectors**. The entire domestic economy is namely composed of different economic entities grouped into institutional sectors. Enterprises are grouped into the **non-financial corporations** sector, banks and insurance companies are grouped into the **financial corporations** sector, government institutions are grouped into the **general government** sector, households and groups of individuals are grouped into the **household** sector and the fifth domestic sector are **non-profit institutions serving households** (NPISH). Because this sector is very small and its impact on total value is negligible, it is often treated together with the household sector.

In **supply and use tables** the entire economy is broken down by activities and products.

More information on sector accounts is available in Chapter 4 (A look at the crisis through households, enterprises and the general government).

Net lending (+) / net borrowing (–), another name for surplus/deficit.

TRUE: This important macroeconomic indicator is calculated as a difference between revenue and expenditure of the entire economy and each institutional sector.

If revenue exceeds expenditure, the value is positive and this is a surplus (net lending). In this case the institutional sector (or the entire economy) can lend its resources to other institutional sectors and the **rest of the world sector** (Chapter 4). If expenditure exceeds revenue, the value is negative and this is a **deficit** (net borrowing). In this case the institutional sector (or the entire economy) must borrow resources to finance its expenditure.

Gross disposable income is characteristic of households only.

NOT TRUE: Compared to other sectors, **disposable income** of the household sector (intended for final consumption expenditure or saving) is more frequently commented and analysed. Its amount determines household consumption expenditure, which is the main indicator of households' material well-being. In other sectors disposable income is relatively less important, but as an aggregate of national accounts it is calculated for the entire economy and for each individual institutional sector.

GNI is calculated on the basis of GDP.

TRUE: GDP measures the value of total activity conducted on the economic territory of a country, while GNI measures total income of those institutional units that are **resident** on this economic territory (irrespective of the fact on which economic territory the income was generated). This means that the calculation of GNI includes income generated by residents abroad and their capital income and excludes income generated by non-residents in Slovenia and their capital income. GNI is calculated by increasing GDP by primary income received abroad and decreasing it by primary income paid abroad (Table 3).

As shown in Table 3, the size of the country is not a factor influencing the size of the difference between GDP and GNI. In general it is true that the difference is the result of primary income in an individual country. In this comparison Slovenia is closer to Germany than to Luxembourg. Luxembourg is a small country with large differences between GDP and GNI because of high income from labour and capital paid abroad and received from abroad. This suggests caution in the interpretation and international comparison of these two key macroeconomic indicators.

Table 3: **Transition from GDP to GNI, selected EU-28 Member States, 2012**

	SI	LU	DE
GDP million EUR	**35,988**	**42,918**	**2,666,400**
+ Primary income received from abroad million EUR	994	101,109	206,600
- Primary income paid abroad million EUR	1,249	114,784	142,930
= **GNI million EUR**	**35,733**	**29,225**	**2,730,070**
Difference between GDP and GNI (in % of GDP)	-1	-32	2

Source: Eurostat ([28])

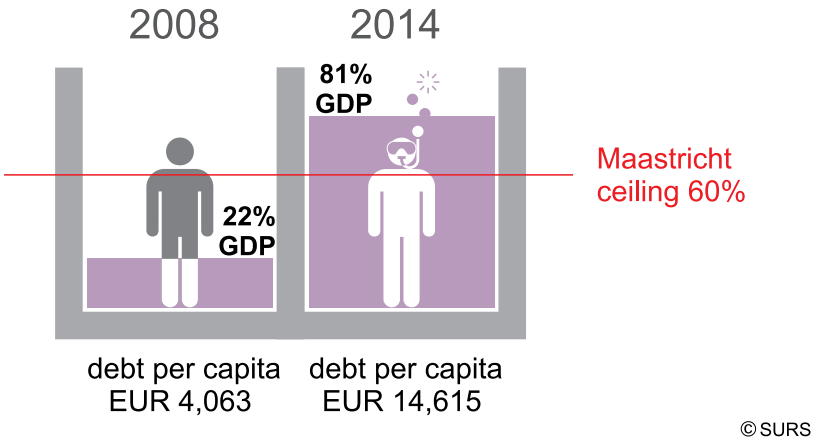
Primary income is income from labour (compensation of employees), income from capital (interest, dividends) and net taxes on production (taxes on production less subsidies on production).

General government debt is also known as Maastricht debt.

TRUE: General government debt (general government **consolidated** gross debt) is the total gross debt in **nominal** value at the end of the year, consolidated within the sector; in this way the impact of transactions between general government units is eliminated so as to prevent double counting. General government debt is liabilities of general government units towards domestic sectors and the rest of the world. There is a direct link between general government deficit and debt: if general government expenditure exceeds general government revenue (deficit), the debt usualy increases.

More information on general government debt and Maastricht criteria is available in Chapter 2 (Economic crisis timeline).

Infographic 2: **General government debt, Slovenia**



Sources: SURS (own calculation), ([24]), Eurostat ([6])

Infographic 2 shows a comparison of the per capita general government debt between 2008 and 2014. At the end of 2008 the debt was relatively low at EUR 4,063 per capita or 22% of GDP. During the crisis it jumped to 81% of GDP at the end of 2014 (EUR 14,615 per capita), which is 21 percentage points more than the **Maastricht ceiling** of 60% of GDP. (Chapter 2)

What you might not know about national accounts?

Confirm or reject the statements or simply read the explanations.

Based on national accounts data Slovenia's contribution to the EU budget and Slovenia's receipts from the EU budget are calculated.

TRUE: Contributions of EU Member States to the budget of EU institutions are determined based on the data on gross national income (GNI). This is the so-called fourth own EU source, which accounts for almost 75% of the total EU budget. On the revenue side the data on **regional GDP** are the basis for receiving European funds for balanced regional development.

The term »GDP growth« is appropriate.

PARTLY TRUE: The term »growth« is frequently used in explaining GDP data and other aggregates, but it does not tell whether these are changes at **current prices** (so-called **nominal** changes) or changes at **constant prices** (so-called volume changes or **real** changes). In real changes the impact of price change is eliminated. The indicator reflecting price changes is called the **GDP deflator**.

In explaining GDP trends, macroeconomists mostly use data at constant prices; data at current prices are used in calculating various aggregates as a share of GDP (e.g. government debt, balance of the rest of the world account, etc.).

Gross domestic product ≠ gross social product.

TRUE: In Slovenia, GDP has been calculated since 1991. Gross social product (calculated until 1990) was methodologically much different from GDP as it included only value added of material production and not also **value added** of services. The time series of GDP data is methodologically consistent and internationally comparable from 1995 on.

National accounts are the same as business accounting.

NOT TRUE: The main accounting framework is similar, but the input data are different. For accountants in enterprises the micro aspect is important, since they have at their disposal accounting data showing to the last cent all transactions of the enterprise in a certain period. On the other hand, national accountants monitor the entire economy (macro aspect), but they do not have precise data on all economic entities (institutional units), particularly households, so national accounts partly rely on expert assessment of missing data (Picture 1).

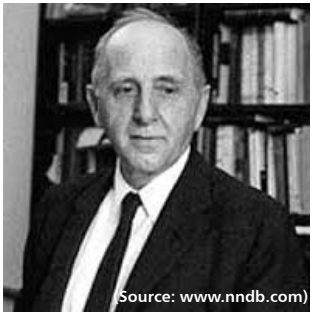
How is the rate of economic growth calculated?

The rate of economic growth is calculated as:

$$\frac{GDP_t - GDP_{t-1}}{GDP_{t-1}} * 100,$$

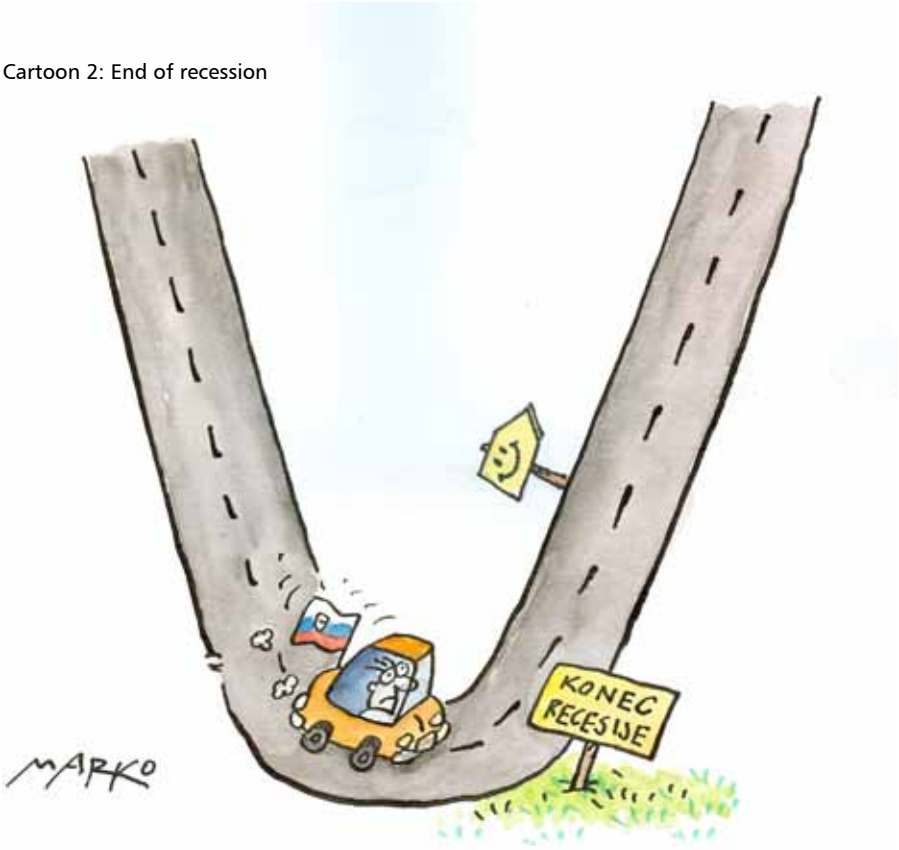
whereby GD_{Pt} is the value of GDP in the current period and GDP_{t-1} is the value of GDP in the past period.

The start of national accounts goes back to the 17th century, when English economist William Petty was the first to estimate national income. The development of national accounts accelerated during the Great Depression in the 1930s. Two of the most important creators of modern national accounts are Simon Kuznets and Richard Stone, who received the Nobel Prize for Economics (Kuznets in 1971 and Stone in 1984).



Simon Kuznets (1901-1985)

Cartoon 2: End of recession



Source: Delo, 1 March 2014

2 ECONOMIC CRISIS TIMELINE

What is the economic crisis? When did the latest one start?

Confirm or reject the statements or simply read the explanations.

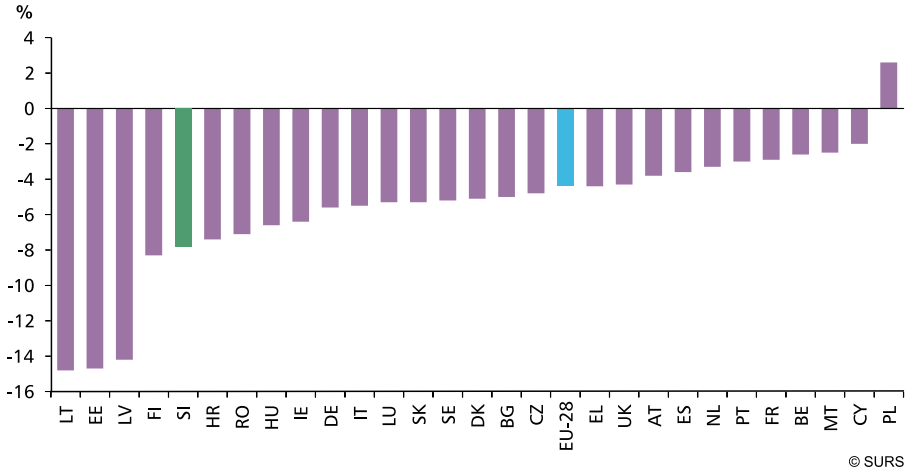
In 2009 the European economy was hit by the greatest economic crisis since the so-called Great Depression (1929–1933).

TRUE: The history of capitalism is littered with many crises. They hit one or several countries at the same time, only a part of the economy or the entire economy. Roubini (2010) calls them economic storms or hurricanes, since they are quite predictable, but they can change course, calm down and then suddenly appear again when least expected.

The greatest and the most extensive **recession** in the 20th century was triggered by a sudden collapse of the New York Stock Exchange in 1929 (so-called Black Tuesday), which caused the onset of the great economic crisis known as the Great Depression.

The current global economic crisis, which hit us and will be felt for quite some time, is the greatest crisis after the mentioned Great Depression. It hit both developed and developing economies and sunk into their deepest pores. The reasons that led to its onset are deep and systemic and still give rise to many questions. The data on real GDP growth in 2009 show that the current economic crisis started in all European countries, except Poland, in 2009 (Chart 1). Real GDP fell the most in the Baltic States (Lithuania, Estonia, Latvia); with a drop of -7.8% Slovenia was fifth among the EU Member States.

Chart 1: **Real GDP growth, EU-28 Member States, 2009**



Source: Eurostat ([2])

When is a crisis W shaped?

The economic crisis shown with the real GDP can appear in different forms, with different intensity and can last for a different time. The most often it is shaped in the form of letters V, U or W:

- In the form of **letter V** recovery is rapid and strong
- In the form of **letter U** it is slow and weak
- In the form of **letter W** there is a double bottom at which the economy experiences rapid growth followed by another drop (Roubini, 2010)

As in the EU-28, in Slovenia, too, the crisis in the 2008–2014 period was in the form of letter W, which is clear from the presented economic crisis timeline.

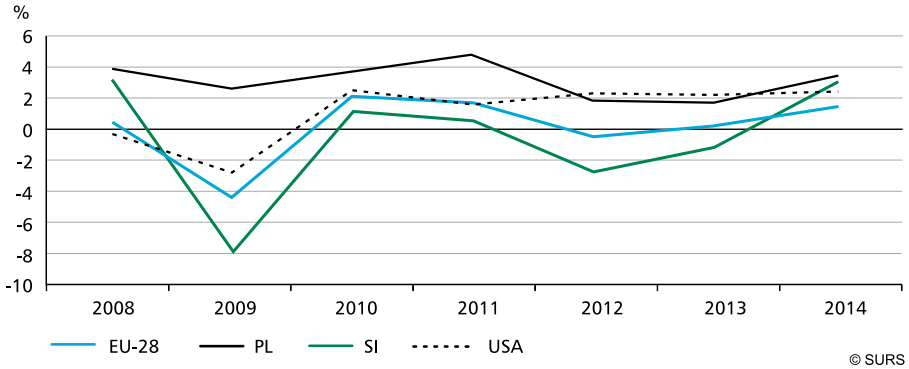
"Every crisis has its own share of optimists who at some point declare the worse is over. Interestingly, this kind of optimism is usually genuine, it's not an attempt to jawbone markets but generally reflects a real belief that the storm has passed."

Roubini, N., economist, (2010, p. 101)

The economic crisis hit the EU economies harder than the US economy.

TRUE: Significant negative values of real GDP in EU Member States show that it was hit harder by the economic crisis than the United States, where the crisis began with the breakdown of the financial system based on mortgage loans. The US recorded the deepest fall (-2.8%) in 2009, and the crisis was shaped in the form of letter V, since recovery started the very next year. Among EU Member States, Poland was the only one that during the economic crisis did not experience an annual drop in real GDP growth (Chart 2).

Chart 2: **Real GDP growth, selected countries**



Sources: Eurostat ([2]), OECD ([3])

The current economic crisis has roots in the banking crisis.

TRUE: The crisis first hit financial corporations. Many **bad loans** in banks, strong interdependence of the financial system and the "cooling" of the economies (e.g. decline in orders, lower output) led many banks in the world to the brink of ruin. Countries decided for expensive bank saving, so their debts started to grow very rapidly. Some countries almost went bankrupt and the **debt crisis** started. At the same time the economic growth continued to decline, which additionally deteriorated the public finance position. During the recession many enterprises became severely indebted and entire economies were caught in a spiral.

Economic growth is not uniform.

TRUE: Economic activity of the economy follows economic cycles. A period of low economic growth, when real GDP grows very slowly or is even declining, is followed by a period when consumption starts to grow (so-called expansion), e.g. through investment, which causes real GDP to grow. When real GDP peaks, another fall follows, which leads to another **recession**. At the end of recession a period of economic **recovery** starts, after which the cycle is concluded. The entire cycle usually lasts 6–10 years. After that a new one starts (Lequiller and Blades, 2014).

When do we enter a recession?

- An economy is in recession when quarterly GDP growth rates are negative for two successive quarters.
- For calculation we use the data on GDP from which price changes are eliminated and seasonal and working day adjustment are applied.

According to this criterion, the recession in Slovenia started in the fourth quarter of 2008 and in the EU-28 a quarter earlier (see the economic crisis timeline).

What is economic recovery?

Economic recovery is a phase in the economic cycle that follows a period of recession. During recovery the economy again reaches the levels of employment and production from before the crisis.

"The key message is this: We should change the way we drive from MaxSpeed to MinDebt, and slow down to Economy drive."

Sedláček, T., economist (2014, p. 246)

How does the economic crisis reflect in national accounts?

Confirm or reject the statements or simply read the explanations.

The crisis reflects in different sectors with different indicators.

