



THE GOVERNMENT OF THE REPUBLIC OF SLOVENIA
INSTITUTE OF MACROECONOMIC ANALYSIS AND DEVELOPMENT

Macroeconomic Challenges Upon Adoption of the Euro

*Conference "EMU GOVERNANCE AND EURO CHANGEOVER: Slovenia on the path
to the adoption of the euro"*

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Ljubljana, 17 March 2006

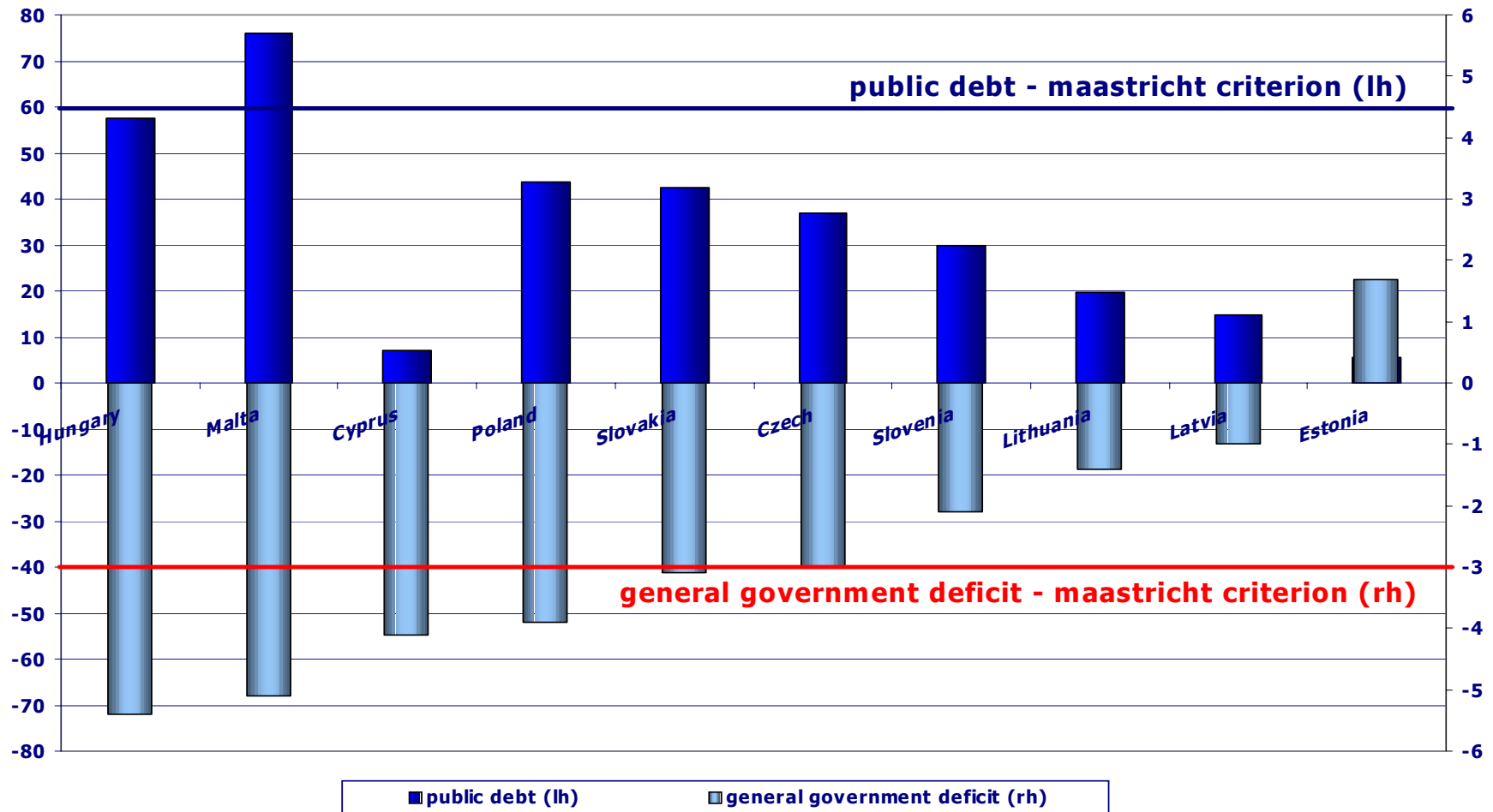
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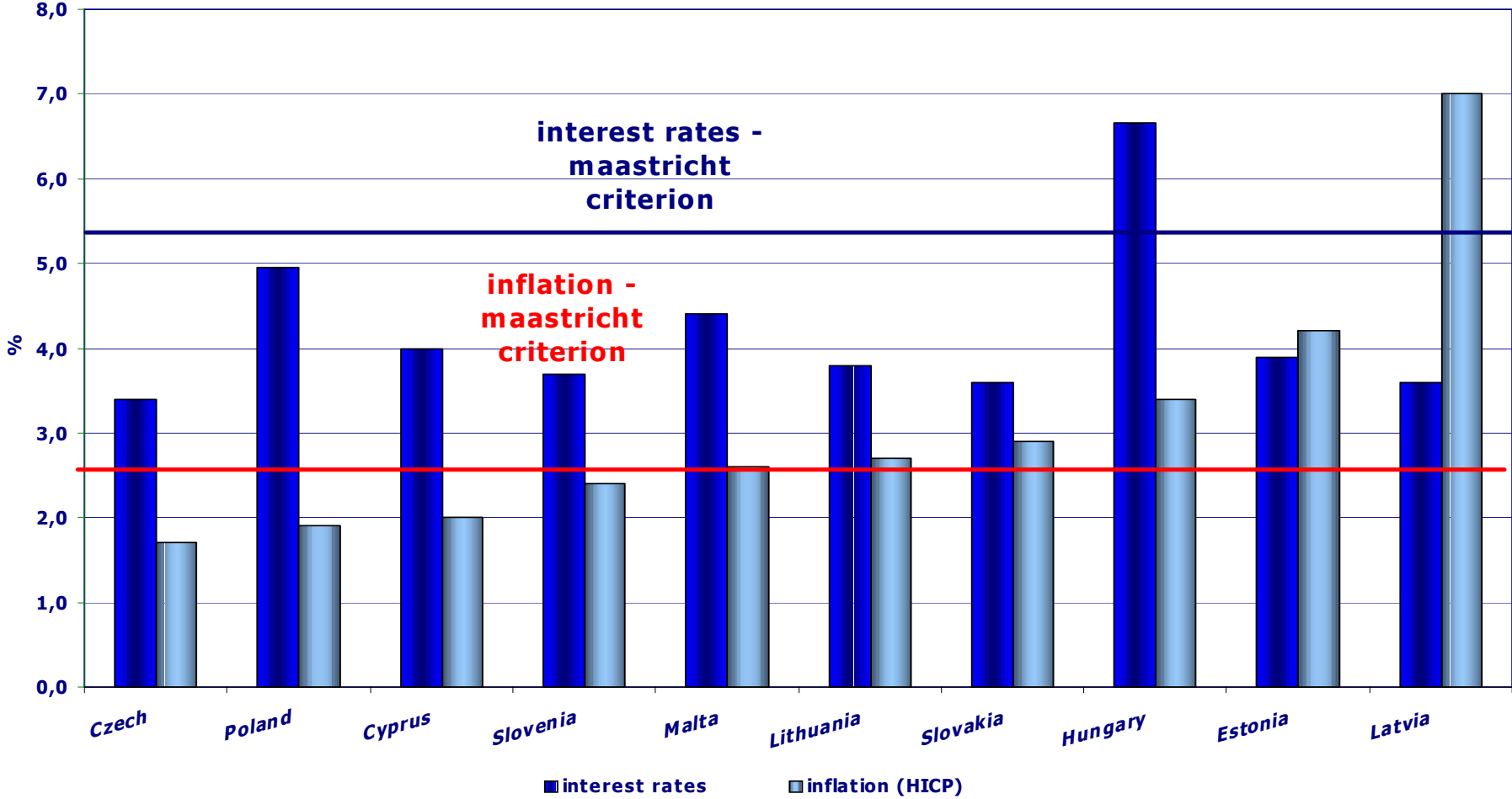
Fulfilment of the Maastricht criteria

