

**ECONOMIC ISSUES
OF SLOVENIA'S ACCESSION
TO THE EU**

Vladimir Lavrač and Boris Majcen

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Abstract

Slovenia obtained its independence in 1991, after the break-up of Yugoslavia, and embarked on the road to its membership in the EU. After more than a decade of transition and preparations for the accession, Slovenia, along with nine other accession countries, in 2004 became a new EU member state. This paper aims at overviewing various dimensions of the Slovenian "story" of integration in the EU. The emphasis is on economic aspects of EU accession, and the focus is on those Slovenian specifics, which make its process of EU accession somewhat different, when compared to other transition economies in the Central and Eastern European region.

There were many arguments for Slovenia's inclusion in the EU, historical, geographic, cultural, political, economic, social and security related. However, potential economic gains from the EU accession were decisive in the case of Slovenia. An undisputed overall assessment in Slovenia was that expected benefits exceed the costs of the accession and that net benefits are particularly to be expected in the longer run. Of course, the overall effects are not proportionally distributed, there are some economic or social groups which may be at risk after the EU accession. This should perhaps be taken into account in designing economic and social policies, in order to sustain economic, social and political stability and cohesion in the country.

One year after the entry in the EU, it can be said that not much has changed in Slovenia. Most of the adjustments have been done before, in the period of preparations for the EU. Most people felt practically no difference in their everyday life. Macroeconomic overall effect was positive, but negligible, and sectoral effects were in the expected direction, in fact in line with the previous trends. There was certainly no "EU shock" in Slovenia, and no potential risks of the EU membership were realized.

Key Words: EU accession, transition, negotiations, costs and benefits, trade

JEL Classification: F13, F15

Introduction

Slovenia obtained its independence in 1991, after the break-up of Yugoslavia, and embarked on the road to its membership in the EU. After more than a decade of transition and preparations for the accession, Slovenia, along with nine other accession countries, in 2004 became a new EU member state. Moreover, it is very likely that Slovenia will be the first among new EU member states to adopt the euro, thus making another big step forward in European integration process, to become the 13th member country of the EMU (European monetary union).

This paper aims at overviewing various dimensions of the Slovenian "story" of integration in the EU. The emphasis is on economic aspects of EU accession, and the focus is on those Slovenian specifics, which make its process of EU accession somewhat different, when compared to other transition economies in the Central and Eastern European region. The main text is organized as follows.

The first section deals with the starting position of Slovenia, its specific initial conditions on the path leading towards the EU. Gradualist approach, characteristic for Slovenian structural reforms in the transition period and in preparations for the accession, is analysed next, and its advantages and drawbacks are discussed. The second section briefly mentions the main milestones on the road to the EU, as those institutional steps which Slovenia had to take to reach the final goal, its full-fledged membership in the EU. The third section is devoted to negotiations on the terms of Slovenia's membership in the EU. It touches upon the process of negotiations, its organization and concept, as well as the final results of negotiations. The fourth section, the central one, deals with the rationale, the benefits and costs of the EU accession for Slovenia. Some methodological issues are discussed first, and main expected economic benefits and costs are analyzed next. The fifth section goes one step further in order to identify possible winners and losers from the EU accession for Slovenia, taking into account the fact that the overall benefits and costs are not distributed proportionally across sectors, regions, society groups, firm or individuals. The sixth section briefly presents some first effects after one year of Slovenia's membership in the EU, and finds out they are in line with the expectations. The concluding section identifies some areas of disappointment with the process of the EU accession in Slovenia.

Starting position: Transition and integration in the EU

Slovenia became an independent state in 1991, after the dissolution of Yugoslavia, which collapsed for a number of political and economic reasons, creating differences, tensions and finally conflicts among its federal parts. This opened the door for Slovenia to design its own path towards joining the EU.