TRUE: In addition to GDP, deficit/surplus is the most frequently mentioned and analysed national accounts indicator. For non-financial corporations, deficit is characteristic and in this sector the crisis due to the decline in investment usually reflects in the lowering of the deficit and more rarely in achieving surpluses. Households regularly generate surpluses, so they are traditional net lenders. On the other hand, in the general government sector the sign of the indicator is more closely related to the economic cycle: during an upturn countries can generate surpluses more easily, while during a recession they normally generate deficits.

More information on the crisis in individual sectors is available in Chapter 4
(A look at the crisis through households, enterprises and the general government).

During the crisis the general government deficit grew in most EU Member States.

TRUE: In addition to general government debt, general government deficit/surplus is the most important indicator of public finance discipline. Chart 3 shows deficit/surplus of EU Member States in 2008 and 2014 as a share of GDP.

The very low number of countries with surplus compared to 2008 decreased further; and deficits of most of the countries increased. Thirteen countries, Slovenia included, exceeded the »Maastricht ceiling« of a deficit of 3% of GDP; in 2008 the situation was the worst in Greece (-9.9% of GDP) and Ireland (-7.0% of GDP). Cyprus, which had a surplus of 0.9% of GDP in 2008, had a deficit of 8.8% of GDP in 2014. Luxembourg and Denmark were the only two EU Member States that had a surplus in both years.

What is the fiscal rule 3% and 60%?

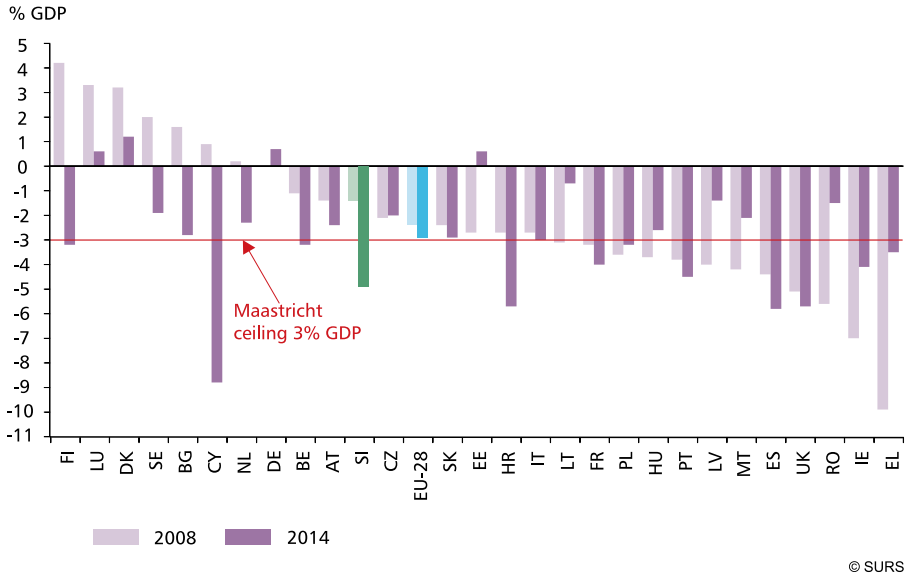
- Enforcing of the Maastricht Treaty of 1993 is (inter alia) the start of the economic and monetary union, i.e. the introduction of the euro. The mentioned treaty stipulates that general government deficit must not exceed 3% of GDP and debt most not exceed 60% of GDP.
- If a country exceeds the deficit and/or debt ceiling, the European Commission can initiate the Excessive Deficit Procedure (EDP) within which it can determine specific proposals and deadlines for abolishing excessive deficit.

Slovenia's deficit in 2009 exceeded the 3% ceiling, so in December 2009 the excessive deficit procedure was initiated. Slovenia had to reduce its deficit below 3% by 2015 at the latest.

"We psychologically treated 3-percent deficits "as if" balanced. Anything that was less than 3 percent was applauded as a success."

Sedláček, T., economist, (2014, p. 245)

Chart 3: **General government deficit/surplus, EU-28 Member States**



Source: Eurostat ([4])

Slovenia is one of the five EU Member States where general government debt increased the most during the crisis.

TRUE: During the economic crisis the general government debt as a share of GDP increased in all EU Member States. Chart 4 shows that in 2008 the share was below the Maastricht ceiling of 60% of GDP in 19 Member States, Slovenia included.

Table 4: **Top 5 EU Member States that increased their debt as a share of GDP the most in the 2008–2014 period**

	Increase 2008-2014	Debt at the end of 2014	
	in p.p.	% GDP	million EUR
1. Greece	68	177	317,094
2. Ireland	67	110	203,319
3. Cyprus	62	108	18,819
4. Slovenia	59	81	30,133
5. Portugal	59	130	225,280

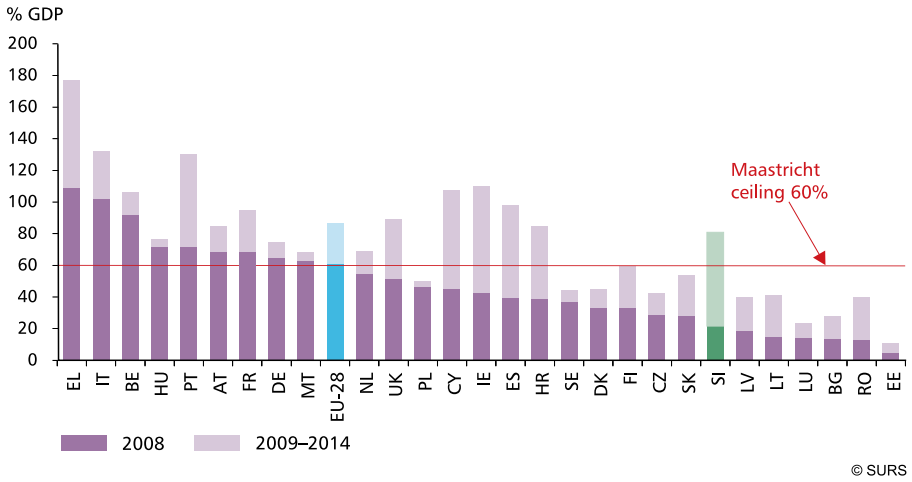
Source: Eurostat ([5])

During the crisis general government debt as a % of GDP jumped the most in Greece (by 68 p.p.); its debt in 2014 was EUR 317,094 million or 177% of GDP.

To solve the crisis, Greece, Ireland, Portugal and Cyprus applied for **financial aid** from the EU and International Monetary Fund programme. In the 2008-2014 period Slovenia did not ask for such aid.

During the crisis, i.e. in the 2009–2014 period, general government debt started to increase in all EU Member States (Chart 4). In 2014 only 12 Member States were still below the Maastricht ceiling. During the crisis general government debt as a share of GDP increased the most in Greece, Ireland, Cyprus, Slovenia, Portugal, Spain and Croatia (Table 4).

Chart 4: **General government debt, EU-28 Member States**



Source: Eurostat ([5])

Table 5: **Top 5 and bottom 5 EU-28 Member States in terms of the share of debt abroad in 2014**[1)]

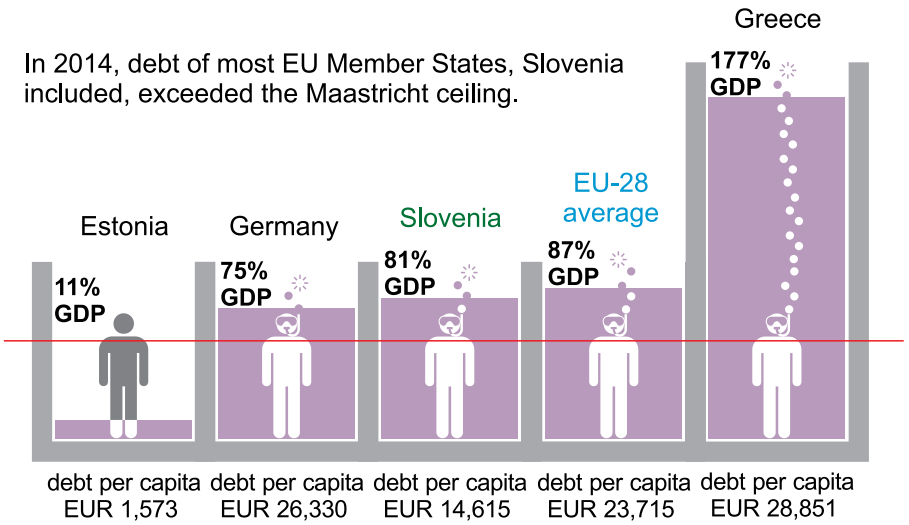
Country	Share of foreign debt (%)
1. Finland	80.8
2. Latvia	79.7
3. Austria	76.3
4. Lithuania	73.0
5. Slovenia	70.7
…	
21. Italy	33.6
22. Czech Republic	30.9
23. Romania	23.0
24. Malta	8.4
25. Luxembourg	2.2

1) Data for Denmark, Greece and the UK are not available.

Source: Eurostat ([5])

For a country it makes more sense to borrow on the domestic market, since the cost of the principal and interest is paid to domestic sectors and the pressure from abroad is smaller. However, financial resources on the domestic market are limited. Most EU Member States, Slovenia included, therefore borrow abroad. In 2014 Slovenia generated 70.7% of its debt abroad, which ranks our country 5th. Luxembourg borrowed the least abroad; its debt to the rest of the world was only 2.2% of total general government debt (i.e. domestic and foreign) in 2014.

Infographic 3: **General government debt in selected EU-28 Member States, end of 2014**



General government debt can be expressed in absolute terms (in EUR) or in relative terms (as a % of GDP). For assessing the situation of individual economies and comparison between them, presentation of debt in relative terms is more appropriate. In addition, one has to examine the debt structure, particularly if a country's debt is domestic or foreign.

Sources: SURS ([24]), Eurostat ([5], [6])

Infographic 3 shows general government debt as a share of GDP for selected EU Member States. At the end of 2014 debt was the lowest in Estonia (EUR 1,573 per capita or 11% of GDP); in Slovenia it was EUR 14,615 per capita or 81% of GDP, 6 p.p. higher than in Germany (EUR 26,330 per capita or 75% of GDP) and 6 p.p. lower than the EU average (EUR 23,715 or 87% of GDP). The highest debt as a share of GDP in the EU was recorded in Greece, EUR 28,851 or 177% of GDP. The infographic thus shows that at the end of 2014 general government debt in Slovenia was below the EU average. What worries more is the speed with which debt in Slovenia was increasing in the 2009-2014 period. In 2014, it was EUR 30,133 million, which is three-times the value in 2008 (EUR 8,216 million) (Table 4).

The higher the general government debt the higher the cost of interest.

TRUE: For Slovenia the cost of interest in 2014 was EUR 1,212 million: this is EUR 588 per person or EUR 1.6 per person per day. Shown with the average annual retail price of a cup of coffee in Slovenia in 2014 (EUR 1.19), this is 1.4 cups of coffee per person per day. The cost of interest per capita in Greece was EUR 636 or 1.5 cups of coffee per day, in Germany EUR 614 or 1.4 cups of coffee per day, and in Estonia only EUR 17 or just a sip of coffee per day.

"Many of the great episodes of human progress, including those that are usually described as being entirely good, have left behind them a legacy of inequality. […] Today's global inequality was, to a large extent, created by the success of modern economic growth."

Deaton, A., Nobel laureate for economics (2013, p. 4)

What you might not know about the economic crisis?

Confirm or reject the statements or simply read the explanations.

In 2014, GDPs of EU Member States reached the pre-crisis level of 2008.

PARTLY TRUE: In the EU overall real GDP in 2014 was for the first time since the onset of the crisis 0.3% higher than in 2008. This offset the drop in GDP at the EU-28 level during the crisis.

Data show that the crisis hit the EU Member States very differently both as regards intensity and duration. In Poland, Malta, Luxembourg, Slovakia and Sweden GDP in 2014 was more than 5% above the 2008 level, while in Greece, Croatia, Cyprus, Italy, Portugal, Slovenia, Spain and Finland it was more than 5% below the 2008 level (Table 6). From these data we can infer that the crisis changed some relationships between countries. The question how the crisis influenced the relationships between individual sectors of the economy cannot be answered by real GDP growth alone.

More information on the impact of the crisis on Slovenia's economy is available in Chapter 3 (Slovenia's economy before and during the crisis).

Table 6: **Top 5 and bottom 5 EU-28 Member States in terms of real GDP level change**

Country	Change 2014/2008 (%)
1. Poland	19.4
2. Malta	12.4
3. Luxembourg	12.3
4. Slovakia	7.6
5. Sweden	6.6
	…
22. Slovenia	-6.8
	…
24. Spain	-7.3
25. Italy	-8.1
26. Cyprus	-10.1
27. Croatia	-12.4
28. Greece	-25.5

Source: Eurostat ([2])

The impact of the economic crisis on people's well-being is measured with GDP.

PARTLY TRUE: GDP measures economic activity in a country and also reflects the economic position of households, but only indirectly and often insufficiently. Within national accounts, indicators are monitored that directly measure income, consumption, saving and property of households (e.g. structure of household final consumption expenditure, household savings, housing fund owned by households, etc.).

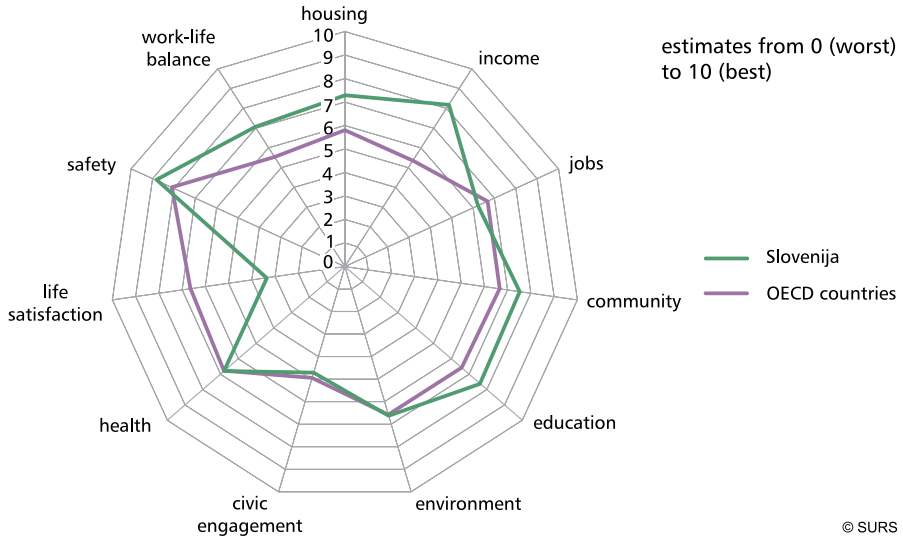
First initiatives for developing **well-being indicators** with the emphasis on the mentioned national accounts indicators appeared even before the crisis in 2007 within the discussions "GDP and Beyond" and then in the 2009 Stiglitz-Sen-Fitoussi Report on the measurement of economic performance and social progress (Stiglitz et al. 2009). The onset of the economic crisis strengthened activities in this area.

One of the indicators measuring well-being within and outside national accounts is, for example, the OECD composite **Better Life Index**, which with the help of 11 composite indicators monitors the quality of life in individual OECD countries and is one of the examples of going beyond GDP per capita as the indicator of an individual country's development (Chart 5).

"Today we have ideas about the transformation needed to put Europe's economy on a sustainable growth path, but for as long as we measure, assess and develop our policies primarily on the basis of GDP, we will never really escape from a resource intensive growth model that is no longer fit-for-purpose. We need to escape from the handcuffs of GDP."

Janez Potočnik, former European Commissioner from Slovenia, 2014

Chart 5: **Better life index[1], 2015**



1) Indicators are normalised to the average with the same weights.

Source: OECD ([1])

More information on household sector indicators and the impact of the crisis is available in Chapter 4
(A look at the crisis through households, enterprises and the general government).

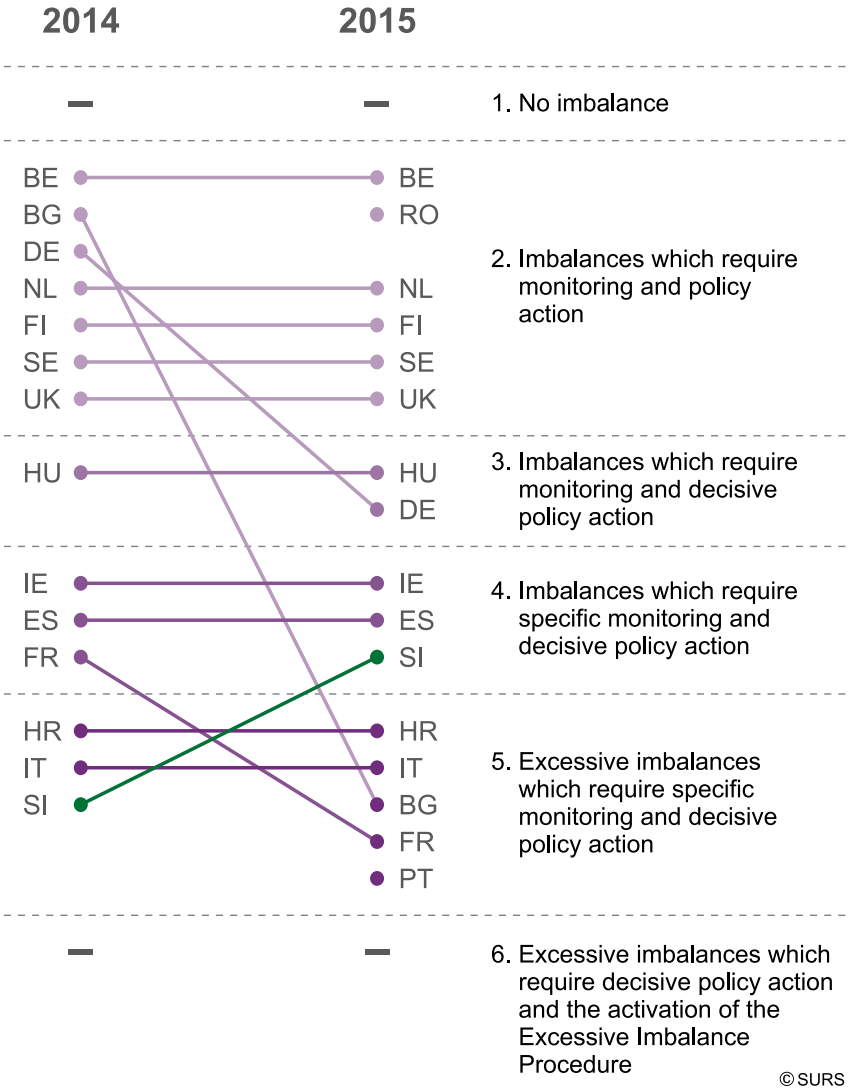
In 2015, Slovenia was the only EU Member State that decreased macroeconomic imbalances compared to the previous year.