Slovenia has been fulfilling the nominal convergence criteria for the adoption of the euro since November 2005

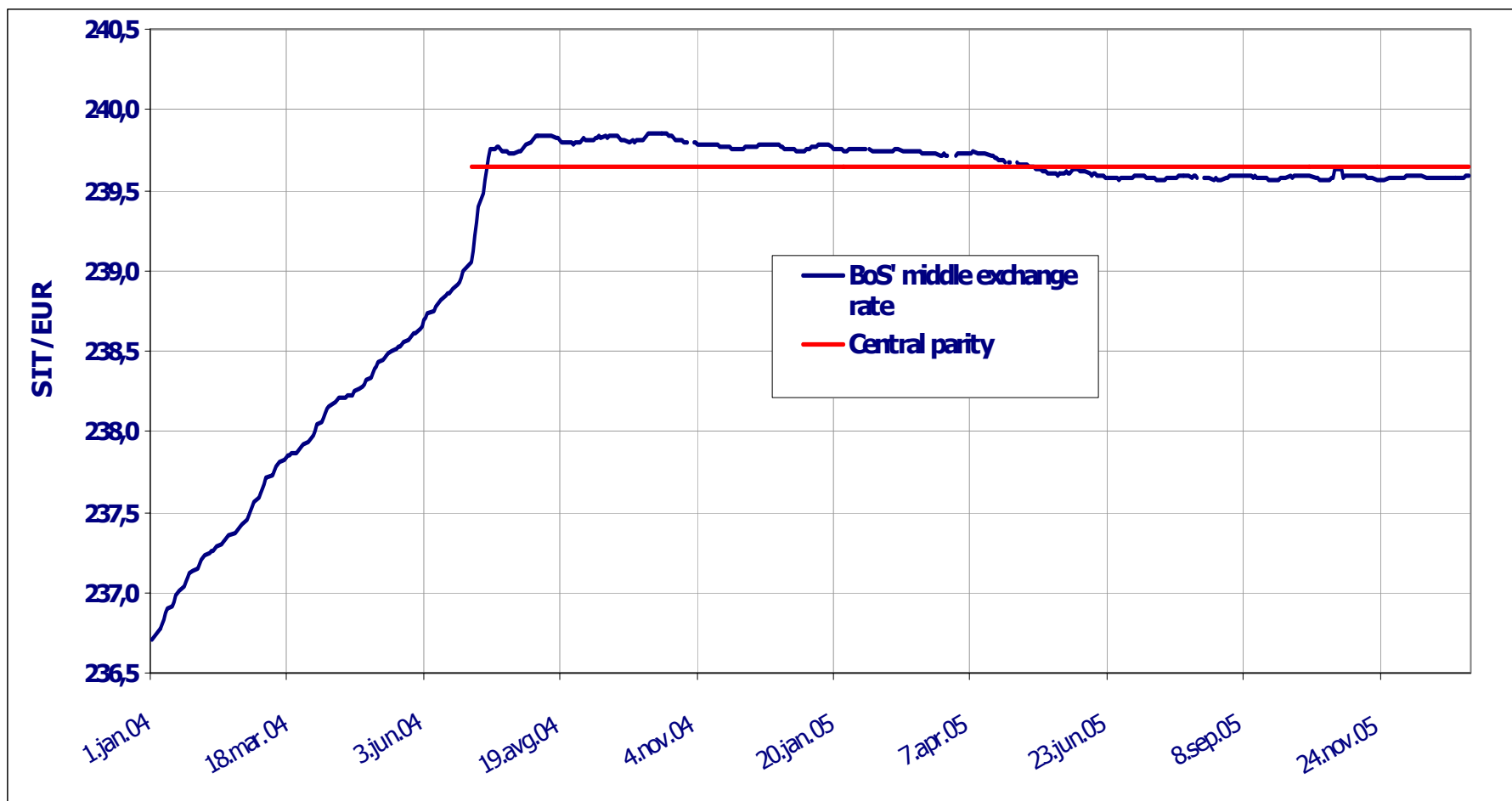
Fulfilment of the Maastricht criteria (2004)



