

Branka Tavčar, Ivanka Zakotnik, Igor Strmšnik, Tomaž Kraigher

Economic Development Scenarios up to 2030 for the Slovenian Economy

Working paper no. 8/2007, vol. XVI

Summary

This paper presents long-term projections for Slovenia's economic development up to 2030. For the period 2007 to 2013 macroeconomic projections derived from Spring Report 2007 published by IMAD were included. The forecasts for period 2014 to 2030 were elaborated in the form of two scenarios Scenario (++) and Scenario (+), two scenarios differ in assumptions of development of international macroeconomic environment, both scenarios assume efficient adaptation of policy making in Slovenia to impacts stemming from external environment.

The already achieved level of economic development of Slovenia, which reaches the level of less developed EU member states, requires that due care is taken when predicting economic growth in the future. Under such circumstances each percentage point of economic growth is a success, especially if the country faces the urgent need for further stabilization, restructuring of production and institutional changes. Targeted rates of economic growth between 4 % and 5 % are only possible in the period immediately after accession to the European Union. Later, a gradual decrease and approximation of the rates recorded in the developed European countries are expected.

Impacts of economic integration on economic growth are usually calculated by means of macroeconomic models. Empirical studies of Slovenia carried out so far used the models based on the theory of general equilibrium. These models are mainly used for calculating relative costs and benefits at the sectoral level. Results at the aggregate level are less useful, since this is a static model approach. Despite these limitations, conclusions can be made on the basis of such calculations, namely that long-term effects of Slovenia's integration on GDP growth would definitely be favourable.

This is further confirmed by the calculations on the effects of expansion of the internal market to the European periphery, carried out by so-called HERMIN econometric models. The results show that, on average, the periphery as a whole gains less than the centre of Europe. The smallest long-term cumulative increase in GDP as a result of the introduction of the single European market was calculated for Spain (1,55%), followed by Greece (2,48%) and Portugal (2,55%), while the most substantial rise was calculated for Ireland (2,64%).

As regards target economic growth, Scenario (++) is quite demanding. Annual real GDP growth of 4,4% in period 2007-2013 is prognosticated to reach 3,5% in the period up to 2020 and 3% in the period up to 2030. This would be the result of positive economic effects of Slovenia's integration into the internal EU market, and the expected substantial investment in the development of economic and social infrastructure, entrepreneurship, technological development and human resources. To a large extent, such investment would be financed from the EU's structural aid.

Scenario (+) promises much poorer results. Due to the lack of additional positive effects from international macroeconomic environment, the predicted slow-down of economic growth in Scenario (+) is faster. Annual real GDP growth is prognosticated to slow down to 2% in the period up to 2020 and to 1% in the period up to 2030. In the case of Scenario (+) lower rate is achieved due to political destabilisation and strengthening of protectionism in Europe. In accordance with this scenario the level of the gross domestic product in the year 2030 will be 35% lower compared to its' potential value.