TRUE: Infographic 4 shows that Slovenia was the only EU Member State that slightly improved its position compared to 2014. In addition to Croatia and Italy, in 2015 the European Commission detected excessive imbalances in Bulgaria, France and Portugal.

What is the better life index?

Chart 5 shows that in 2015 Slovenia had results close to the average of the 38 OECD countries or even better. The situation in Slovenia was better than the OECD average as regards indicators of income (+2.8), housing (+1.5), work-life balance (+1.5), education (+1.0), community (+0.8) and safety (+0.7) and much worse as regards life satisfaction (-3.3). Slightly worse than the OECD average was the situation regarding jobs (-0.4), employment (-2.0), and civic engagement (-0.2); the latest voter turnout in Slovenia was 52%.

Infographic 4: **Classification by MIP categories, EU-28 Member States**



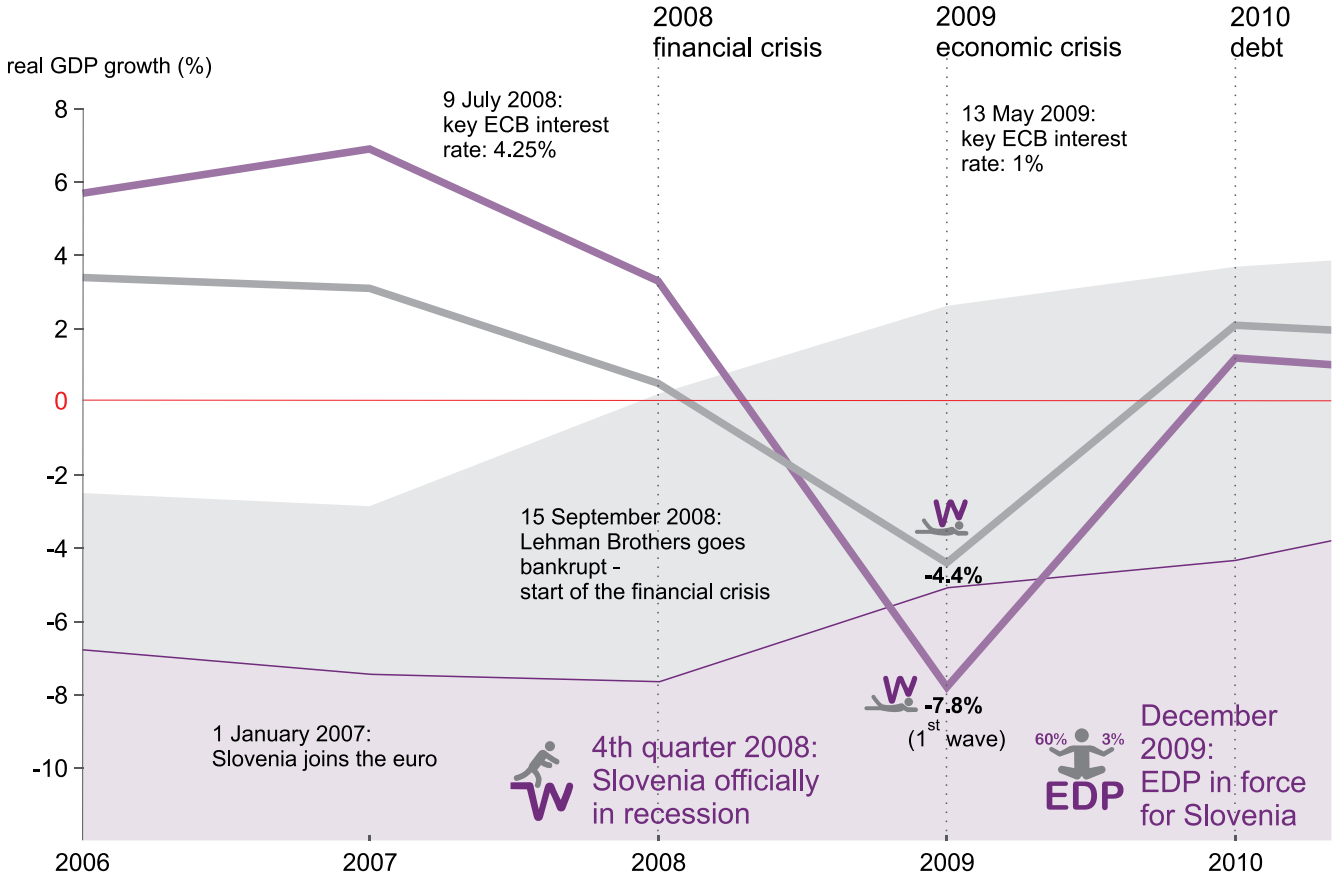
Source: European Commission, 2015

What is the MIP procedure?

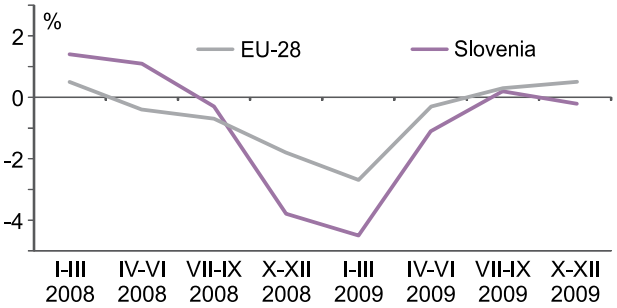
- Macroeconomic Imbalance Procedure (MIP) is a surveillance mechanism for detecting and preventing future economic crises in the EU and the EMU. The procedure is based on 11 main and over 20 supplementary indicators monitoring external and internal imbalances in individual countries; among them are national accounts data.
- MIP works like a »**scoreboard**«, which can warn about possible macroeconomic imbalances in the early phases.

In 2015, 16 EU Member States, Slovenia included, had macroeconomic imbalances that hinder the operation of national economies and can endanger the operation of the economic and monetary union. Countries receiving financial aid in 2015 (Greece and Cyprus) are not on this list. Also not on the list are countries in which the European Commission did not detect macroeconomic imbalances in 2015. Slovenia (together with Croatia and Italy) had imbalances in 2014 that required immediate policy measures.

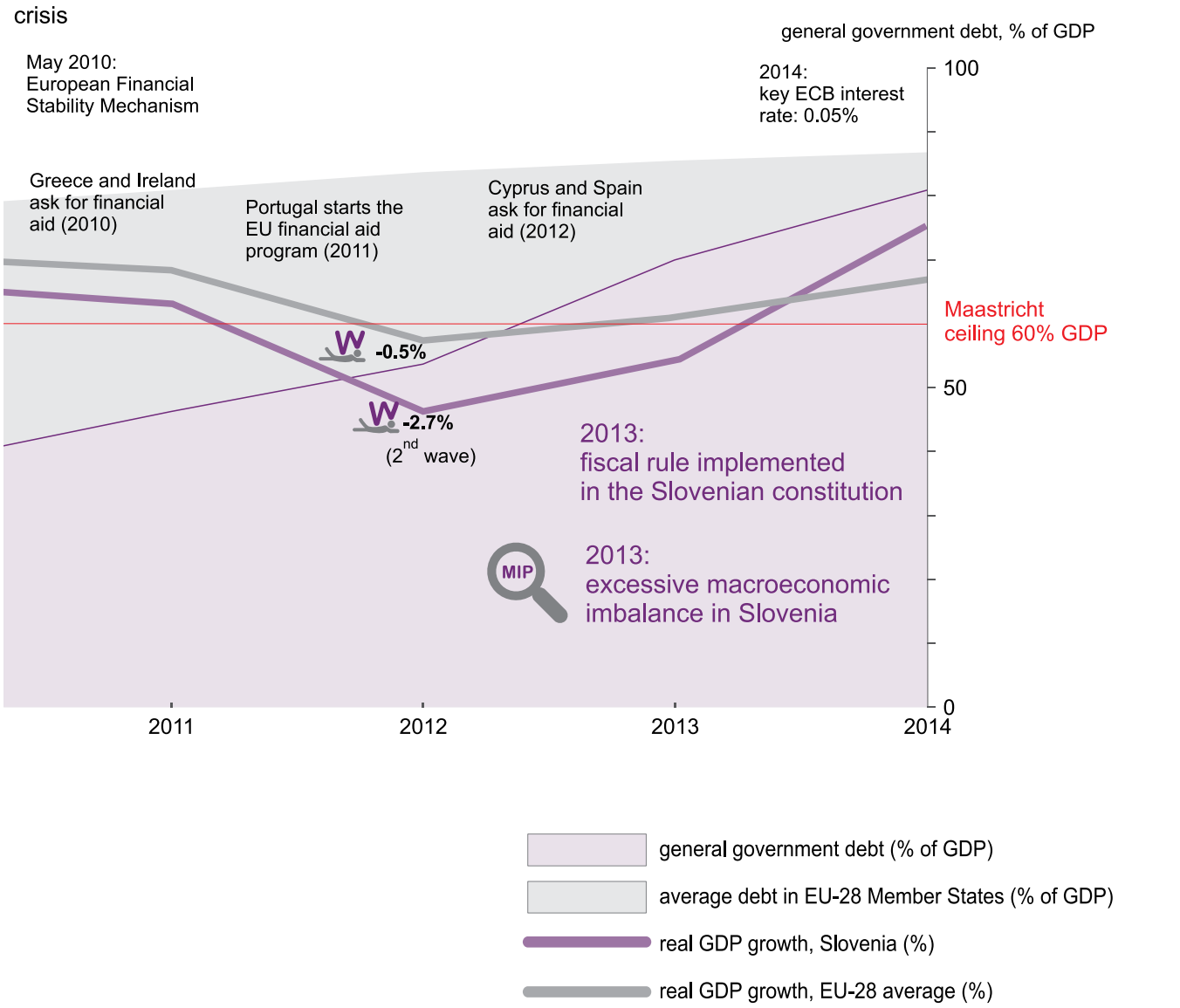
Infographic 5: **Economic crisis timeline**



Start of recession in Slovenia and in the EU-28



real GDP growth compared to the previous quarter (seasonally and working day adjusted)


crisis
general government debt, % of GDP
May 2010:
European Financial
Stability Mechanism
2014:
key ECB interest
rate: 0.05%
100
Greece and Ireland
ask for financial
aid (2010)
Portugal starts the
EU financial aid
program (2011)
Cyprus and Spain
ask for financial
aid (2012)
Maastricht
ceiling 60% GDP
-0.5%
-2.7%
(2nd wave)
50
2013:
fiscal rule implemented
in the Slovenian constitution
MIP
2013:
excessive macroeconomic
imbalance in Slovenia
0
2011
2012
2013
2014
general government debt (% of GDP)
average debt in EU-28 Member States (% of GDP)
real GDP growth, Slovenia (%)
real GDP growth, EU-28 average (%)

Cartoon 3: Exports
Slovenian economy

Source: Delo, 24 March 2014

3 SLOVENIA'S ECONOMY BEFORE AND DURING THE CRISIS

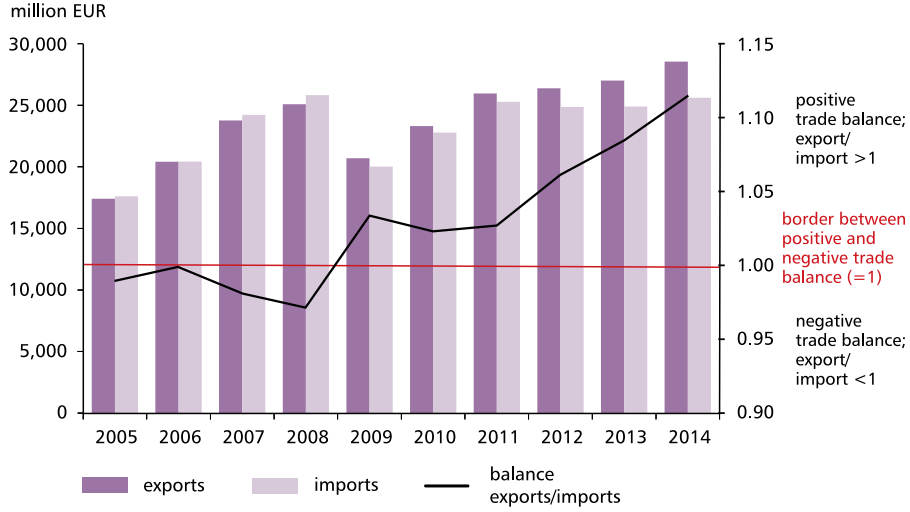
What are the main characteristics of Slovenia's economy?

Confirm or reject the statements or simply read the explanations.

The Slovenian economy is export oriented.

TRUE: The Slovenian economy strongly depends on exports and foreign demand for goods and services, irrespective of the economic cycle. Chart 6 shows trends in exports and imports of goods and services since 2005. Before the crisis the entire economy imported more goods and services than it exported and was thus a **net importer** (trade balance was negative, i.e. less than 1). Slovenia became a **net exporter** in 2009 (trade balance was positive, i.e. more than 1). Since 2012 exports have been increasing much faster than imports. In 2014, they amounted to over EUR 28 billion.

Chart 6: **Exports and imports of goods and services, current prices, Slovenia**



Source: SURS ([7])

Labour in Slovenia is taxed more than in other EU Member States.

NOT TRUE: The public in Slovenia believes that compared to other EU Member States labour in Slovenia is taxed more; however, this not true. The international comparison of taxes and social contributions from employment as a share of GDP for 2012 shows that Slovenia is 17th among the EU Member States in terms of personal income tax revenue (Denmark was first with 24.5% of GDP and Slovakia was last with 2.6% of GDP) and 5th in terms of revenue from social contributions

What is positive trade balance?

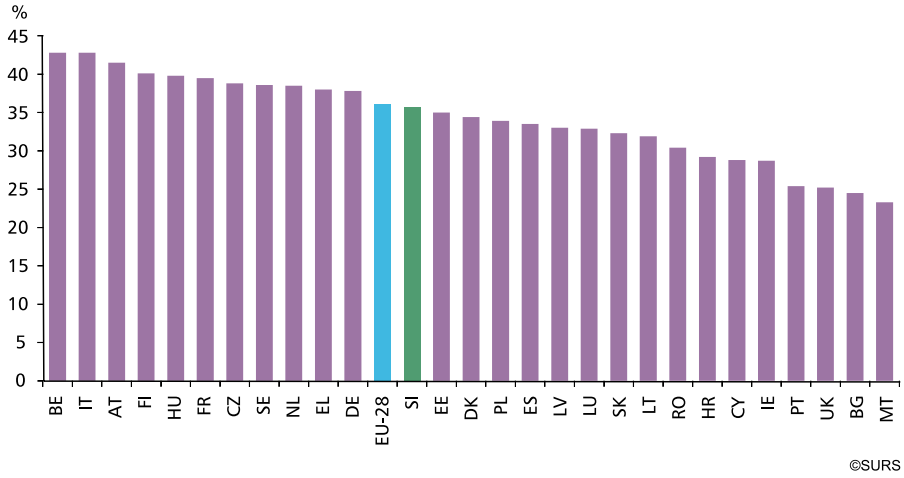
The indicator showing the ratio between the value of exports and imports of goods and services describes whether a country has a positive or a negative trade balance: values above 1 indicate a positive balance and values below 1 indicate a negative balance.

Slovenia (Chart 6) has had a positive trade balance since 2009; the value was the highest (1.11) in 2014. According to the latest international comparison for 2013, in the EU Ireland (1.28) and Luxembourg (1.23) had the highest values of this indicator, while Greece, France, the United Kingdom, Latvia, Romania and Bulgaria had a negative trade balance[1].

[1] Eurostat ([7]).

(France was first with 17.0% of GDP and Denmark was last with 0.9% of GDP). It is characteristic of Slovenia that revenue from social contributions of employees represents the largest share of GDP, which ranks Slovenia first in the EU. Despite that, this does not mean that labour in Slovenia is taxed more than in the EU overall, since every Member State has its own system of collecting taxes and financing social expenditure. In international comparisons of labour taxation it is therefore more appropriate to use implicit tax rates (ITR).