Fulfilment of the Maastricht criteria (February 2006)



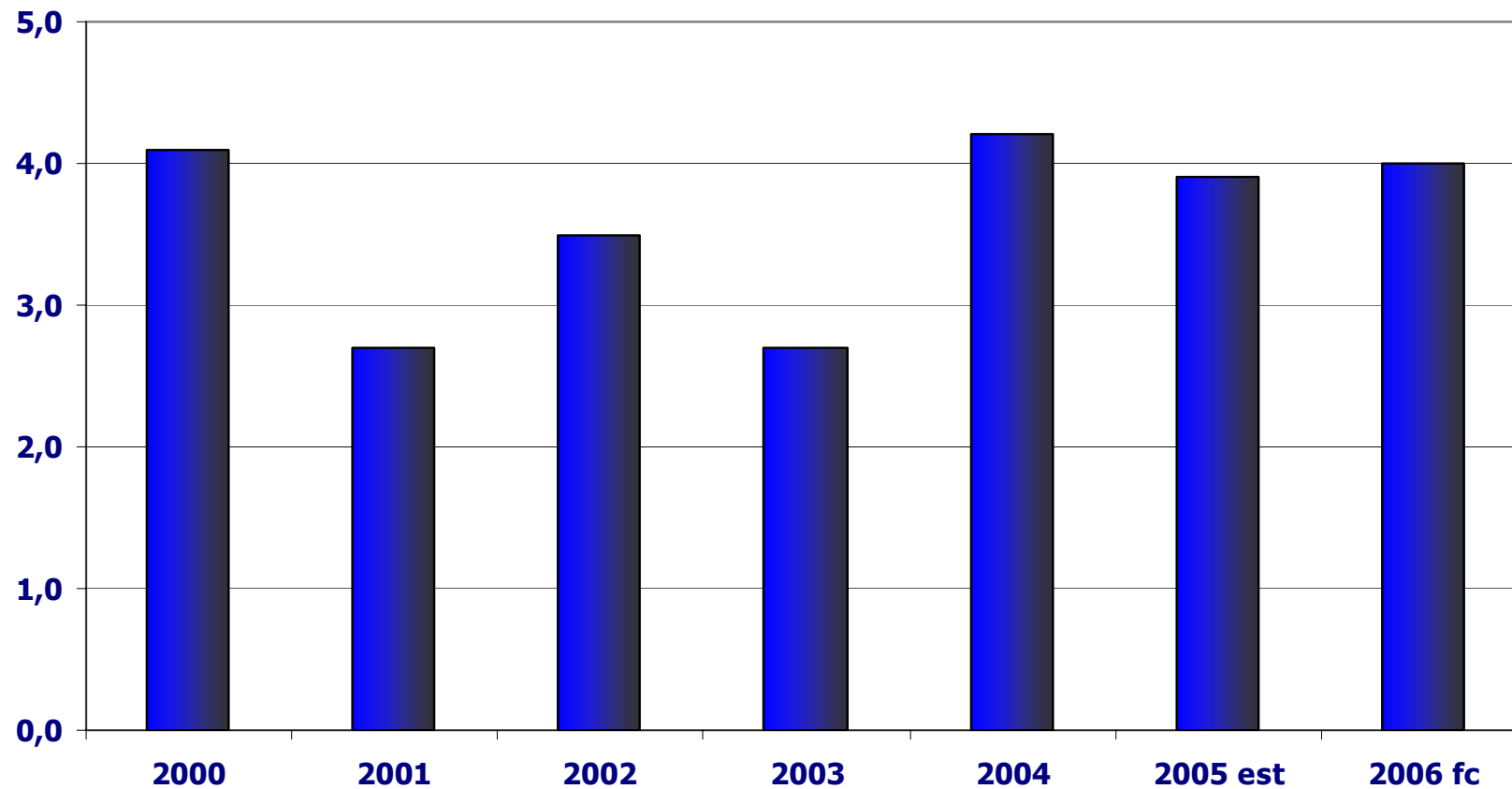
Tolar exchange rate's stabilisation



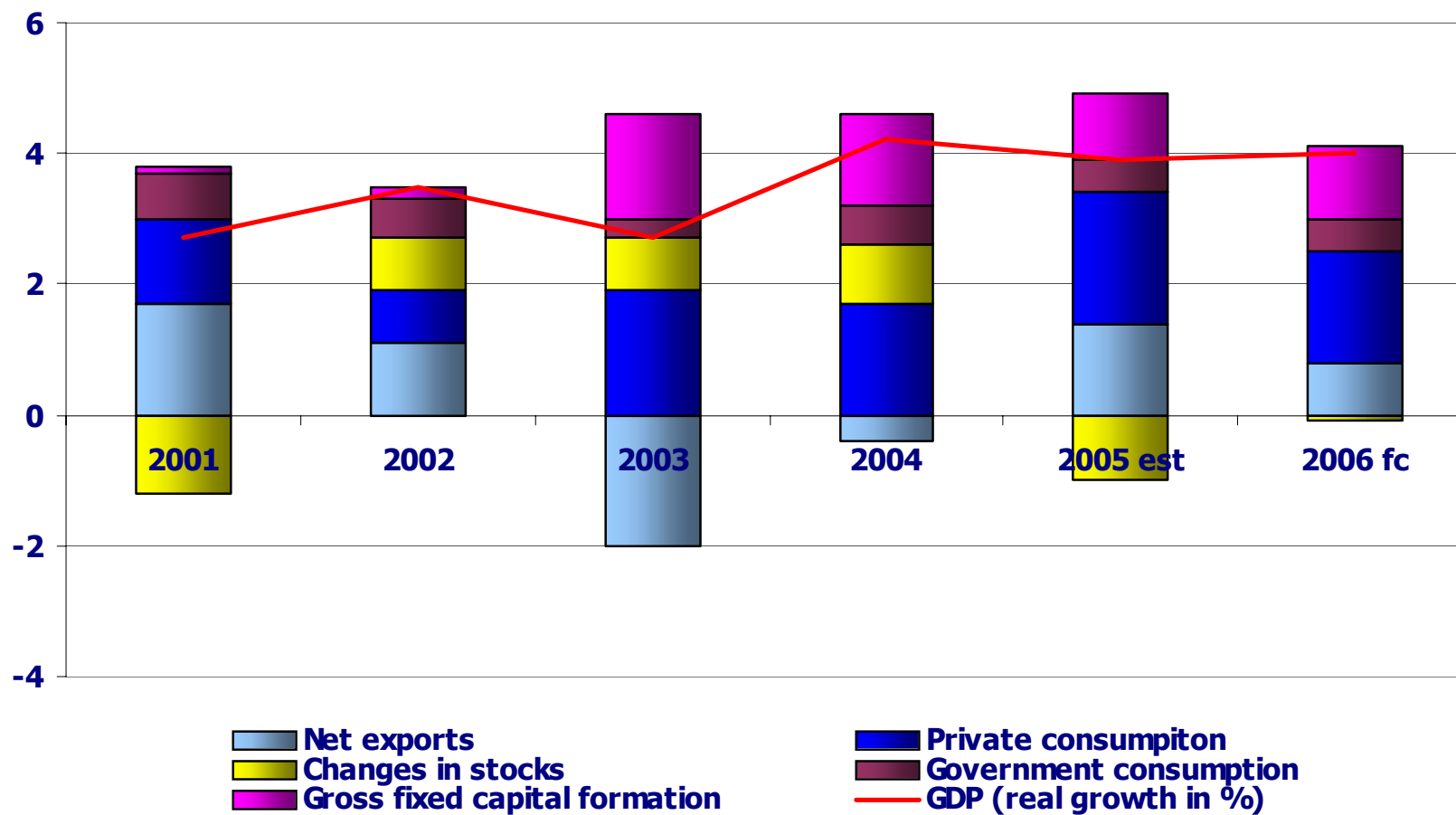
Stable macroeconomic environment in Slovenia

Economic growth around 4%, driven by exports and sustainable domestic consumption