The starting position of Slovenia in the process of integration in the EU was determined, first, by a specific position of Yugoslavia in comparison with other transition countries, and, second, by a specific position of Slovenia within Yugoslavia. Yugoslavia, as a non-aligned country, was clearly not a part of Western Europe, while it also could not be considered as a part of the Eastern block. The economic system was characterized by social ownership and self-management, and a quasi market economy (where firms were relatively independent and competing on the market), which from the late eighties underwent severe economic reforms, including quite intensive privatization. Slovenia, as one of the smallest Yugoslav republics, was the most developed one, with a strong export orientation, particularly towards the EU. As the border was very open and due to the proximity of Italy and Austria, Slovenian people could form their comparisons and value judgments with respect to advantages of the market economy and of the EU.

Transition in Slovenia was going on at the three different levels. First, transition meant the transformation from a socialist to a market economy, second, a shift from a regional to a national economy, and third, a move from being a part of Yugoslavia to becoming a part of the EU. One could say there was a strong overlapping between the processes of transition and integration in the EU, which makes it difficult to analytically distinguish between the two processes and their effects on the economy.

Slovenian transition, and for that matter, its approach to EU accession, is specific for its gradualism, cautious and successive way of implementing structural reforms. In fact, Slovenia can be considered as a leading example of a gradualist approach to transition. Slovenia intentionally gave up an alternative »big bang« approach to radical economic reforms which by shock therapy aims at quick and intensive changes in the economic system, thereby decisively cutting with the past. This »big bang« approach, chosen by some other transition countries, was also suggested for Slovenia by foreign advisers, headed by the IMF, at the

beginning of the transition. Such a »big bang« approach can cause shocks in the economy, lead to at least a temporary loss of output and employment, and thus to political and social instability which can invoke resistance to economic reforms, to their slowing down or even reversal. Gradualism on the other hand gives more time for adjustment, more room for the choice and timing of economic reforms and related economic policy measures. However, the weakness of gradualism is the danger that necessary structural reforms tend to be postponed and the process of transition as a whole slowed down.

There are several reasons for Slovenia's choice of a gradual approach to structural reforms. The fact that Slovenia was economically the most developed country in the region meant that Slovenia simply could afford gradualism. It could decide for a more prudent way of implementing changes and adjustments, without the risk of undermining some of the positive achievements in its economic development so far. On the other hand, Slovenia did not need such a radical break with the past economic system as in most other transition economies, as the economic system of Yugoslavia already contained more elements of the market economy than in other transition countries. Additionally, there is some traditional conservatism and mistrust towards radical changes in the Slovenian society, where economic, social and political stability are valued highly, while readiness for changes requires a wide social consensus. All these meant that shock therapy and radical reforms with uncertain outcomes should be avoided. In other words, these economic, social and political reasons caused the gradualist approach to transition to be quite a natural choice. A typical case of gradualism is the concept of privatization, a limited role for foreign capital in the process of privatization, including the financial sector, a lower share of FDI than in comparable transition economies, and more reliance on capital controls. (Slovenian gradualist approach to transition is analysed in Mencinger, 2004 and Šušteršič, 2004).

The right choice as concerns the gradualist approach to transition reforms should be confirmed by the performance of the economy. Throughout the period, Slovenia succeeded to maintain relatively high and stable growth rates, without major interruptions or macroeconomic imbalances. Starting from inherited hyperinflation with more than 30% monthly, the inflation rate was quickly brought down to normal levels. Economic growth after the breakdown of the Yugoslav market and war in the region, has resumed already in two years and contrary to some other transition economies, Slovenia was able to sustain sound public finance and balance of payments stability. In short, gradualism enabled Slovenia to

maintain economically, socially, and politically stable and sustainable process of transitional structural reforms, thus preparing itself for the integration in the EU.