Chart 7: **ITR on employed labour, EU-28 Member States, 2012**



Source: Eurostat ([26])

In 2012 (latest data available), the implicit tax rate (ITR) per employed labour in Slovenia was 35.6%; the rate ranked Slovenia 12th in the EU and was 0.5 p.p. lower than the EU average (36.1%). In 2012, labour was implicitly taxed the most in Belgium and Italy (42.8%) and the least in Malta (23.3%) and Bulgaria (24.5%).

In Slovenia state involvement in the economy is large.

TRUE: The **public sector**, which is composed of the general government sector and **public corporations** (companies, pharmacies, homes for the elderly, some banks, insurance companies, pension companies and funds), is an important part of the Slovenian economy.

In the 2010–2014 period the public sector in Slovenia on average employed a quarter of all persons employed in the economy (232,000 employees in 2014).

In value added of the entire economy, which was EUR 32,203 million in 2014, the public sector generated 28.2%. In total value added in 2014 public corporations

What are implicit tax rates?

- They measure the actual tax burden of labour, capital and consumption.
- They show the ratio of total revenue from taxes and social contributions and the potential tax base.
- In this way the impact of differences between individual tax systems in EU Member States is eliminated.

The ITR on employed labour is thus calculated as a share of total revenue from taxes and social contributions paid by employers and employees and compensation of employees.

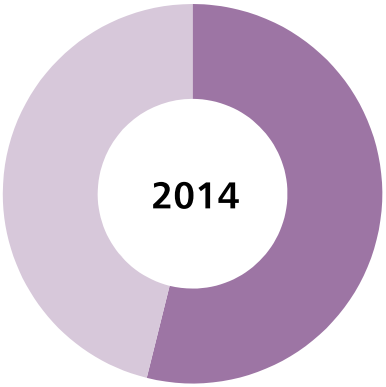
What is a public corporation?

The main criterion for determining if a company is a public corporation is the majority ownership share of the state in the company. Some other criteria are also used.

For correct classification of a company under public corporations, it is very important that special criteria are met that are in force for classifying according to national accounts standards, such as the ratio between sales and production costs (marketability). If a company covers less than half of production costs with market sales, it is classified in the general government sector.

had an 11.4% share (EUR 3,664 million), of which public non-financial corporations 9.3% and public financial corporations 2.1% of total value added. In 2014, public financial corporations generated half of value added of the financial corporations sector (Infographic 6).

Infographic 6: **Value added of the financial corporations sector, Slovenia**



54% of the value added of financial corporations in Slovenia was generated by companies under public control

In 2014, the sector included banks, NLB, NKBM, Abanka, Faktor banka and Probanka; in the last quarter of 2013 the general government **increased their capital** by EUR 3,187 million.

©SURS

Sources: SURS ([22]), Ministry of Finance ([33])

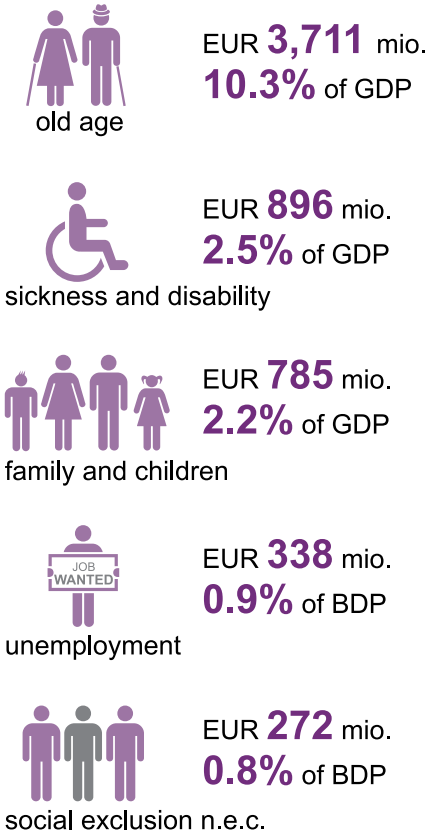
More information on saving of banks under public control is available in Chapter 4 (A look at the crisis through households, enterprises and the general government).

Slovenia is a social state.

PARTLY TRUE: A **social state** is one that provides an efficient **social protection** system to its citizens, which means that in case of sickness, disability or loss of employment they can receive financial compensation.

During the crisis, the general government increased its social protection expenditure; in 2013 it was nominally 14.5% higher than in 2008 (EUR 5,918 million). In this period expenditure for unemployment went up the most, the most in the first wave

Infographic 7: **Top 5 items of government expenditure for social protection, Slovenia, 2013**



© SURS

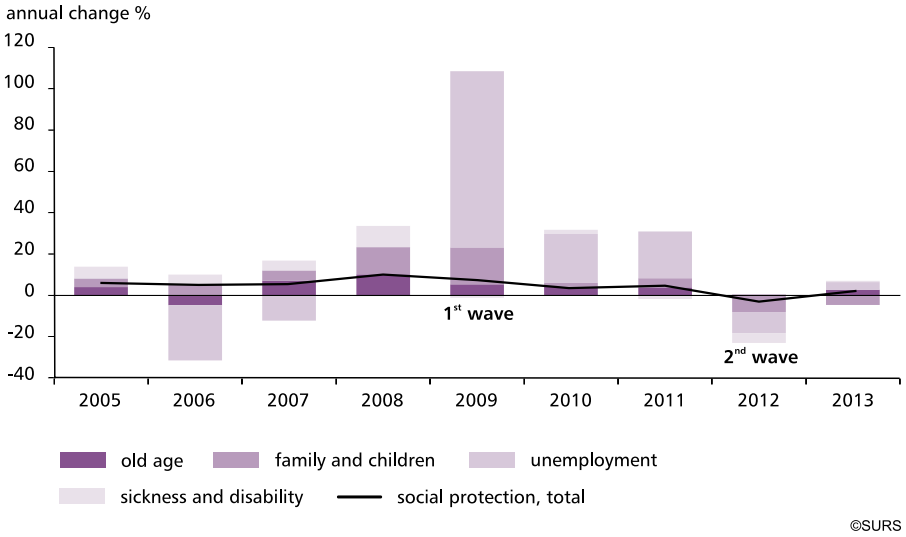
Source: SURS ([9])

In 2013, expenditure for old age, sickness and disability, family and children, unemployment and other functions together amounted to EUR 6,002 million, and represented 89% of total government expenditure for social protection (EUR 6,774 million).

of the crisis (2009–2010), when it climbed from EUR 129 million in 2008 to EUR 363 million in 2011. At the beginning of the second wave in 2012, unemployment expenditure started to decline (-10.2%) and in 2013 amounted to EUR 338 million. Compared to 2008, the value in 2013 was 2.6-times higher. During the crisis, old age expenditure, which accounts for half of total social protection expenditure, was constantly increasing; in 2013, it was 17.3% higher than in 2008.

The crisis also changed family expenditure; it increased the most in the 2008–2009 period, when the amendment to the Kindergarten Act was in force which enabled free kindergarten for the second child (the amendment was abolished in 2012). In the second wave of the crisis this expenditure started to decrease, even though in 2013 it was 9.9% higher in nominal terms than in 2008, when it amounted to EUR 714 million.

Chart 8: **Selected categories of social protection expenditure before and during the economic crisis, Slovenia**



Source: SURS ([9])

As regards social protection expenditure, in 2013 Slovenia (18.7% of GDP) was 12th in the EU and below the EU-28 average (19.6% of GDP). In 2008, too, Slovenia was below the EU-28 average. Compared to 2008, expenditure as a share of GDP increased by 3.1 p.p. During the crisis, social protection expenditure increased the most in Finland (by 5.5 p.p.) and decreased the most in Hungary, Romania and Lithuania (Chart 9).

"In the beginning of my teaching career I taught my students that hungry children live in Africa, while today they are sitting next to them."

Bojana Potočnik,
teacher, reward statement of the year 2013

Which EU Member States spend the most on old age?

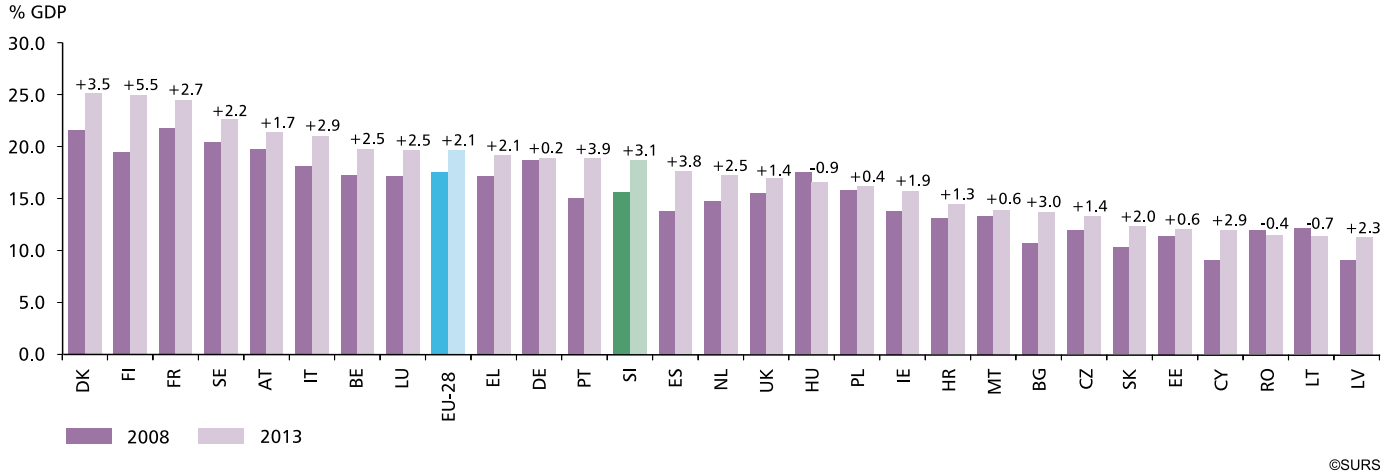
According to the latest international comparison, expenditure for old age (pensions) as a share of GDP was in 2013 the highest in Greece (14.4%), Italy (14.0%) and France (13.5%); with 10.3%, Slovenia was among the top nine Member States and close to the EU-28 average (10.4%).

Denmark (3.4%), Ireland (3.1%) and Spain (3.0%) spent the highest share of GDP on unemployment in 2013. With 0.9%, Slovenia was 17th and below the EU-28 average (1.6%).

Denmark (5.0%) is also the state that spent the highest share of GDP on family and children in 2013; with 2.2%, Slovenia was 11th and above the EU-28 average (1.7%)[2].

[2] Eurostat ([8]).

Chart 9: **Social protection expenditure, EU-28 Member States**



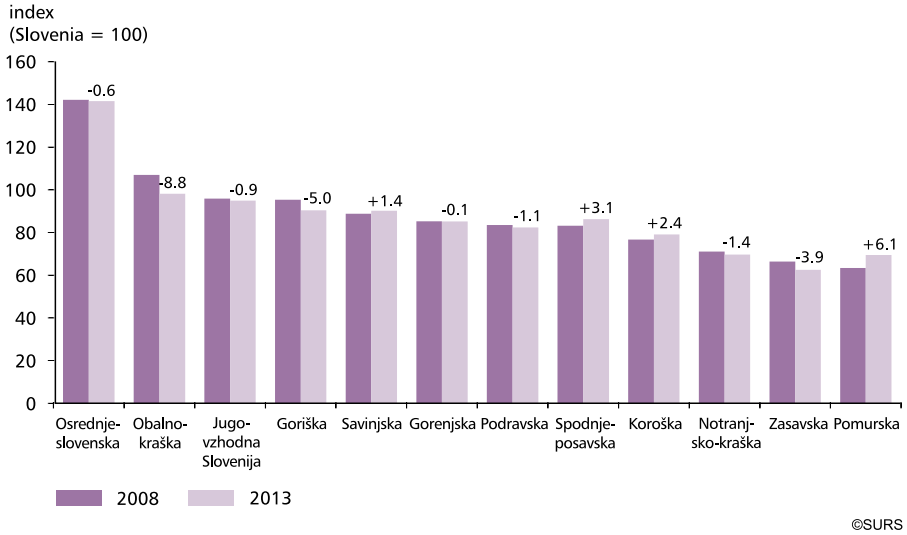
Source: Eurostat ([8])

Economic differences between the twelve statistical regions in Slovenia are large.

PARTLY TRUE: The most important economic indicator showing the level of economic development of regions is **regional GDP**. Its value can be influenced by a number of factors such as geographical position, population density, social and economic situation in the region, which can lead to social exclusion, deterioration of the health and education systems, a rise in unemployment and inadequate infrastructure in the region.

In 2013, regional GDP per capita was between 62.5% of the national average in the Zasavska statistical region and 141.6% of the national average in the Osrednjeslovenska statistical region. During the economic crisis (comparison between 2013 and 2008) the situation measured with **GDP per capita** improved in Pomurska, Spodnjeposavska, Koroška and Savinjska statistical regions. Pomurska improved its position the most (by 6.1 points). Economically the most developed regions slightly worsened their position, the most Goriška (Chart 10).

Chart 10: **Regional GDP per capita, Slovenia**



Source: SURS ([10])

In the 2005–2013 period regional differences in GDP per capita dispersion between statistical regions (NUTS 3) in Slovenia were the largest in 2009 (23.6). During the crisis the differences slightly declined. In 2013, the difference was 21.9, which means that GDP per capita in all regions in Slovenia weighted with regional population differed from the national GDP on average by 21.9%. According to Eurostat (latest data for 2011) GDP per capita dispersion in Slovenia was small compared to other EU Member States. In 2011, dispersion was the smallest in Malta (4.3) and the largest in Bulgaria (45.5). With 21.6, Slovenia was in the top eight EU Member States (excluding Cyprus and Luxembourg) with the lowest regional GDP per capita dispersion[3].

What is dispersion of regional GDP per capita?

This is a derived indicator for monitoring differences between regional GDP per capita and the national average and for comparing these differences between the countries. For Slovenia it is calculated for 12 statistical regions (NUTS 3).

Dispersion of regional GDP per capita is calculated as a sum of absolute differences between the regional and national GDP per capita weighted with the regional share of total population and expressed as a share of national GDP per capita.

[3] Eurostat ([31]).

What was the situation of Slovenia's economy before and during the crisis?

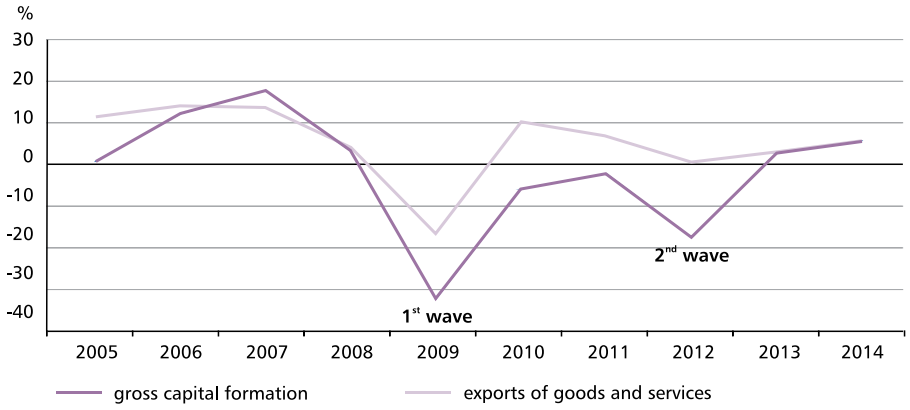
Confirm or reject the statements or simply read the explanations.

Slovenia was better prepared for the economic crisis due to high economic growth before the crisis.

PARTLY TRUE: During rapid economic growth (also known as **economic expansion**) in Slovenia from 2005 on, the Slovenian economy reached the highest real growth in 2007; 6.9% growth was well above the EU-28 average of 3.1%. Despite that, the high economic growth itself, which is the objective of most of the modern economies, did not provide resilience against the crisis that followed in two years. The global economic crisis hit Slovenia severely in 2009 and GDP change was again among the greatest in the EU; unfortunately this time in the negative (-7.8%).

High economic growth in the years before the crisis was based on both domestic and foreign demand. Gross capital formation was the highest in 2007; compared to a year earlier it increased in real terms by 17.7%. Export demand grew in real terms by 13.6%. With the onset of the economic crisis, both factors of economic growth in Slovenia dropped significantly; gross capital formation in real terms by 32.2% and exports of goods and services by 16.6%. Investment, which based mostly on borrowing abroad, was negative until 2013, when for the first time after 2009 growth was recorded (by 2.7%). Exports of goods and services started to rise three years earlier; in 2010 they grew by 10.2% and became the driving force of economic recovery (Chart 11).

Chart 11: **Comparison of trends in gross capital formation and exports of goods and services, Slovenia**



Source: SURS ([7])

What is domestic demand?

The figure indicates how much was spent by households, general government and enterprises on goods and services. Half of total expenditure is household **final consumption expenditure**, which includes for example buying of clothes, furniture, cars or meat, and a fifth is general government expenditure. **Gross capital formation** represents a quarter of domestic demand. The highest share of household investment is for buying dwellings.

In the structure of domestic consumption in 2014 final consumption expenditure of households and general government represented 72% and gross capital formation 20% .