Gross domestic product, real growth in %



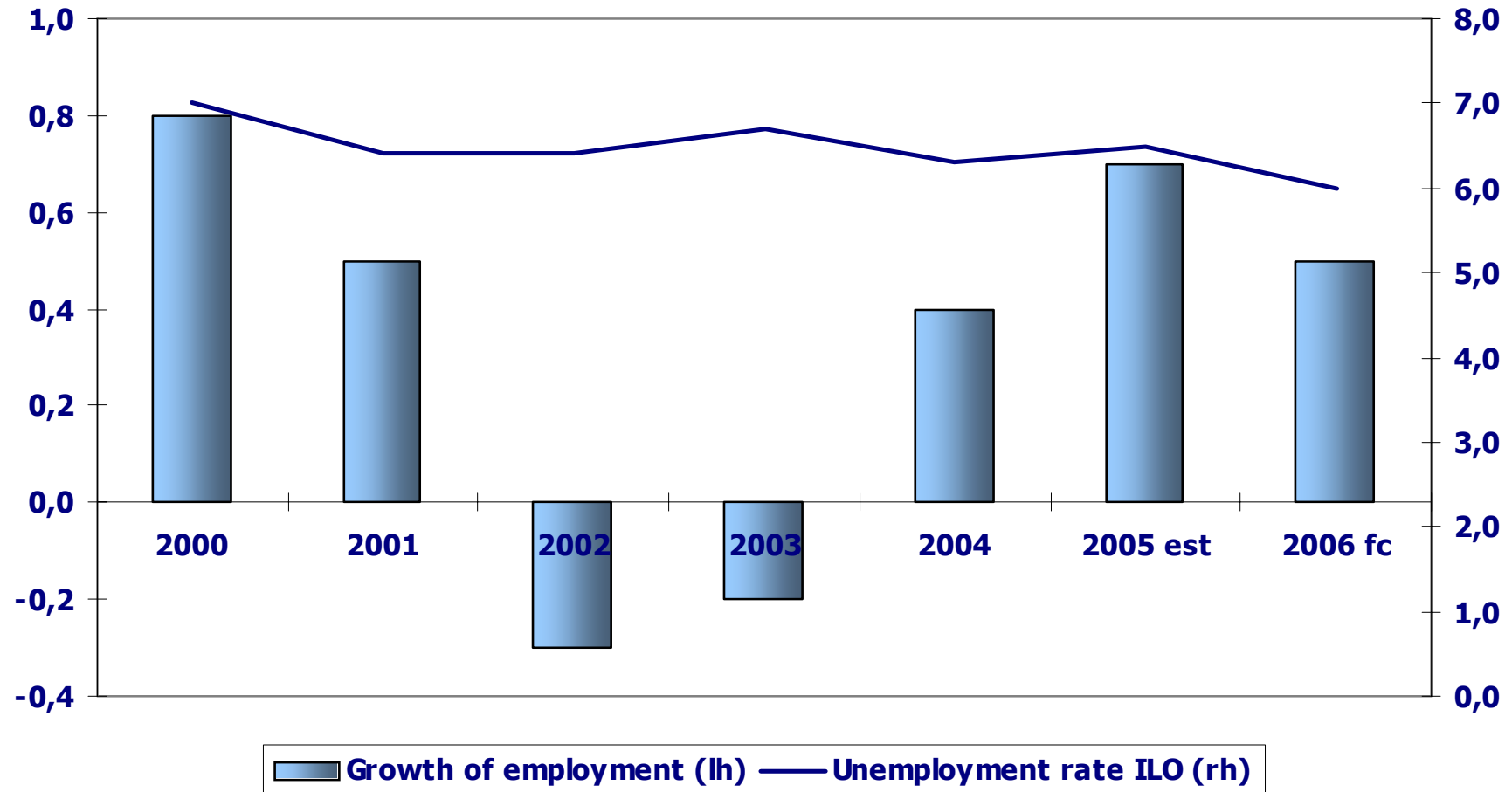
Structure of GDP growth (contribution in p.p.)



Stable macroeconomic environment in Slovenia

Growth of employment in the last two years supported by the favourable economic growth