Table 1: Main macroeconomic indicators of Slovenia, 1992 - 2005

| Indicator | 1992 | 1994 | 1996 | 1998 | 2000 | 2002 | 2004 | 2005 |
|---------------------------------------|-------|------|------|------|------|------|------|------|
| Growth rate of real GDP (%) | -5.5 | 5.3 | 3.5 | 3.8 | 4.6 | 2.9 | 3.6 | |
| Current account balance (% of GDP) | 7.4 | 3.8 | 0.2 | -0.6 | -2.8 | 1.4 | 0.5 | |
| Unemployment rate (%) | 8.3 | 9.1 | 7.3 | 7.9 | 7.0 | 6.4 | 6.7 | |
| General government balance (% of GDP) | 0.2 | -0.2 | 0.3 | -0.8 | -1.3 | -3.0 | -1.7 | |
| Inflation rate (%) | 201.3 | 19.8 | 9.7 | 7.9 | 8.9 | 7.5 | 4.9 | |

Source: Adapted from Mrak et al., 2004, p. XXVI-XXVII

In the last period, however, weak points of gradualism became more and more evident. Gradualism manifested itself in the delayed process of privatization, avoidance of exposure of certain sectors to foreign competition (banking as a typical case), slow restructuring of the enterprise sector, etc. Critics of the gradualist approach claimed that the benefits of gradualism have faded away by now in Slovenia, so that a more ambitious approach to structural reforms is now called for. It seems that gradualism evolved into a certain inertia, which hinders necessary structural reforms, needed for the higher economic growth and real convergence with the EU and for sustaining competitive pressures on the EU internal market. Slovenia's entry in the EU in 2004 is in particular a new challenge which requires a breakthrough in economic development, which is reflected in the new strategy of economic development in Slovenia, adopted in 2005 and in an ambitious package of economic and social reforms, which should be completed in the next two years.

Milestones on the road to the EU

After the independence in 1991 it was obvious that the long term goal of Slovenia can only be its membership in the EU, in spite of enthusiasm over newly gained own independent state and national sovereignty. Inclusion in the EU was supported by practically all major political parties (both coalition and opposition), so it can be concluded that the EU accession was an overall national project, based on a very broad political consensus. Among parliamentary parties the only exemption was a national party, which played on populist and nationalistic sentiments, and was joined by some minor non-parliamentary parties and civil society groups.

While the support for the EU was strong among political parties, the public did not share the same enthusiasm. Public opinion polls showed that the support for the EU was changing over time, although not dramatically. (For more details, see Bučar and Brinar, 2001). This is due mostly to reactions to concrete developments, such as intensification of certain pressures coming from the EU (neighbouring countries, Italy and Austria, in the first place) at the time of signing the Association agreement or later in the process of negotiations for the EU membership, when these EU member countries tried to use Slovenian EU ambitions for solving some open bilateral issues. However, at the end, in 2003, after successfully concluded negotiations and just before signing the Treaty on EU accession, the referendum on EU membership showed a high level of Slovenian public support for joining the EU (with 86% of votes in favor of EU accession).

Slovenian strategy towards European integration was defined in several official strategic documents. Each of them in their own way dealt not only with the strategy of economic development, but also with the motives for and modalities of Slovenia's inclusion in the EU. First official strategic orientation that the membership in the EU is a long-term strategic goal for Slovenia is formulated in the Strategy of economic development of Slovenia, issued in 1994 (Potočnik et al., 1994). Strategy of foreign economic relations of 1996 (Bobek et al., 1996) elaborates arguments for the inclusion of Slovenia in the EU and compares this strategy with the alternative ones (such as autarchy, direct globalization, inclusion in some other regional integration). From the viewpoint of Slovenia's inclusion in the EU, the most important official document is the Strategy of the EU accession of 1998 (Mrak et al., 1998). This document defines a rounded up program of consistent mid-term structural reforms and a set of concrete measures of economic and social policies, necessary for winding up the transition process and preparing the economy for EU accession.