Table 7: **Real growth of domestic consumption and its components, 2009**

	2009/2008 %
Domestic consumption	-9.5
final consumption expenditure:	1.3
of which: households and NPISH	0.9
of which: general government	2.4
gross capital formation	-32.2

Source: SURS ([7])

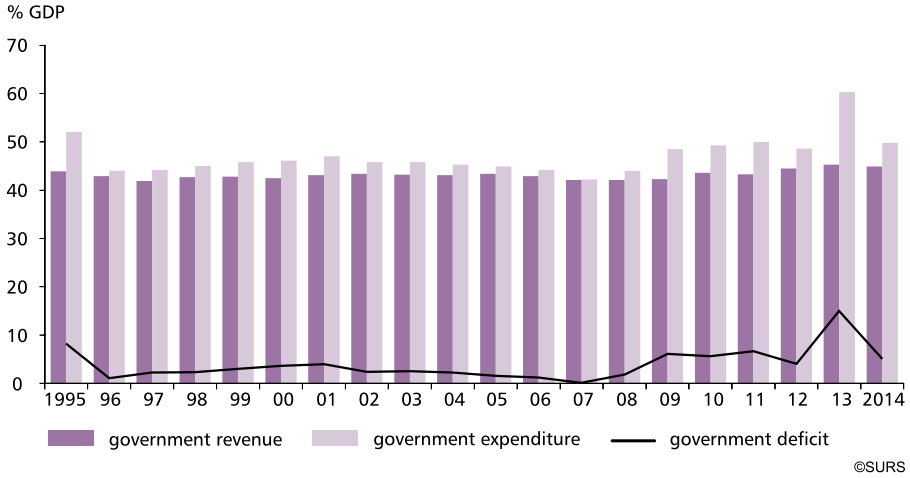
In real terms, final consumption expenditure was growing before the crisis at slightly lower rates; negative growth was recorded in 2011 (-0.5%), three years after the onset of the economic crisis.

The state of Slovenian public finance deteriorated significantly during the crisis.

TRUE: It is characteristic of Slovenian public finance that in the period since 1995 **general government deficit** has been recorded, which means that in this period general government spent more than it received.

Slovenia generated the lowest deficit in 2007 (0.1% of GDP), while in the second wave of the crisis (in 2013) the deficit was the highest (15.0% of GDP). In the period before the crisis in 2008, Slovenia was in a relatively good condition, since general government revenue and expenditure was relatively stable, with expenditure always higher than revenue (Chart 12). In the structure of general government revenue, in 2008 the highest share was that of taxes and social contributions (86.0% of total revenue), while as regards expenditure, more than half was represented by general government expenditure on social benefits (37.3%) and compensation of employees (24.7%).

Chart 12: **General government revenue, expenditure and deficit, Slovenia**



Source: SURS ([24])

On the revenue side, taxes represent the highest share: 86.0% in 2008 and 81.5% in 2014. During the crisis major structural changes happened in revenue from the corporate income tax; from EUR 1,116 million in 2007 it dropped to EUR 433 million in 2013.

Changes on the expenditure side were greater, since at the onset of the economic crisis general government expenditure started to grow. In the first wave the most in 2011, when expenditure on social benefits grew by 15.0% and compensation

What is primary deficit/ surplus of the general government?

Subtracting interest expenditure from the general government deficit gives the primary deficit/surplus of expenditure over revenue. Eliminating one-off expenditure (e.g. bank capitalisation in an individual year) gives deficit/surplus which the general government spends on current consumption.

There is also the so-called structural or cyclically adjusted deficit, which excludes the impact of the economic cycle on the budget.

Table 8: **Calculation of primary deficit of the general government, Slovenia**

	2009	2013
	million EUR	
General government deficit	2,127	5,400
– Interest expenditure	474	920
= Primary deficit	1,653	4,480
– One-off expenditure	76	4,023
= Primary deficit (excl. one-off expenditure)	1,577	457

Source: SURS ([27])

In 2013 the deficit of the general government increased compared to 2009 due to higher interest expenditure and due to higher one-off expenditure due to bank capitalisation in the total value of EUR 4,023 million.
Not counting one-off expenditure, the primary deficit decreased in nominal terms by EUR 1,120 million to EUR 457 million.

of employees by 13.6% compared to 2008. At the same time, due to the increased borrowing of the general government interest expenditure increased significantly; by 68.7% compared to 2008.

In the second wave of the crisis, in 2013 it grew to EUR 920 million, which is an increase by 121% compared to 2008. In 2013, the general government spent EUR 4,023 million on **capital transfers**, EUR 3,633 million of which on banks.

To ensure sustainability of public finance and decrease budget expenditure, in May 2012 the Fiscal Balance Act came into force. This act decreased some social transfers and limited promotion and additional employment in the public sector. In 2013, this led to a decline (in nominal terms) in expenditure on wages (-7.3% compared to 2011), although compared to 2008 it was up nominally by 5.3%. In the same comparison expenditure on social benefits declined by 2.9% (compared to 2008 it was up by 11.7%).

"The Fiscal Balance Act mostly hit the middle class and pushed it towards the bottom, which is evident today in income distribution. […] It is not that people would not survive without child support, but their quality of life deteriorated."

Anja Kopač Mrak, Minister, Delo, 14 August 2015

Economic expansion before the crisis was mostly based on construction.

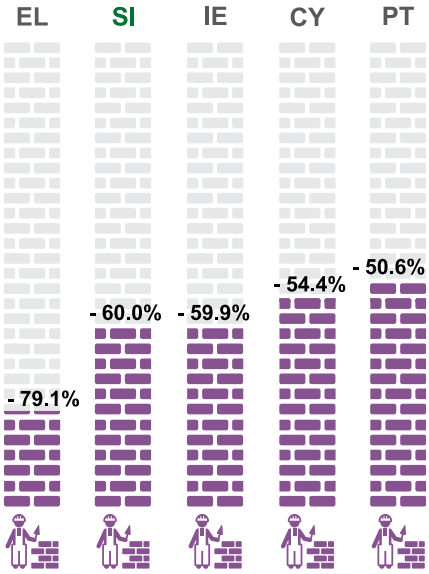
PARTLY TRUE: During rapid growth (2005–2008) construction was one of the activities in Slovenia that grew the most. In this period value added in construction increased by 87% (in real terms by 46%). As a result, the share of construction in GDP also increased; from 5.3% of GDP to 7.3% of GDP. This was a result of large demand for construction of residential buildings, non-residential buildings and civil engineering works. In this period the Slovenian economy invested EUR 19,672 million in buildings and civil engineering works.

The crisis, which in 2009 hit the entire EU economy, had an impact on construction, but this was felt much more in countries, Slovenia included, with large construction activity during the economic expansion. The value of construction put in place in Slovenia in 2013 was 60% lower than in 2008; at the EU-28 level it declined by 19.3% (Infographic 8). In 2013, construction represented 4.6% of GDP, which was the lowest value since 1995.

Speaking of the Slovenian economy, in addition to construction another activity worth mentioning is manufacturing as it represents a fifth of value added of the Slovenian economy. In the 2005–2008 period value added in this activity increased by 23% (in real terms by 21%). The crisis was first felt in manufacturing due to rapid decline in total demand for goods and services on foreign markets.

The situation in both activities before and during the crisis reflected in labour market demand (Chart 13). The most in the construction sector, which was the most affected by the crisis. During the crisis many large construction companies went **bankrupt**, which resulted in a 31.7% drop in **employment** in five years, i.e. by 29,185 persons to 62,959 persons in 2013. In manufacturing, which on average

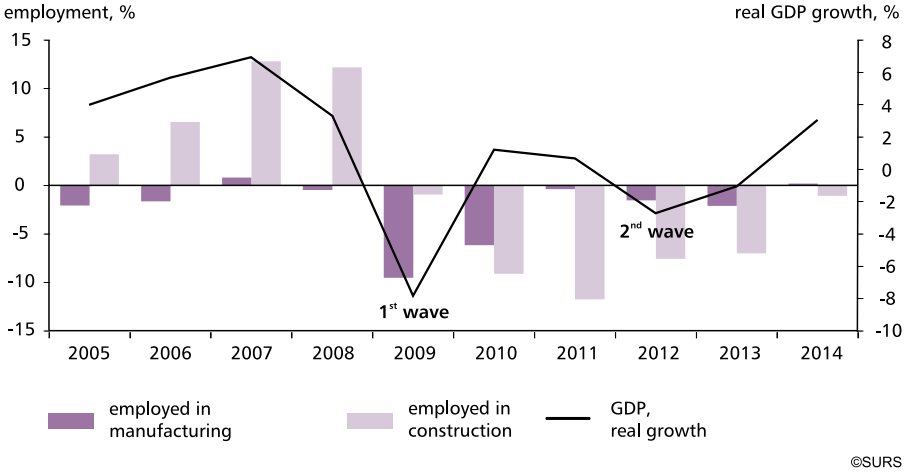
Infographic 8: **5 EU Member States with the greatest drop in construction activity during the crisis, 2013/2008**



Source: Eurostat ([21])

employs a quarter of persons in employment in the country, employment declined by 18.4% (by 42,486 persons) to 187,950 persons, the most in manufacture of wearing apparel, manufacture of textiles and manufacture of furniture acording to NACE Rev 2. In terms of employment, in 2013 construction drew closer to the situation before 2000, when it employed on average around 60,000 persons.

Chart 13: **GDP and changes in employment in selected activities, Slovenia**

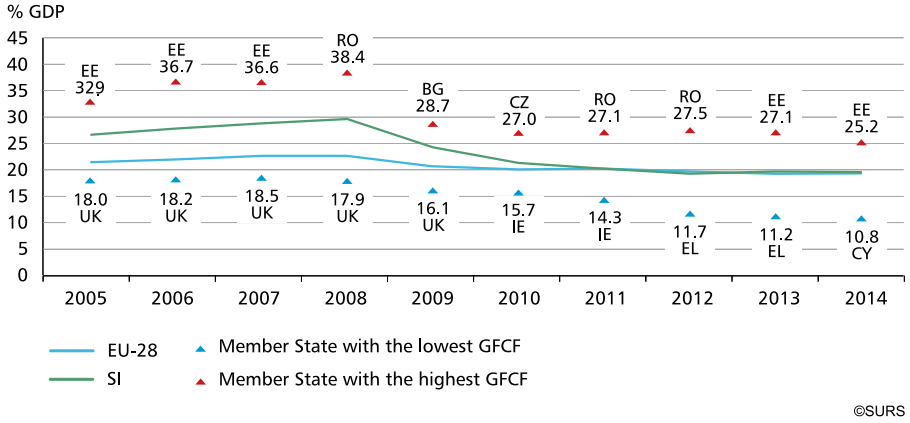


Source: SURS ([11])

During the crisis investment of the Slovenian economy as a share of GDP was among the highest in the EU.

NOT TRUE: As regards the share of gross fixed capital formation (GFCF) in GDP, during rapid economic growth Slovenia was in the group of EU Member States with the highest gross fixed capital formation (29% of GDP or more): in 2008, when Slovenia had the highest share of gross fixed capital formation in GDP (29.6%), EU Member States with shares lower than 23% were Germany, Italy, Luxembourg, Malta, the Netherlands, Poland, Portugal and the United Kingdom. The crisis thus changed the position of Slovenia on the European map. With a 19.6% share, in 2014 Slovenia was with Denmark, Germany, Spain, Lithuania, Malta and Poland in the group of countries with shares close to the EU-28 average of 19.3% of GDP.

Chart 14: **Gross fixed capital formation as a share of GDP, European comparison**



Source: Eurostat ([19])

The economic crisis endangered the most jobs in enterprises; general government was employing during the crisis.

PARTLY TRUE: In the 2008–2013 period, enterprises and non-financial corporations, which on average employ more than half of all persons in employment in Slovenia, decreased their employment by 13.4% (76,528 persons) to 494,061 persons. In this period the general government increased its employment by 6.1% (9,414 persons) to 163,650 persons in 2013 (Table 9).

During the crisis (comparison of 2013 and 2008) the general government, which accounted for 18% on the labour market in 2013, decreased employment in public administration by 3.5% (1,808 persons), and increased employment in other activities. Employment in these activities was the result of **reclassification of units between institutional sectors**. In the observed period, some companies and public institutions were reclassified from the non-financial corporations sector to the general government sector: among the larger in 2010 public health care institutions, and in 2011 Slovenian Railways–infrastructure, Slovenian Railways–passenger transport and the Trbovlje - Hrastnik Coal Mine.

Without this reclassification, employment in the general government sector in 2013 was 2.7% (4,145 persons) higher than in 2008. This means that almost half of new employment in the general government sector was the result of the mentioned reclassification by institutional sectors (see explanation on public corporations on p. 31).

The highest and lowest GFCF in the EU

According to the international comparison, in the 2005–2007 period Estonia was the EU Member State with the highest GFCF as a share of BDP (more than 30%). Since the onset of the economic crisis in 2009, no EU Member State had GFCF that exceeded 30% of GDP.

Before the economic crisis, the United Kingdom had the lowest share of gross fixed capital formation in GDP (on average 18%). The crisis changed the ratio; in 2010 and 2011 the EU Member State with the lowest share of GFCF in GDP was Ireland, in 2012 and 2013 Greece and in 2014 Cyprus (Chart 14).

Table 9: **Employment in the general government sector, Slovenia**

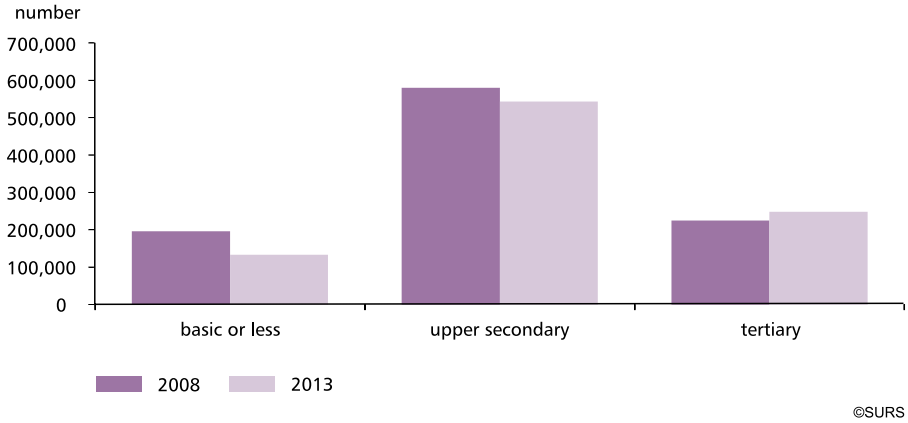
	2008	2013	2013/ 2008
	Persons (1,000)		%
Public administration	52	50	-3.5
Education	57	61	6.3
Health and social work	35	38	9.7
Culture and sport	5	6	9.0
Other activities	5	9	71.8
TOTAL	**154**	**164**	**6.1**
TOTAL (excl. sectoral transfers)[1)]	152	156	2.7

1) SURS (internal source).
Source: SURS ([12])

The economic crisis affected the most employees with the lowest education level; labour costs for employees with the highest education level decreased.

TRUE: A comparison of persons in paid employment by socio-economic characteristics shows that the crisis affected the most employees with the lowest level of education (basic education or less); compared to 2008, employment in 2013 declined by 32.1% (62,951 persons) to 133,106 persons (Chart 15).

Chart 15: **Employment by level of education, Slovenia**



Source: SURS ([18])

Average labour costs of the total economy increased in the 2008–2013 period: in 2013 they amounted to EUR 2,053 per person per month, which was 8.3% more than in 2008. Despite that, during the crisis monthly **labour costs** decreased mostly for employees with the highest level of education. Table 10 shows four NACE sections of activities with the largest change before and during the crisis.

The economic crisis caused the search for new opportunities on the labour market.

TRUE: Reduced demand for labour during the crisis led to many Slovenians searching for alternative employment such as self-employment and seeking jobs in other countries or in other regions (**daily labour migration**).

During the economic crisis (2009–2013) **self-employment** increased significantly: in 2013, 183,338 persons were self-employed, which was 19.8% of all persons employed in Slovenia (3.1 p.p. more than in 2008). In the observed period in the structure of the self-employed there was a large increase in the number of persons working in professional, scientific and technical activities, in arts, entertainment

Table 10: **Highest monthly labour costs per person with the highest education level in selected activities, Slovenia**

	2008	2013	2013/ 2008
	EUR/person/ month		%
Energy	3,758	4,108	+9.3
Finance, insurance	3,812	3,415	-10.4
Utility services	3,420	3,269	-4.4
Real estate	3,544	2,579	-27.2
SI average	1,897	2,053	+8.3

Source: SURS ([18])

and recreation, in education and in administrative and support service activities as well as in information and communication and in accommodation and food service activities. The educational level of the self-employed also changed significantly: in 2008, 16.9% of self-employed persons had the highest level, while in 2013 the share was 20.5%. The mentioned socio-economic changes were influenced by active employment policy programmes in the 2007–2013 period. According to the Employment Service of Slovenia (2014), in the 2008–2013 period subsidies for self-employment were received by 22,899 people.

According to labour statistics data, in 2013 on average 82.9% of people were working in their regions of permanent residence, the most in the Osrednjeslovenska, Goriška and Podravska regions. Zasavska, Notranjsko-kraška and Spodnjeposavska were the regions where on average more than 30% of **persons in employment** worked in other regions. Osrednjeslovenska is the only region in Slovenia that has more jobs than there are persons in employment (persons in paid employment and self-employed persons); in 2013, 26% of persons in employment working in this region came from other regions and the share even increased during the crisis (by 2.4 percentage points)[4]. SURS calculates the share as the **labour migration index**.