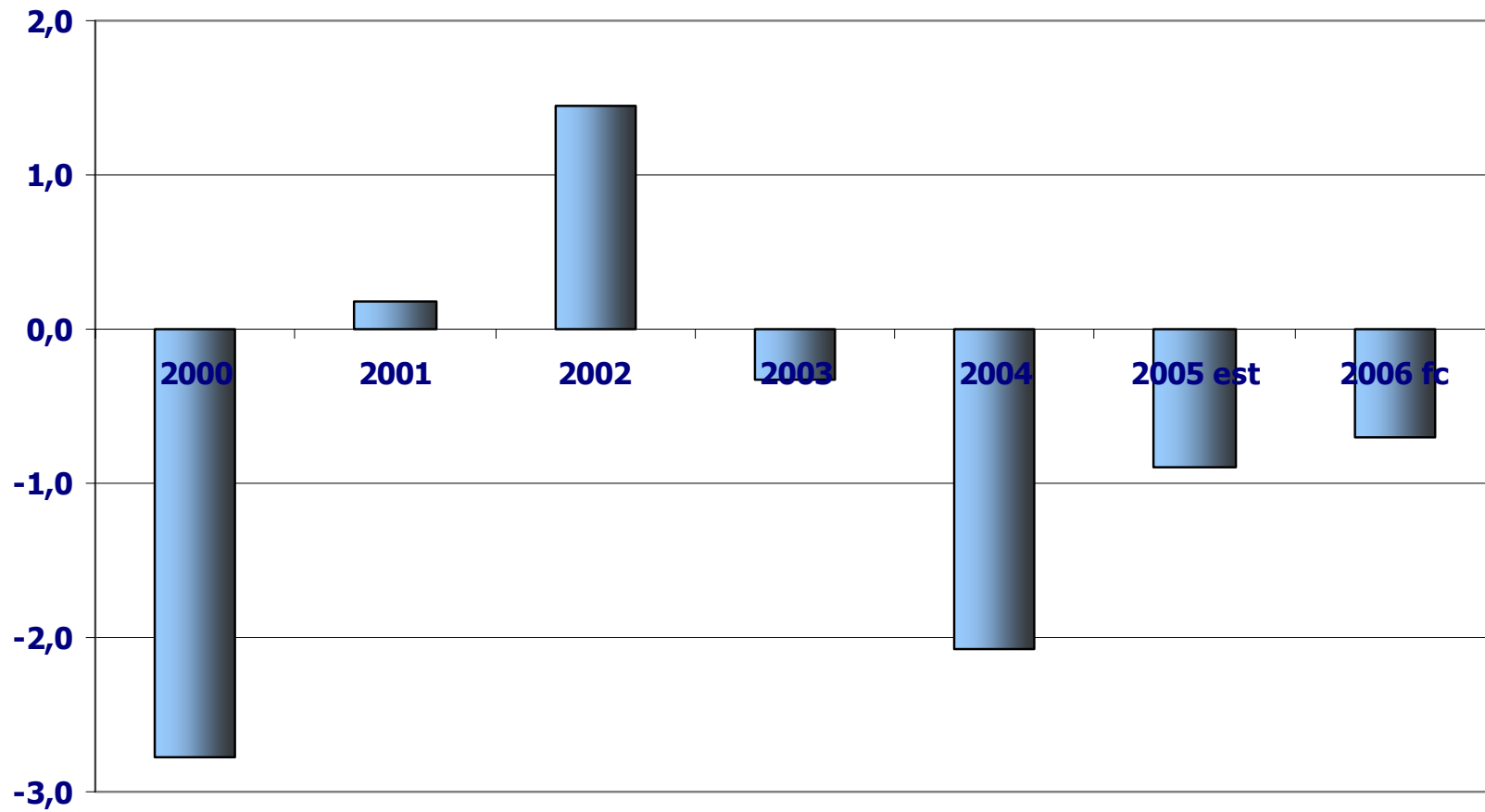
Labour market



Stable macroeconomic environment in Slovenia

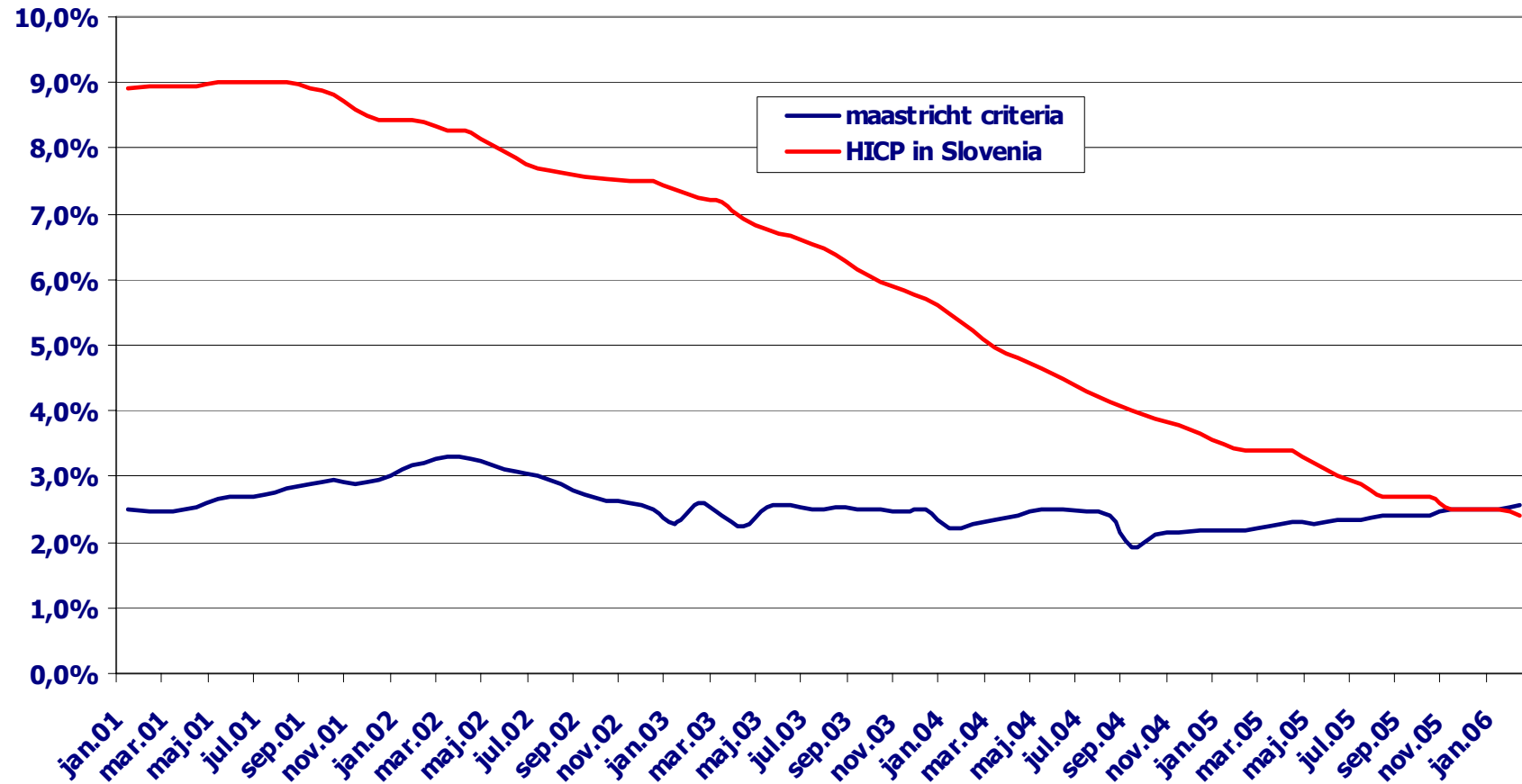
No major external imbalances in spite of deterioration of terms of trade