In 1992 Slovenia officially applied for an Association agreement with the EU (also known as the Europe agreement). The Association agreement was signed on the 10 of July, 1996, and on the same day Slovenia presented an application for a full-fledged membership in the EU. It is interesting to note that Slovenia was the last one to sign the Association agreement with the EU among the first wave of candidate countries, in spite of the fact that Slovenia has throughout that period been considered as one of the most prepared candidate countries for the inclusion in the EU.

In 1997 the European Commission in its document Agenda 2000 prepared an opinion on the fulfilment of the EU accession criteria for the six candidate countries, which by that time applied for the EU membership. Accession criteria (or the so-called Copenhagen criteria) were broadly defined as minimum political, economic and legal standards which a candidate country had to meet in order to qualify for the EU accession. On the basis of accession criteria an opinion was presented as to whether an individual candidate country is ready to start negotiations with the EU on the terms of its EU membership. In this first assessment, Slovenia complied with two out of the three accession criteria. Slovenia was sufficiently meeting political and economic criteria, while the third, legal criterion (ability to take on obligations from the EU membership) at the time had not yet been fulfilled.

Negotiations started on the 31 of March, 1998. Slovenia was in the first group of six candidate countries (the so-called Luxembourg group), assessed as ready to start the negotiations. Later, in 2000, they were joined by a group of another six candidate countries (the so-called Helsinki group). Negotiations were concluded on the 13 of December, 2002.

On the 25 of October, 2002, the European Council declared that ten out of twelve candidate countries would be ready to join the EU in 2004. This group consisted of eight transition countries, including Slovenia, plus Malta and Cyprus. Before joining the EU, Slovenia on the 23 of March, 2003 held a referendum on its EU membership. On the 16 of April, 2003, Accession treaties were signed, which had to be ratified by both sides involved (in fact in all old EU member countries as well) in time, so that on the 1 of May, 2004, Slovenia along with other nine candidate countries, became a new EU member country.

Negotiations

The accession process, which started as soon as Slovenia delivered its formal application for the EU membership, consisted of several phases. First, the European Commission had to prepare an assessment of Slovenia's readiness to start the negotiations. This was followed by screening, an overview of the state of domestic legislation in comparison with the European one (the so called *Acquis communautaire*). Next, the process of negotiations took place, first by defining negotiating positions on individual areas of the *acquis* by both sides, and next through concrete negotiations on the terms of Slovenia's membership in the EU. Obviously,

in terms of substance, the most important part of the accession process was the process of negotiations on the terms of the EU membership.

At the center of negotiations is *acquis communautaire*, a large body of European legislation, laws, rules and regulations which the EU candidate countries have to build in their legal systems. The essence of the negotiations, however, is when and how the candidate countries would adjust their domestic legislation to the European one. In the process of the negotiations *the acquis* was structured into 31 chapters, according to the main substance areas. For each of these chapters, both the EU and a candidate country prepared their negotiating positions, as their official starting points, and from there on real negotiations could begin. For each chapter, candidate countries agreed on necessary changes to domestic legislation and accompanying policies, while both sides could in special cases ask for exemptions from the complete adoption of the *acquis*. In the process of the negotiations, EU requirements were horizontal, which means that the negotiating positions of the EU across individual chapters were identical for all the candidate countries, while an individual candidate country according to its own specifics had to negotiate more favorable terms. Two kinds of exemption from the full *acquis* were available for the candidate countries: a) transition period, as a temporary exemption, which gives a country more time for adjustment, and b) derogation, as a permanent (lasting until lifted) exemption, which means that the country does not have to take over the complete European legislation in that area. Derogations were in fact approved very exceptionally. The third type of exemptions represent safeguard clauses, the right to suspend a certain part of the *acquis* if a country failed to fulfil accepted obligations. Safeguard clauses were primarily intended for the EU side, and not for the candidate countries.