In addition to seeking work outside the region of residence, an increasing number of people are seeking better employment opportunities outside Slovenia. During the economic crisis, the number of people migrating daily to work in Austria increased the most. According to the Financial Administration of the Republic of Slovenia, in 2013 5,166 more people worked in Austria than in 2008 (358), while the number of people working in Italy was 342 higher than in 2008 (1,118). The highest number of people migrating daily to work abroad is from Pomurska, Podravska and Koroška statistical regions. In these regions the share of gross earnings from abroad in the total mass of earnings increased significantly. In Pomurska it grew from 0.5% in 2008 to 8.8% in 2013. The share increased the least (by 0.8 p.p.) in the Obalno-kraška statistical region (Map 1).

Who are the self-employed?

The category includes sole proprietors, farmers, unpaid family workers, own account workers such as architects, lawyers, independent researchers, artists, etc., and top athletes.

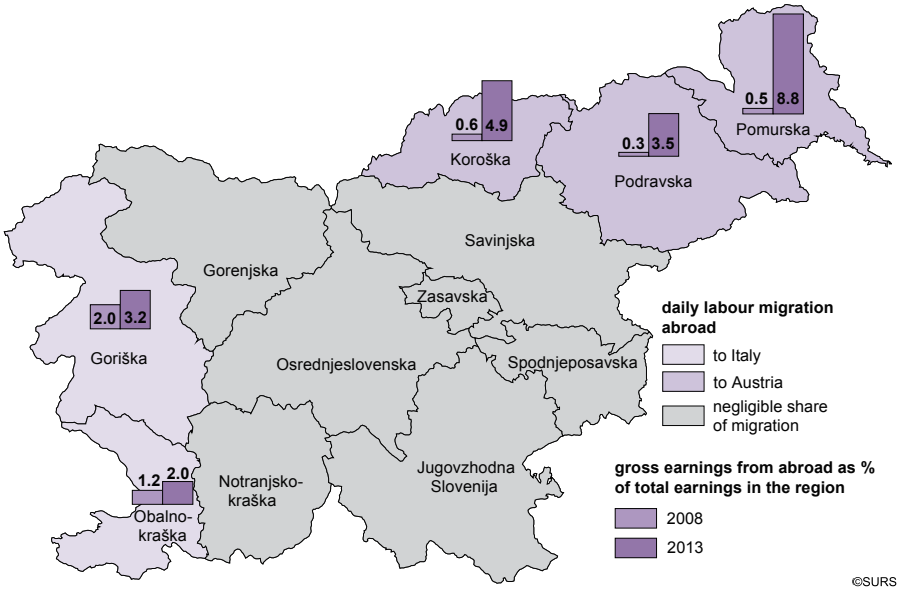
Who are daily labour migrants?

Daily labour migrants are persons in employment who migrate daily to work in other regions and return to their regions of permanent residence.

They had an important impact on solving the economic crisis in the regions with less active economy such as Pomurska, Podravska, Koroška and Zasavska. Daily labour migrants contribute to the GDP of the region in which they work, while disposable income is spent and/or saved in the region of permanent residence.

[4] SURS ([35]).

Map 1: **Daily labour migrants commuting to work abroad and their gross earnings as a share of total gross earnings, statistical regions, Slovenia**



Sources: SURS (own calculation) , FURS ([34])

During the economic crisis people were seeking solutions for employment by emigrating abroad. Slovenia did not stand out from the EU average. According to demography statistics, in the 2009–2013 period the number of residents of Slovenia with Slovenian citizenship who emigrated abroad increased; in 2009 it was 3,717 and in 2013 7,789, which is twice as many. In the observed period the number of residents of Slovenia with Slovenian citizenship who returned to live in Slovenia did not change much. Net migration of Slovenian citizens had been negative since 2000. Departure of residents of Slovenia with Slovenian citizenship abroad is a lost opportunity for Slovenia, since they do not contribute to the Slovenian GDP but to the GDP of the country/region they emigrate to.

[5] SURS ([36]).

"Slovenia is a wonderful country; life here is nice, simple, safe and I present Slovenia as such in all my international contacts. But once you get to know the possibilities offered by other countries, it is difficult to resist the challenges."

Jure Tuš, "diamond" upper secondary school graduate, statement of the day, Večer, 21 August 2015

Table 11: **Top 5 countries of emigration for residents of Slovenia with Slovenian citizenship in 2013**

Country	No. of persons
1. Germany	1,662
2. Austria	1,529
3. Croatia	719
4. Switzerland	468
5. Serbia	366

Source: SURS ([17])

As regards the educational structure, emigrants do not differ from residents of Slovenia with Slovenian citizenship of the same age who stayed in Slovenia. In the observed period Slovenian residents migrated most to Germany and Austria.

Do national accounts data indicate economic recovery?

Confirm or reject the statements or simply read the explanations.

> *"We can expect a slow recovery that can last for a decade."*
>
> *Paul Krugman, Nobel laureate for economics, Ljubljana 16 September 2009*

The most important factor of economic recovery in Slovenia is exports of goods and services.

TRUE: Slovenia is export-oriented, so exports played an important role in its economic recovery. After a deep fall in 2009, exports of goods and services have been growing since 2010 and in 2014 reached the record value measured as a share of GDP (76.5%). Due to more rapid growth of exports than imports, the surplus of exports over imports is growing (positive external trade balance). In recent years this surplus has had a decisive impact on the high surplus of total economy with the rest of the world.

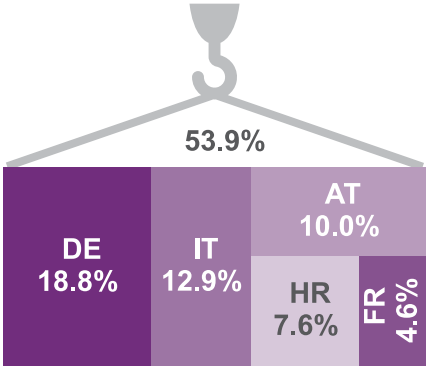
Most of the growth in total exports of goods and services (90%) was contributed in 2014 by manufacturing. Compared to 2013, exports increased in almost all manufacturing activities; the highest increase was recorded by the auto industry. As regards services, transport services contributed the most to the growth of exports.

Growth in exports of goods and services during the economic crisis was the result of the better economic situation in Germany.

PARTLY TRUE: Germany is Slovenia's most important trade partner country. According to the balance of payments data, exports of goods and services to Germany represented 18.8% of total Slovenian exports in 2014. Compared to 2013, exports to Germany grew by 5.2%.

However, the statement that the growth in exports is the result of the better economic situation in Germany is only partly true. Slovenia's exports in 2014 went up by 6.1% and with the top five partner countries (trade with them represents 53.9% of total exports of goods and services) by as much as 7.2%. Slovenia is increasing its exports to many countries not only Germany, so the export success of Slovenian enterprisers cannot be attributed only to a better economic situation in Germany but at least partly also to the competitive position of export enterprises on other markets.

Infographic 9: **Top 5 export partner countries of Slovenia, 2014**

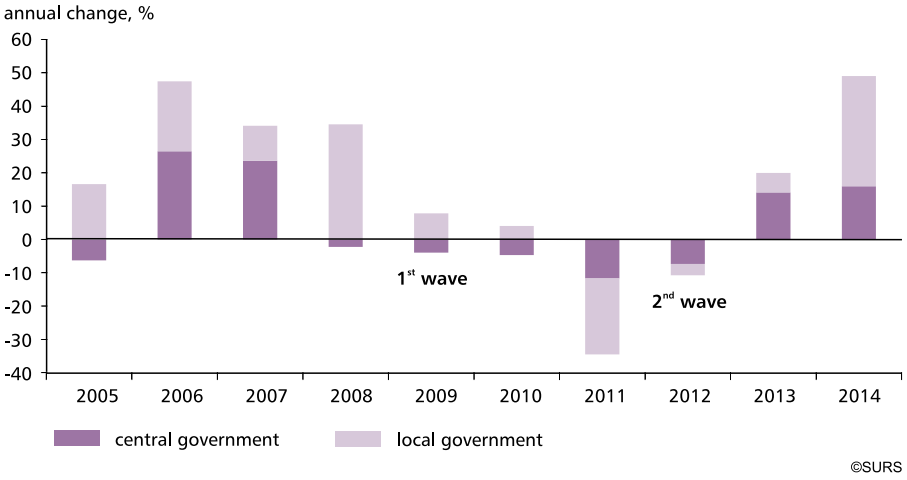


Source: Bank of Slovenia ([23])

During the economic crisis gross capital formation of the general government grew the most at the local level.

TRUE: In total gross capital formation, the share of the general government increased from 15.9% in 2008 to 25.7% in 2014. The general government mostly increased its investment at the local level (in municipalities); in nominal terms by 33.1% over 2013. At the central level the increase was 15.9% (Chart 16). The main reason for the increase is increased revenue from EU funds as a result of the 2007–2013 European perspective, which municipalities used to co-finance their investment. In 2009, when Slovenia entered the recession, the local level was still increasing investment (by 7.8% over the previus year), while investment at the central level already decreased (by 4.0%). In both subsectors of the general government sector investment declined the most in 2011: at the central level by 11.7% and at the local level by 22.8%.

Chart 16: **Gross capital formation of the general government, current prices**



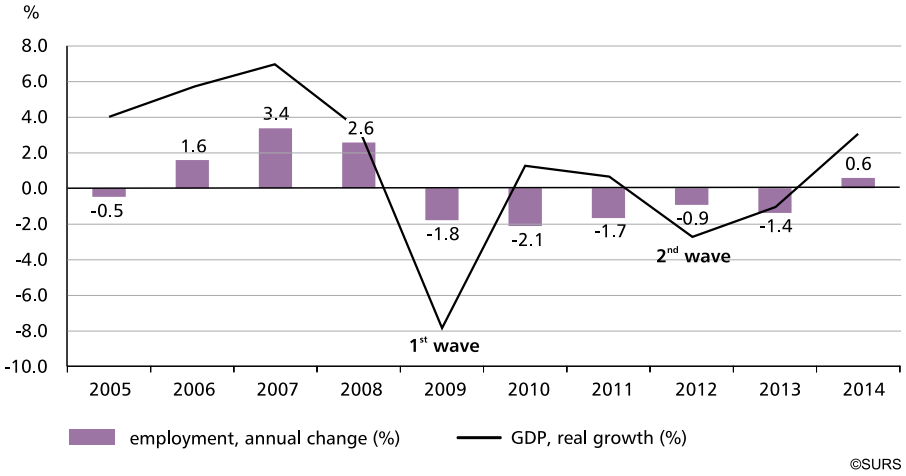
Source: SURS ([27])

Employment reacted to the economic trends in Slovenia with a delay.

TRUE: Slovenia recorded the highest employment just before the economic recession; 1,000,818 people were employed in 2008, the highest number after 1995. During the crisis, employment in Slovenia declined by 7.7% (76,566 persons) to 924,252 persons in 2013.

Chart 17 shows the impact of economic growth on employment in Slovenia before and during the crisis. Employment has been falling since 2009. During the economic crisis the highest drop was recorded in 2010 (by 2.1%), when real GDP growth was for the first time positive (1.2%). In the second wave of the economic crisis (real GDP growth -2.7%) employment declined the most in 2013 (by 1.4%). Economic growth in 2014 (3.0%) turned the trend in employment, which grew by 0.6% over the previous year.

Chart 17: **GDP and employment trends, Slovenia**



Source: SURS ([11])

What is labour productivity?

Labour productivity can be one of the indicators of the competitive position of an economy. Usually, it is measured as value added in the calendar year divided by the average employment, not taking into account whether people were in full-time or part-time employment. This is shown by the indicator labour productivity per hour worked.

According to the latest Eurostat data for 2014, with a 2.5% annual change in labour productivity per person employed in 2014 Slovenia was among the top five EU Member States and above the EU-28 average of 0.3%. In Latvia and Ireland labour productivity per person employed increased by more than 3% over the previous year[6].

[6] Eurostat ([32]).

Cartoon 4: Family budget

Source: Delo, 1 February 2014

4 A LOOK AT THE CRISIS THROUGH HOUSEHOLDS, ENTERPRISES AND THE GENERAL GOVERNMENT

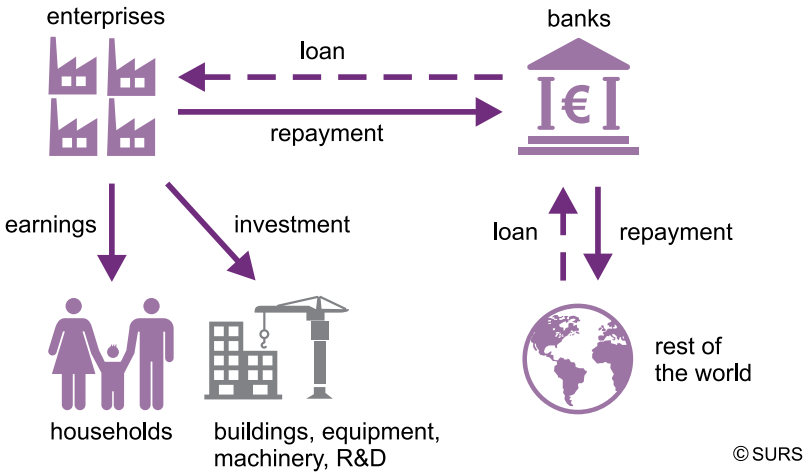
Who are the main actors of the economic crisis in Slovenia?

Confirm or reject the statements or simply read the explanations.

The economic crisis can also be shown through enterprises, banks, general government and households.

TRUE: Sectoral data show quite well the role of enterprises, households and other groups of economic entities in the country's economy. Financial and non-financial transactions (this publication focuses on non-financial) are constantly taking place between them, and changes in one sector affect other sectors. (More on institutional sectors in general in Chapter 1.)

Picture 2: **The most characteristic transactions between the sectors before the economic crisis (2005–2008)**



Picture 2 shows only some of the most important transactions between the sectors, namely those that had an important impact on the situation in individual sectors and/or the total economy before the economic crisis. Briefly and simply, they could be described in this way: for financing their investment, enterprises needed loans, which they borrowed from the banks, which borrowed in international markets. As long as the economic situation was favourable, both the enterprises and the banks were operating normally; banks were giving out loans, enterprises were repaying them, households (their members) were receiving earnings for work done.

Transactions of sectors with the general government sector were not outstanding before the crisis, so the general government sector is not shown in Picture 2.

What is the rest of the world sector?

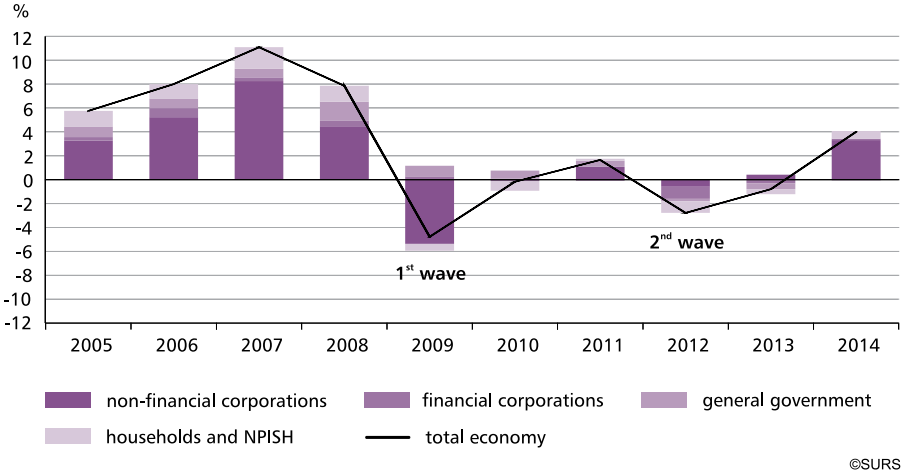
In addition to the five domestic institutional sectors, there is also the rest of the world sector, which includes those non-resident units that participate in the transactions with resident units. We monitor transactions performed by non-resident units with resident units.

A more detailed explanation about units classified into individual sectors can be found among definitions at the end of the publication.

All sectors contribute to the growth of the value added of the total economy, although some much more than the others.

TRUE: Chart 18 shows the well-known W curve, this time from the aspect of the contribution of an individual sector to total value added (or GDP) growth. Total growth is shown as a curve, while contributions of individual sectors are shown as columns. The rapid growth of value added (or GDP) before the crisis and the deep fall in 2009 were largely caused by enterprises, while in the period of less intensive growth (positive or negative) the contribution of sectors was more balanced.

Chart 18: **Contribution of individual sectors to value added growth, Slovenia**



Source: SURS (own calculation, [14])

The large extent of investment by non-financial corporations had a large impact on borrowing abroad.

TRUE: During the high economic growth (2005–2008), the extent of investment by enterprises increased significantly; in 2008 it was 52% larger than in 2005. Enterprises financed investment largely by bank loans, which increased the deficit of the non-financial corporations sector; in 2008 it was about EUR 3 billion (65% higher than in 2005).

To satisfy the increased demand of Slovene enterprises for loans, when interest rates were low and access to financial resources was easy the banks sought additional sources abroad. This had an indirect impact on the increase in the deficit of total economy, and as a result on external debt; in these years the deficit increased by as much as 167%.

The relatively small financial sector had an important role during the crisis.

