



REPUBLIKA
SLOVENIJA
Ministrstvo za
finance

EXPERIENCE WITH THE EURO AND OUTLOOK FOR SLOVENIA

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Experience with the euro (1)

- 8 or 9 years ago, well before the launch of euro coins and banknotes, the euro was dubbed »An Awfully Big Adventure« - Scepticism;
- Today, the euro is firmly established as the second biggest reserve currency (about a quarter of global reserves are in euro), more than a simple sum of currencies preceding the euro.

Experience with the euro (2)

- Apart from certain outliers, average euro area inflation is contained @ close to 2%;
- Growth differentials remain, but the business cycles indicate certain level of **synchronization**.
- Dispersion of growth rates largely a result of differences in trend growth.
- EMU has brought pressure on Europe to tackle its structural reform agenda

Slovenia & the euro area

- Exhibits one of the highest degrees of cyclical correlation with the euro area;
- Nominal convergence gradually established in the run up to the euro, real convergence should follow.
- To this purpose, an ambitious Stability Program and National Reform Program were drawn up.

Stability Program (1)

- Objective: creation of conditions for a faster and sustainable welfare increase in Slovenia above the average level of the enlarged EU;
- Maintain **macroeconomic stability** and **competitiveness**
- Pursue **fiscal consolidation** while providing room for financing key infrastructure projects and a comprehensive tax reform

Stability Program (2)

- **Growth** projections $> 4\%$;
- **Inflation** to remain modest @ around $2,5\%$;
- General government **deficit** to fall from $1,6\%$ GDP in 2006 to $1,0\%$ GDP in 2009;
- General government **debt** @ around 28% GDP.

Stability Program (3)

- Fiscal strategy ambitious: lowering the tax burden will lower the general government revenue by 3.3% GDP. This is offset by a reduction in general government expenditure of 4% GDP.
- At the same time, sizeable new infrastructure projects will be financed.

Stability Program (4)

- Against previous Council recommendations, Slovenia has used every opportunity to lower the deficit (in 2005 the deficit is 0,3% GDP lower than in the last Convergence Program);
- Major challenge remains population ageing and long-term sustainability: the government not idle, gradual approach.