Current account deficit, % of GDP



**Fulfilment of the Maastrich criteria was
underpinned by well co-ordinated
macroeconomic policies**

Sustainable lowering of inflation



Sustainable lowering of inflation - the result of co-ordinated macroeconomic policies

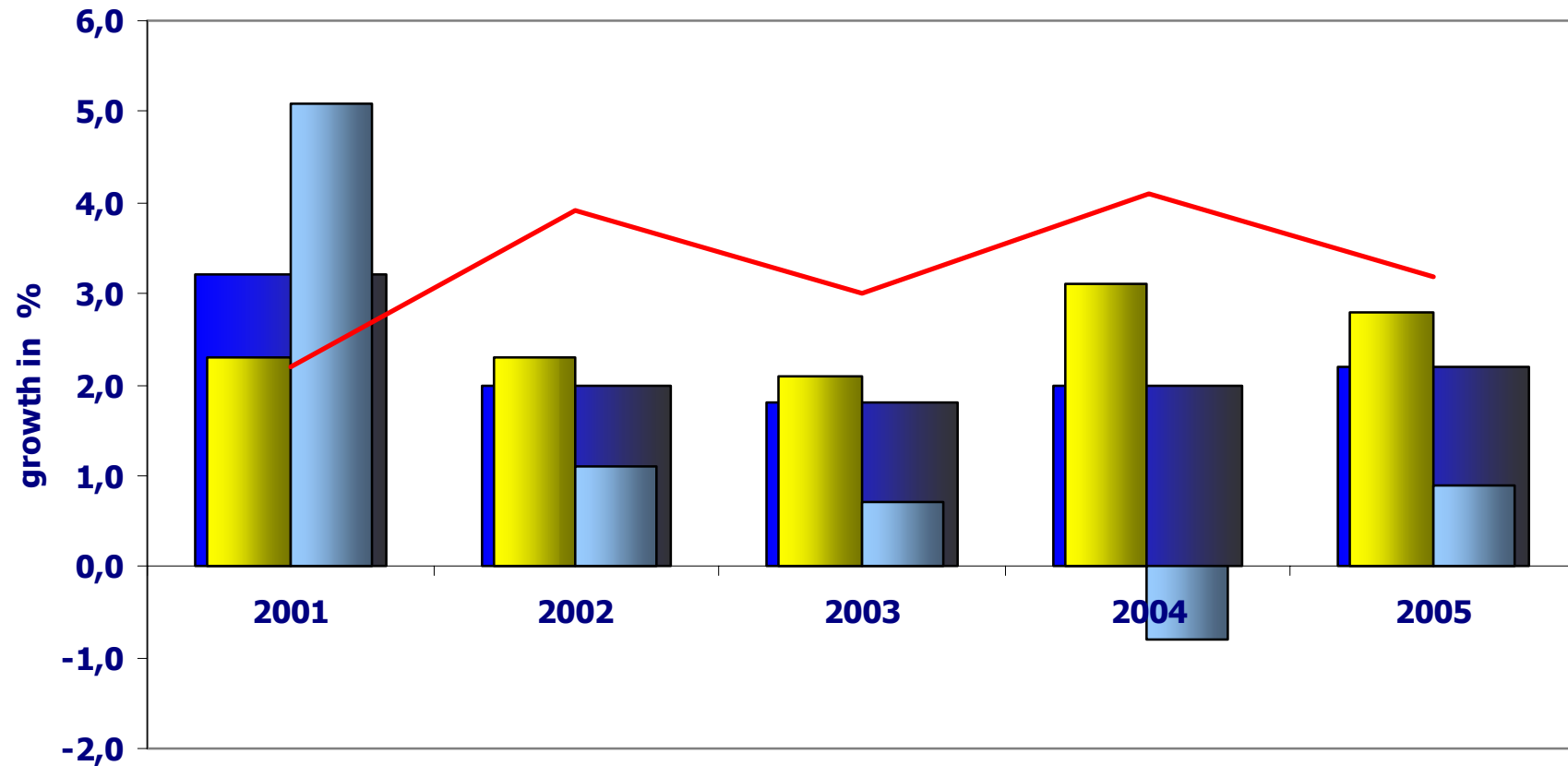
Tolar's exchange rate stabilisation upon entry to the ERM II - monetary policy supported the decline in price growth by maintaining a consistent interest rate and exchange rate policies until entering the exchange rate mechanism ERM II in June 2004

Other macroeconomic policies supported the reduction of inflation - economic policy's other supportive measures included the prudent application of the restrictive Administered Price Adjustment Plan for 2004-2005, the counter-cyclical adjustment of excise duties, and the application of guidelines adopted in the social agreement

Additionally:

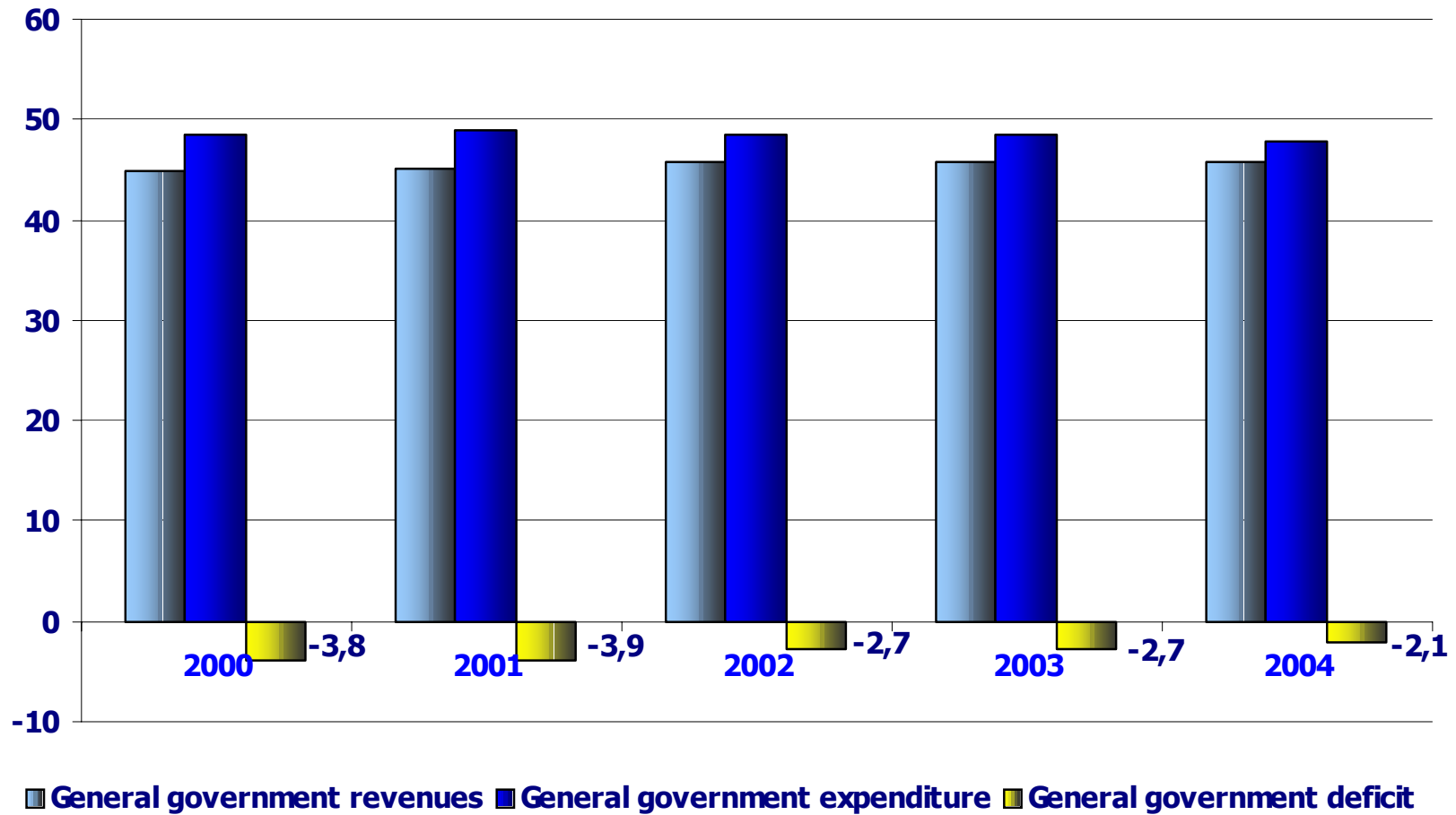
Effects related to Slovenia's entry to the EU - the lowering of inflation was enhanced by the trade regimes change.

Restrictive wages policy



■ Gross real wage per employee ■ - private sector ■ - public sector — Productivity

Fiscal consolidation



Challenges of macroeconomic policies

Changes to the fiscal policy are needed even though the Maastricht criteria in this field have been met

On one hand it is vital to ensure the stability of general government revenue in order to maintain fiscal stability in the period preceding adoption of the euro

On the other hand it is of the utmost importance to increase the flexibility of general government expenditure, thereby improving fiscal policy's ability to react to potential shocks

Challenges of macroeconomic policies

The main indicator showing that fiscal policy guidelines need to be adjusted is the level of the structural deficit observed over the last few years

General government expenditure should also be flexible to make room for the co-financing of strategic priorities and EU receipts

Envisaged fiscal disburdening (tax reform) after adoption of the euro requires reduction of the scale of public expenditure in comparison to GDP

Challenges of macroeconomic policies

Implementation of the envisaged reforms will have influence on the fiscal position, which has to comply with the revised Stability and Growth Pact provisions

(the revised SGP allows for the temporary deviation from the adjustment path to MTO on the basis of “major structural reforms”)

Challenges of macroeconomic policies

In the area of social transfers, the main task is to rationalize the existing systems

It is important to continue assessing the long-term sustainability of public financing and the need to change the current pension and health insurance systems by making the relevant projections

Challenges of macroeconomic policies

As regards incomes policy, the adopted Social Agreement reduces the risk of breaching the Maastricht criteria; therefore it is reasonable to uphold its main guidelines in 2006

After the euro's adoption they should be realigned to comply with the sustainable macroeconomic framework - medium-term growth of wages should be consistent with price stability and with trend rises in productivity (taking account of the particularities of the national labour markets and differences in education)