TRUE: Increased investment activity of enterprises in the 2005–2008 period had an indirect impact on **total bank assets**, which according to the Bank of Slovenia (Bank of Slovenia 2015) reached the highest value of 144% of GDP in 2009. Later on it declined and in 2014 it was only 104% of GDP. For comparison: in Ireland it was over 700% of GDP in 2009. Compared to the euro area, where total bank assets amounted to more than 300% of GDP, total assets of the Slovenian banking system were relatively low.

Nevertheless, the problems of state-owned banks with the onset of the financial crisis and shrinking financial resources did not affect only the decline in credit growth (this was partly the result of great debt or high financial leverage of enterprises) but made the government financial position (general government sector) much worse.

The role of general government and its economic policy was not very important during the crisis.

NOT TRUE: Contrary to the financial and non-financial corporations sectors, in the period of rapid economic growth the situation in the general government sector was relatively calm. The growth of revenue was followed by the growth of expenditure and the general government finished these years with deficits below 1.5% of GDP.

With the economic crisis, the economic role of the general government became much more visible. This was first evident in so-called **automatic stabilisers** (taxes, subsidies, social transfers) and then in bank recapitalisation and borrowing abroad.

What are total bank assets?

Total bank assets as a share of GDP show the development of the banking system in a country and in developed countries usually exceeds 100%. High values of this indicator (at least 200%) can increase exposure of the economy to banking crises.

Total bank assets are the sum of all asset items, i.e. assets at disposal of the bank, or all liability items, i.e. sources of assets, in balance sheets of commercial banks.

What are automatic stabilisers?

Automatic stabilisers are absorbers of negative effects of the economic crisis on income of economic entities. With the decline in economic activity, they are automatically reduced (e.g. less taxes are collected) or increased (e.g. an increase in unemployment leads to more people receiving unemployment benefits). They always have a positive impact on income and are anti-cyclical.

Household saving is the most important domestic source of investment financing.

TRUE: Rapid growth of external debt in the 2005–2008 period emphasised the importance of household saving (domestic saving). The part of saved assets that becomes bank deposits is namely an important source of bank financing. The largest share of disposable income was saved by households in 2006; at that time the household saving rate was 16.7%. Despite the growing household disposable income, in the next two years before the crisis the saving rate declined by a couple of tenths of a percentage point (in 2008 to 16.1%) (Table 12).

Of course, households do not intend all savings for bank deposits and other forms of saving; part of it is spent on housing investment. The share of housing investment in household disposable income is expressed by the household investment rate; between 2005 and 2008 it increased from 9.1% to 10.4%. As expected, in the 2005–2008 period households increased the level of investment, but the increase was not particularly large.

During the economic upturn and with easier access to loans, saving habits of households in Slovenia did not change much, so compared to other European countries, the level of household debt in Slovenia remained relatively low. The household saving rate declined more significantly during the crisis; it was the lowest (11.3%) in 2012, while in 2014 it stood at 14.3%.

What is the household saving rate?

The saving rate is the ratio between household saving and disposable income of households. It increases when consumption grows less than disposable income.

In the past, it was also influenced by some extraordinary events. In the period since 1995, households saved the lowest share of their disposable income (9.6%) in 1999 when the VAT was introduced. About the same impact on the decline in the household saving rate came from the end of first national housing saving schemes in 2003.

In 2005–2008 the household saving rate in Slovenia was among the highest in the EU; after the onset of the crisis, it declined more than in the EU-28 overall.

Table 12: **Household saving rate, European comparison**

	2005	2008	2014
Slovenia	15.0	16.1	14.3
EU-28	11.5	11.1	10.6
EU-19	13.6	13.3	12.7

Sources: SURS ([15]), Eurostat ([37])

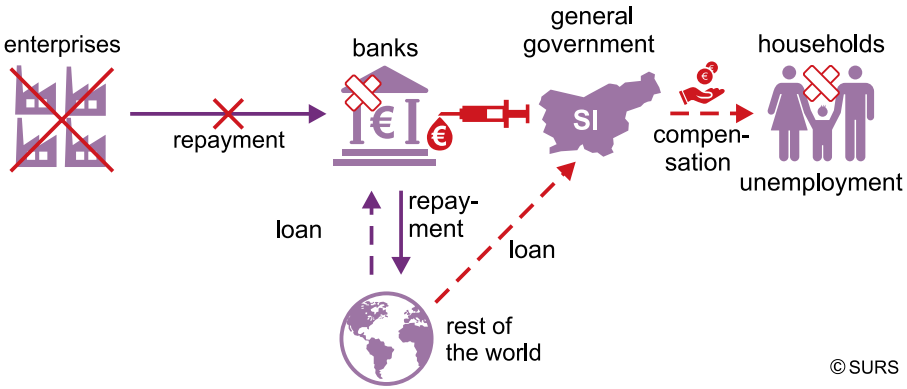
Where did it start and what was its course?

Confirm or reject the statements or simply read the explanations.

The economic crisis significantly changed the relationships between the sectors.

TRUE: Picture 3 shows in a simplified way some flows between the sectors after the onset of the economic crisis. Some enterprises were hit hard by the crisis and they were no longer able to repay their loans. Many loans were not reprogrammed, enterprises went bankrupt, people lost their jobs, and with the growth of bad loans banks were in trouble.

Picture 3: **The most characteristic transactions between the sectors during the economic crisis (2009–2013)**



Contrary to the period before the crisis, the role of the general government was much more visible. Through unemployment benefits, the general government took over part of the burden of households whose members lost their jobs and with capital transfers it recovered banks it owned. General government expenditure increased significantly (with lower revenue), which resulted in (expensive) general government borrowing.

"Obviously, being highly leveraged – having a lot of debt relative to your income or assets – makes you vulnerable when things go wrong. […] A company obliged to devote most of its cash flow to paying off debt incurred from a leveraged buyout may go under quickly if sales falter, while a debt-free business may be able to ride out the storm."

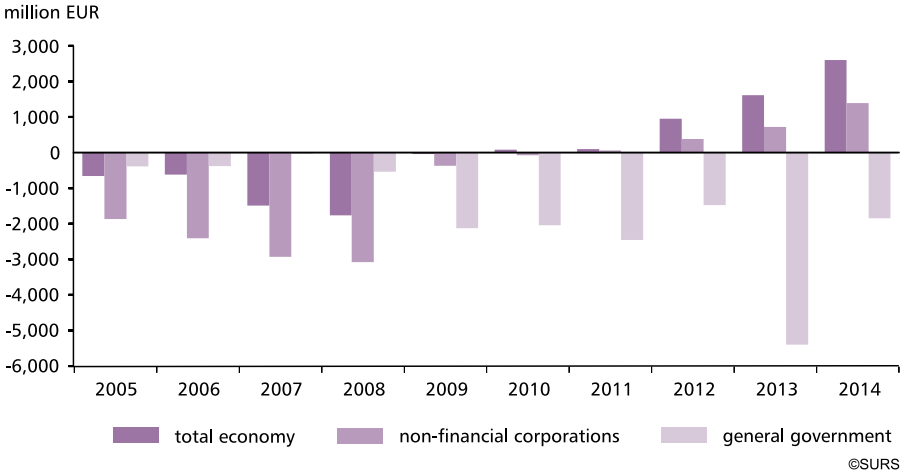
Krugman, P., Nobel laureate for economics, (2012, p. 42)

The deficit of the total economy with the rest of the world increased with the onset of the economic crisis in 2009.

NOT TRUE: The deficit of the total economy in transactions with the rest of the world was, mostly due to increased investment by non-financial corporations, high already before the economic crisis. This investment was largely financed by borrowing abroad, so the increased investment did not reflect only in the higher deficit of non-financial corporations but also in the deficit of the total economy. Enterprises first adapted to the worsening of the economic situation by slowing down their investment activity and thus indirectly influenced the significant decline in the deficit in the non-financial corporations sector: from EUR 3,078 million in 2008 to EUR 373 million in 2009.

As a result, the deficit of the total economy with the rest of the world declined from EUR 1,763 million in 2008 to EUR 41 million in 2009. In 2010, after several years of deficit, the total economy generated a surplus, which has been increasing ever since. The high deficit characteristic of non-financial corporations before the crisis was replaced by the high general government deficit (Chart 19 and Table 13).

Chart 19: **Deficit/surplus of the total economy, non-financial corporations and general government, Slovenia**



Source:SURS ([14])

Table 13: **Deficit/surplus by sectors, current prices, Slovenia**

million EUR

	2005	2008	2014
Total economy	**-661**	**-1,763**	**2,600**
Of which:			
non-financial corporations	-1,867	-3,078	1,390
financial corporations	232	203	1,056
general government	-390	-537	-1,848
households and NPISH	1,364	1,648	2,002

Source: SURS ([14])

Deficit/surplus of the total economy reflects the total current deficit/surplus of domestic sectors in transactions with the rest of the world. Deficit/surplus of an individual domestic sector equals the total deficit/surplus in transactions of this sector with other domestic sectors and the rest of the world.

Worse economic situation had an impact on the increase in general government deficit.

TRUE: Compared to 2008, in 2009 government financial position deteriorated significantly. The reasons for the decline, which is reflected by the increase in the general government deficit, were both on the revenue and expenditure side. With the economic crisis, budget revenues declined, particularly revenues from taxes on production and imports and taxes on income and wealth. At the same time, expenditure continued to grow, particularly compensation of employees and social benefits. The general government deficit increased from EUR 537 million in 2008 to EUR 2,127 million in 2009 (Chart 19 and Table 13).

As the crisis continued, the impact of the mentioned reasons on the general government deficit gradually declined. A new factor became more important, which additionally worsened the general government deficit, namely capital transfers to banks. The largest capital transfer with which the general government recapitalised the banks (NLB, NKBM, Abanka, Factor banka and Probanka) in the fourth quarter of 2013 amounted to EUR 3,187 million (8.9% of GDP in 2013). The long-term public finance problem became interest (as a result of borrowing), which in 2014 exceeded a billion euros (EUR 1,184 million or 3.2% of GDP).

Households felt the economic crisis even more in its second wave.

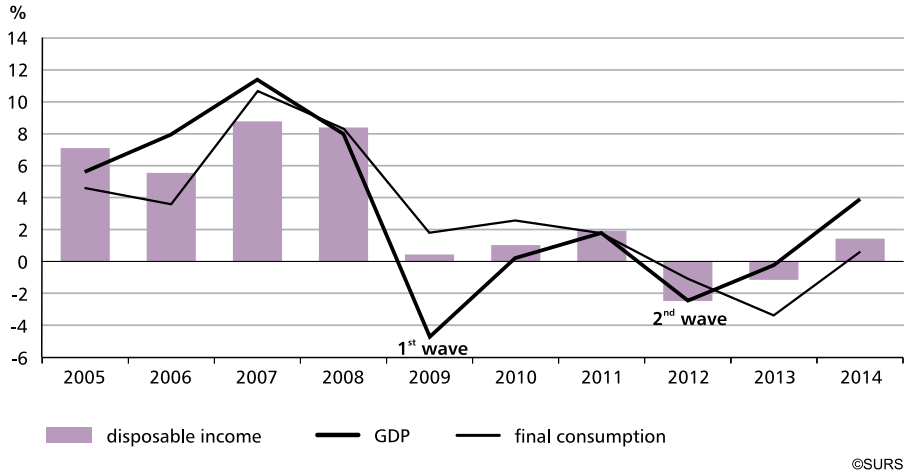
TRUE: Compared to other sectors, households are a relatively stable sector. This was confirmed during the latest economic crisis, when (absolute and relative) changes in most of the macroeconomic indicators for households were smaller than in other sectors. However, it is also true that households are much more sensitive to changes in disposable income and consumption and that people detect even the smallest deterioration.

That changes are visible also from statistical data and are not detected only in our wallets is shown in Chart 20. With the distinct decline of GDP and employment in the first wave of the crisis (2009), the growth rate of household consumption declined but remained positive (this is also true of disposable income). The level of final consumption and thus household well-being was much more influenced by the second wave of the crisis (2012). At that time decline in consumption followed GDP decline and in 2013 exceeded it.

"During the 2007-2009 Great Recession, states rescued their banks, fearful that the latter's problems would push the economy into a catastrophe similar to the 1930s Great Depression. Just as the Great Recession had painfully started to subside, a sovereign debt risk appeared in Europe. […] The situation had changed radically; it was now the banks that were worried about their governments' solvency."

Lemieux, P., economist (2013, p. 29)

Chart 20: **Comparison of trends in GDP, final household consumption and household disposable income, current prices, Slovenia**



Source: SURS (own calculation, [14])

The level of consumption depends on the share of disposable income the households spend on consumption and their propensity to save (saving rate). The saving rate declined with the onset of the crisis and continued to decline until the end of 2012, which had a positive impact on consumption. The decline in the saving rate means that households intend a higher share of disposable income for consumption than they would with unchanged saving rate.

Decline in household consumption in the second wave of the crisis can thus be fully explained with the decline in the household disposable income. Chart 21 shows annual growth rates of household disposable income and main components having impact on it.

The structure of final consumption expenditure by purpose shows the impact of the crisis on economy from another point of view (Table 14). The share of expenditure on durable goods (cars, furniture, household equipment, etc.) declined, while the share of expenditure on non-durable goods (food and beverages, fuel, etc.) grew.

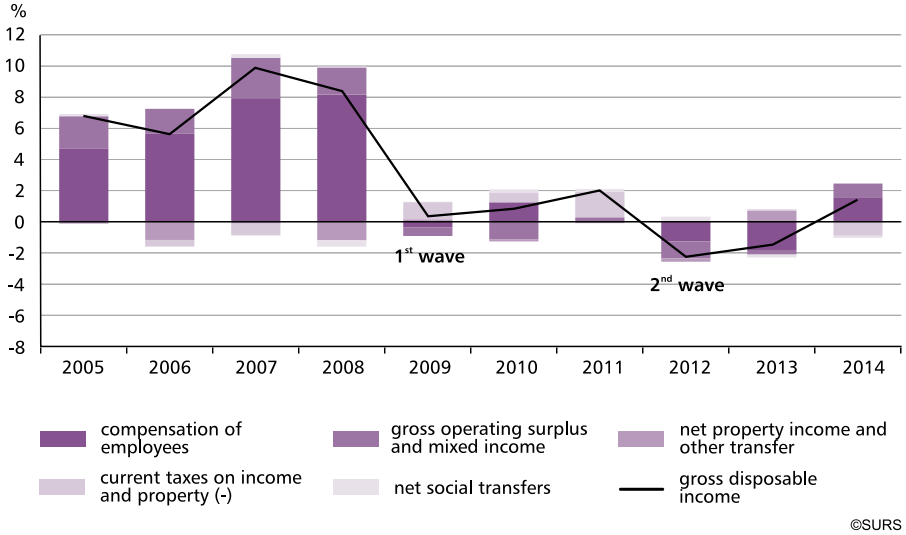
Table 14: **Structure of final consumption expenditure by purpose, domestic concept, current prices**

%

	2005	2008	2014
Total	**100.0**	**100.0**	**100.0**
Of which:			
durable goods	10.6	11.1	7.6
semi-durable goods	9.3	8.6	8.5
non-durable goods	37.8	37.4	41.9
services	42.4	43.0	42.0

Source: SURS ([13])

Chart 21: **Gross disposable household income and contribution of main components, current prices, Slovenia**



Source: SURS (own calculation, [14])

Compensation of employees is the main component affecting the disposable income; its growth or fall significantly determines the trends in disposable income. On Chart 21 this is particularly evident for 2007 and 2008. However, the economic crisis has shown that other components are also important. With a sharp decline in GDP in 2009, due to the positive impact of lower taxes on income and wealth and increase in social transfers, the (nominally) positive growth of household disposable income continued. Even though the decline in GDP in the second wave of the crisis was much smaller than in the first wave, households felt the second wave much more because at that time there was no positive impact of automatic stabilisers on the level of disposable income.

"It never occurs to me to look what is written on a product; is it healthy, not healthy, how many preservatives it has, is it of Slovenian origin or not. The only thing that matters to me is the price. I buy what is on discount and adjust my menu appropriately."

Jelka Bobonja, cleaner, statement of the year, 2012

Is the crisis over?

Confirm or reject the statements or simply read the explanations.

After two years of decline, in 2014 GDP growth was positive again.

TRUE: After another GDP decline in 2012 and 2013, in 2014 economic growth was positive again. Economic growth determines precisely only the start and the end of the recession (Chapter 2), while recession is a narrower term than the economic crisis. However, in view of different statistical indicators (GDP growth, export growth, employment growth, etc.) and optimistic forecasts, we can claim that the economic crisis (not only recession) is behind us. One has to distinguish between the economic crisis and its consequences, which are still there and will take much more time to overcome.

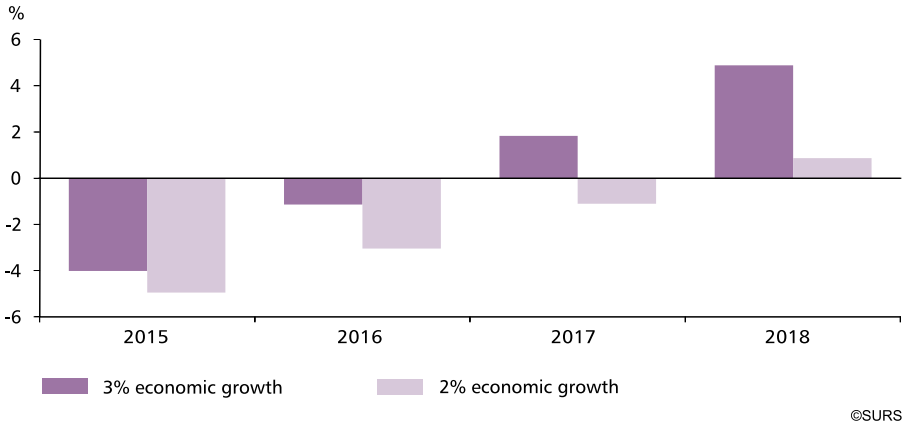
Compared to 2013, in 2014 GDP grew in real terms by 3.0%, which is the biggest growth since 2008 (when GDP grew by 3.3%). In 2014, we were still 6.8% (in 2013 9.6%) behind the 2008 GDP level. According to forecasts by national and international institutions (March 2015), in the next three years GDP is expected to grow slightly less at around 2% per year.

Chart 22 shows the impact of economic growth on GDP level in the next four years (the 2% and 3% annual growth scenarios). Columns indicate the difference between GDP that could be achieved with the assumed growth rate in individual years and GDP in 2008. If the economy continued to grow as in 2014 (or slightly less), Slovenia would reach the pre-crisis level in 2017. If the economy grew by 2% per year, Slovenia would reach the pre-crisis level in 2018.

"Long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again."

John Maynard Keynes, economist

Chart 22: **When will Slovenia reach the pre-crisis (2008) level of GDP, two scenarios**



Source: SURS (own calculation, [7])

The non-financial corporations sector has been in a new investment cycle since 2014.

NOT TRUE: The non-financial corporations sector generates around 60% of value added of the total economy, so the situation in this sector largely determines the general economic situation in the country. In the 2005–2008 period the sector experienced rapid growth of borrowing. The process of deleveraging started in 2009 and has not finished by 2014. The process of deleveraging is shown by the surplus the sector has had since 2011 (Chart 19).

However, surplus in the non-financial corporations sector is not a sign of a normal situation. With usual investment activity, when enterprises (partly) finance their investment by borrowing, a deficit is usual. Investment activity in 2014 was much lower not only compared to 2008 but also compared to 2005. Investment thus continues to be at a relatively low level.

Employment and household consumption expenditure grew again in 2014.

TRUE: An important aspect of economic recovery is growth of employment and financial resources available to the population for consumption expenditure.

After five years of decline, in 2014 employment grew again (Chart 17 in Chapter 3). In Slovenia around 930,000 persons were employed, which is 0.6% more than a year earlier. Despite the increase, employment in 2014 was still lower (by more than 71,000 persons) than in 2008.

After two years, in 2014 household final consumption expenditure grew again. Chart 20 shows that the economic growth and the growth of household final consumption expenditure are strongly related, but there are exceptions (e.g. 2009). Economic growth and the good condition of enterprises have a positive impact on the well-being of households, but a more direct and more reliable indicator of material well-being of households is their consumption. Growth of household consumption expenditure can namely outpace economic growth or lag behind it.

Real growth of household consumption expenditure in 2014 (0.6%) lagged behind GDP growth. Before that, it was negative for two consecutive years (and these were the only two years during the crisis in which it was negative).

Growth of household final consumption expenditure and employment growth in 2014 indicated positive trends in the household sector. Further development will depend not only on the functioning of this sector but largely also on decisions made in other sectors.

"We must not accept the fact that regular employment is a luxury, that maternity leave is a privilege, that the pension is an idea of the past. I have a regular job and when I find myself in the company of my peers I sometimes feel "privileged" as if I won a lottery. This is not right."

Maja Kalan,
collaborator in the Next Generation project, statement of the day,
Večer, 2 July 2015

Cartoon 2: End of recession

Cartoon 3: Exports
Slovenian economy

Cartoon 4: Family budget

5 40 KEY STATEMENTS ABOUT THE ECONOMIC CRISIS

1.	In 2009 the European economy was hit by the greatest economic crisis since the so-called Great Depression (1929–1933) p 16.	**TRUE.**
2.	The economic crisis hit the EU economies harder than the US economy. p. 17.	**TRUE.**
3.	The current economic crisis has roots in the banking crisis. p. 17.	**TRUE.**
4.	Economic growth is not uniform. p. 17.	**TRUE.**
5.	The crisis reflects in different sectors with different indicators. p. 18.	**TRUE.**
6.	During the crisis the general government deficit grew in most EU Member States. p. 18.	**TRUE.**
7.	Slovenia is one of the five EU Member States where general government debt increased the most during the crisis. p. 19.	**TRUE.**
8.	The higher the general government debt the higher the cost of interest. p. 21.	**TRUE.**
9.	In 2014, GDPs of EU Member States reached the pre-crisis level of 2008. p 22.	**PARTLY TRUE.**
10.	The impact of the economic crisis on people's well-being is measured with GDP. p. 23.	**PARTLY TRUE.**
11.	In 2015, Slovenia was the only EU Member State that decreased macroeconomic imbalances compared to the previous year. p. 24.	**TRUE.**
12.	The Slovenian economy is export oriented. p. 30.	**TRUE.**
13.	Labour in Slovenia is taxed more than in other EU Member States. p. 30.	**NOT TRUE.**
14.	In Slovenia state involvement in the economy is large. p. 31.	**TRUE.**
15.	Slovenia is a social state. p. 32.	**PARTLY TRUE.**
16.	Economic differences between the twelve statistical regions in Slovenia are large. p. 34.	**PARTLY TRUE.**
17.	Slovenia was better prepared for the economic crisis due to high economic growth before the crisis. p. 36.	**PARTLY TRUE.**
18.	The state of Slovenian public finance deteriorated significantly during the crisis. p. 37.	**TRUE.**
19.	Economic expansion before the crisis was mostly based on construction. p. 38.	**PARTLY TRUE.**
20.	During the crisis investment of the Slovenian economy as a share of GDP was among the highest in the EU. p. 39.	**NOT TRUE.**
21.	The economic crisis endangered the most jobs in enterprises; general government was employing during the crisis. p. 40.	**PARTLY TRUE.**
22.	The economic crisis affected the most employees with the lowest education level; labour costs for employees with the highest education level decreased. p. 41.	**TRUE.**
23.	The economic crisis caused the search for new opportunities on the labour market. p. 41.	**TRUE.**
24.	The most important factor of economic recovery in Slovenia is exports of goods and services. p. 44.	**TRUE.**
25.	Growth in exports of goods and services during the economic crisis was the result of the better economic situation in Germany. p. 44.	**PARTLY TRUE.**
26.	During the economic crisis gross fixed capital formation of the general government grew the most at the local level. p. 45.	**TRUE.**
27.	Employment reacted to the economic trends in Slovenia with a delay. p. 46.	**TRUE.**

28. The economic crisis can also be shown through enterprises, banks, general government and households. p. 48. **TRUE.**
29. All sectors contribute to the growth of the value added of the total economy, although some much more than the others. p. 49. **TRUE.**
30. The large extent of investment by non-financial corporations had a large impact on borrowing abroad. p. 49. **TRUE.**
31. The relatively small financial sector had an important role during the crisis. p. 50. **TRUE.**
32. The role of general government and its economic policy was not very important during the crisis. p. 50. **NOT TRUE.**
33. Household saving is the most important domestic source of investment financing. p. 51. **TRUE.**
34. The economic crisis significantly changed the relationships between the sectors. p. 52. **TRUE.**
35. The deficit of the total economy with the rest of the world increased with the onset of the economic crisis in 2009. p. 53. **NOT TRUE.**
36. Worse economic situation had an impact on the increase in general government deficit. p. 54. **TRUE.**
37. Households felt the economic crisis even more in its second wave. p. 54. **TRUE.**
38. After two years of decline, in 2014 GDP growth was positive again. p. 57. **TRUE.**
39. The non-financial corporations sector has been in a new investment cycle since 2014. p. 58. **NOT TRUE.**
40. Employment and household consumption expenditure grew again in 2014. p. 58. **TRUE.**

COUNTRY ABBREVIATIONS

EU-28	28 EU Member States
EU-19	19 EU Member States with euro as the national currency (euro area)
AT	Austria
BE	Belgium
BG	Bulgaria
CZ	Czech Republic
CY	Cyprus
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PO	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom
US	United States

ABBREVIATIONS AND UNITS OF MEASUREMENT

%	percent
BS	Bank of Slovenia
EDP	Excessive Deficit Procedure
EMU	European Monetary Union
EU	European Union
EUR	euro
Eurostat	Statistical Office of the European Union
FURS	Financial Administration of the Republic of Slovenia
GDP	gross domestic product
GFCF	gross fixed capital formation
GNI	gross national income
ITR	implicit tax rates
mio.	million
MIP	Macroeconomic Imbalance Procedure
NACE	Statistical Classification of Economic Activities in the European Community
NKBM	Nova kreditna banka Maribor d.d.
NLB	Nova Ljubljanska banka d.d.
NPISH	non-profit institutions serving households
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Co-operation and Development
R&D	research and development
SURS	Statistical Office of the Republic of Slovenia
VAT	value added tax

DEFINITIONS OF SOME TERMS USED

A

Aggregate is a total calculated from various data.

Aggregates in national accounts, such as income, consumption and saving, measure one of the aspects of activity within the economy. They yield composite indicators and key values used in macroeconomic analyses and comparisons in time and space. In the system of national accounts some of them are calculated directly as sums of special transactions, e.g. final consumption expenditure, gross capital formation and social contributions, while others are calculated as a result of aggregate balancing items of institutional sectors, e.g. value added, which is the balancing item of the production account.

B

Bad loans are loans that are likely not to be repaid.

Bankruptcy is a legal status of an enterprise that is not able to meet its commitments over a longer period of time.

C

Capital transfers are taxes on capital (e.g. inheritance taxes), investment subsidies for financing the cost of acquisition of fixed assets and other transfers (e.g. transfers to enterprises for covering their losses, bank capitalisation, payment for damage or loss of investment goods due to natural disasters, etc.). With capital transfers savings or assets are redistributed.

Conditional financial assistance is assistance from the European Stability Mechanism (ESM), which can loan up to EUR 500 billion to euro area countries. The ESM has been functioning since 2012 as a permanent financial support mechanism and is the basis for European financial protection measures and a part of the comprehensive EU strategy for financial stability of the euro area. Financial assistance from the ESM can be obtained by those countries that ratified the Treaty on Stability, Coordination and Governance. The ESM is supplemented by enhanced supervision.

Consolidation is the elimination of stocks and transactions between and within subsectors of an individual institutional sector.

D

Debt crisis is a general term for the general government debt crisis. Since the onset of the current economic crisis the debt crisis has been frequently mentioned in connection with some European countries. The debt of these countries grew so much that they were not able to service it on their own, so they asked the international community for financial aid.

E

Employment in national accounts covers persons in employment, self-employed persons and unpaid family workers in agriculture, self-employed persons in other household activities, student work and other forms of temporary employment, employment in maritime transport on Slovenian ships, in Slovenian diplomatic and consular missions abroad, enterprises without employees, etc.

Euro area is composed of 19 EU Member States (Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain) in which the euro is the national currency. Slovenia became an EU Member State on 1 May 2004, joined the EMU on 28 June 2004 and took over the euro on 1 January 2007. At that time the central bank set the exchange rate at 1 EUR = 239.64 SIT, which was the rate at which Slovenian tolars were converted into euros on 1 January 2007.

F

Financial crisis can be defined as a crisis of financial markets, i.e. the financial corporations sector. Financial crises appear in various forms and the theory distinguishes between different types. Because the sectors are connected, it is very probable that the financial crisis will spread to other sectors. In the current crisis the banks were no longer capable of meeting their commitments and countries helped them extensively with financial aid (bank capitalisation).

Financial leverage is the ratio between operating profits and total profits. Its value can be 1 or more; value 1 means that operating profits and total profits are the same (interest costs are zero) and the enterprise finances its activity exclusively with equity. The higher the financial leverage the greater the risk for the enterprise.

Fiscal rule is a budget rule for providing a balanced budget and preventing the general government from borrowing extensively, meaning that general government expenditure must be lower than general government revenue. From 2013 on Article 148 of the Slovenian Constitution reads "[…] Revenues and expenditures of the budgets of the state must be balanced in the medium-term without borrowing, or revenues must exceed expenditures. Temporary deviation from this principle is only allowed when exceptional circumstances affect the state."

Fixed capital consumption or depreciation is the cost of production. It is a decline in the value of fixed assets in production in a given period as a result of normal wear and tear and foreseeable obsolescence.

G

GDP deflator is a measure of the general price level and is calculated as the ratio between nominal GDP (at current prices) and real GDP (at constant prices). It is also known as the implicit deflator. Its value is affected the most by the consumer price index, which is in national accounts primarily used for estimating household final consumption expenditure at constant prices, and the terms of trade index, which is the ratio between the change in export prices and the change in import prices. Value added is the difference between production and intermediate consumption. It is the difference between the value of produced goods and services and the value of inputs, i.e. expenditure for everything that was consumed in the production process.

GDP per capita is the most frequently used indicator of a country's development level and the most frequently used indicator in international comparisons. It is calculated by dividing the total GDP by the population.

Gross capital formation covers gross fixed capital formation, changes in stocks, and purchase less sale of valuables of an institutional unit or a sector. Gross capital formation is an element of the expenditure method of calculating GDP and a component of domestic demand.

Gross fixed capital formation (GFCF) covers the acquisition of new and existing fixed assets (disinvestment) by resident producers in a specified period. Fixed assets used for over a year are buildings, machinery and equipment, intellectual property products, etc.

K

Key ECB interest rate is the interest rate at which banks can borrow from the European Central Bank (ECB). The lower it is, the cheaper the bank financing, which means that the credits given by banks can also be cheaper. At the same time this, of course, means lower interest rates and thus lower deposit interest rates.

L

Labour costs are employer's expenditure related to employing personnel. Labour costs comprise wages in cash and in kind, social security contributions and other work-related costs.

Labour migration index is the ratio between the number of persons in employment (excluding farmers) in a territorial unit of workplace and the number of persons in employment (excluding farmers) in a territorial unit of residence multiplied by 100.

Lehman Brothers was the fourth largest investment bank in the United States. Due to bad investment it went bankrupt on 15 September 2008, which scared other banks and investors with which it was doing business. This event marks the beginning of the global financial crisis, since – fearing that other banks will also go bankrupt – at that time banks and investors became very cautious. Due to the contraction of interbank lending, some banks that depended on this type of financing found themselves on the brink of bankruptcy.

M

Macroeconomics is a branch of economics dealing with the national economy as a whole and is the opposite of microeconomics. It monitors and studies problems, concepts and individual institutions of the national economy. Macroeconomics is also a branch of economics studying mutual interactions of individual economic categories.

Mixed income is a residual category in the calculation of value added of self-employed persons and unincorporated enterprises. It covers income from self-employment which has both characteristics of earnings and profits. It equals compensation for work performed by the owner and members of his or her family and cannot be separated from entrepreneurial profits.

N

Nominal changes are changes from which the impact of prices is not eliminated, e.g. GDP at current prices.

O

Operating surplus is a residual category of value added in financial and non-financial corporations and in housing activities of households. It can be shown as net value or as gross value where the accumulated value of fixed capital consumption (depreciation) is not subtracted. In non-market activities gross operating surplus equals fixed capital consumption.

R

Real changes or volume changes are changes from which the impact of prices is eliminated, e.g. GDP at constant prices.

Regional GDP is the most important regional economic indicator. It is used for the allocation of European structural funds to reduce the development gap between regions in EU Member States.

Resident unit is a unit whose centre of predominant economic interest is on the economic territory of the country, i.e. when it performs economic activities on this territory over a longer period (exceeding one year).

S

The **general government** sector (S.13) consists of institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The sector includes most of the budget users, the Health Insurance Institute of Slovenia, the Pension and Disability Institute of Slovenia, etc.

The **financial corporations** sector (S.12) consists of institutional units which are independent legal entities and market producers, and whose principal activity is production of financial services. The sector includes the Bank of Slovenia, banks, insurance companies, mutual funds, leasing companies, etc.

The **households** sector (S.14) consists of individuals or groups of individuals as consumers and as entrepreneurs and other natural persons performing their activities.

The **non-financial corporations** sector (S.11) consists of institutional units which are independent legal entities and market producers, and whose principal activity is production of goods and non-financial services.

The **NPISH** sector (S.15) consists of non-profit institutions such as societies, political parties, trade unions, religious communities, humanitarian organisations, etc.

Sector accounts provide, by institutional sectors, a systematic description of the different stages of the economic process: production, generation of income, distribution of income, redistribution of income, use of income, and financial and non-financial accumulation. The sector accounts also include balance sheets to describe the stocks of assets, liabilities and net worth at the beginning and the end of the accounting period.

Subsidies on production are divided into subsidies on products and other subsidies on production.

Subsidies on products are current, irrevocable payments by the general government or the EU to enterprises. They are paid per unit of produced or imported good or service.

Supply and use tables are matrices describing in detail the domestic production process and transactions in products of the domestic economy. They show the structure of production, costs of production and incomes generated in the process of production, flows of goods and services produced within the domestic economy, and flows of goods and services with the rest of the world.

T

Taxes on production and import are divided into taxes on products and other taxes on production.

Taxes on products are taxes per unit of a good or service sold or exchanged. An example is the value added tax (VAT).

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Source: Delo, 30 May 2015

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