A negotiating team, a narrower group of experts, was formed in Slovenia to conduct the negotiations, and the working groups for the individual chapters were established. The leader of the negotiating team has in the process repeatedly warned that although formally the negotiations seem to be with the EU, the real negotiations take actually place within the country (Potočnik and Lombardero, 2004). The point is that an agreement on necessary changes and adjustments has to be reached inside the country, which is not always easy. The perspective of EU membership can be an argument in favor of accepting structural reforms which require sometimes painful adjustment. Moreover, it helps dismantle some entrenched barriers, such as local monopolistic positions, existing rents and interests of the pressure groups.

Slovenia's negotiations with the EU started in 1998. Negotiations took place successively, starting with easier chapters and later moving on towards more difficult ones. Real negotiations on a financial package of membership (contributions to the EU budget and payments from it for the agricultural policy, structural and cohesion funds in the period 2004-2006) started at the end of the negotiations, in 2002. The leading principle in negotiations that "nothing is agreed until everything is agreed" meant that when individual negotiating chapters were closed, commitments were just provisional. They became final only when all chapters were closed, i.e. when the whole package was agreed upon.

At the beginning, Slovenia presented its negotiating positions on 29 chapters (two were not yet opened at that time). As its overall starting position, Slovenia asked for 22 transitory periods and 6 derogations. (Details can be seen in Mejač, 2000). Needless to say, these requirements were not distributed proportionally across chapters. There were in fact 19 chapters where Slovenia did not ask for any exemption, which means that in these areas Slovenia committed itself to fully adopt the *acquis* by the time of the EU accession. The highest concentration of required exemptions was in some of the most demanding negotiating chapters, such as agriculture and environment. As far as the dynamics of the negotiations is concerned, three chapters were closed in 1998, six in 1999, five in 2000, twelve in 2001 and five in 2002.

At the end of 2002, negotiations were closed. Slovenia finally negotiated 18 transition periods and 2 derogations. The results are quite comparable to the starting negotiating position, although the comparison can not be a direct one, as in time some of the negotiating positions evolved into something else, such as a concrete financial obligation or a similar agreement.

An overall assessment for the case of Slovenia is that negotiations were smooth and successful. Officially, Slovenia was satisfied with the results of the negotiations, as most of the requirements defined as its starting negotiating position were accepted. (Official results of negotiations are presented in Kezunovič, 2003. For an analytical assessment of the results, see Bučar and Brinar, 2005). In the public, the view that negotiations were a success, prevailed. (Some issues which raised certain problems and were not accepted well in the Slovenian public, are presented in Bučar and Brinar, 2005). There was no major debate on the issue of whether Slovenia could or should gain more in some of the areas. Specific for Slovenia was that in negotiations on each chapter, negotiating position first had to be confirmed by the

government and approved by the relevant parliamentary committee. This gave the process of negotiations more transparency and possibly more public support.

Benefits and costs of the EU accession

In comparison with some other transition countries the Slovenian attitude towards the EU could best be described as realistic. A lack of uncritical enthusiasm can be jointly explained by the fact that Slovenia did not need a radical political breakthrough with the past and that as the most economically developed transition economy in the region, it could afford more self-confidence. A good starting position contributed to not idealizing the EU, but rather to assessing it objectively in the light of alternative development strategies of Slovenia, and to evaluating the potential benefits and costs of the EU accession. (For a balanced view on the rationale, costs and benefits of the EU accession for Slovenia, see Inotai and Stanovnik, 2004).

Slovenia has always been a part of European geographic and cultural space. Historical factors, geographic location, cultural tradition, and economic links with Europe are reasons which basically predetermine Slovenian aspirations for inclusion within the European integration processes. There are many arguments in favor of Slovenia's inclusion in the EU. Reasons for joining the EU are economic and political, including security. In the case of Slovenia, the main driving forces of integration are clearly economic reasons. The focus in the following text is on economic aspects of inclusion in the EU, while other arguments, such as additional military security, political stability, political relevance, etc., are disregarded here. These non-economic aspects of the EU accession process are particularly difficult to identify and measure, as they mostly involve qualitative dimension and value judgments.

In the last instance, the long-term goal of the EU accession for Slovenia is to increase the welfare, economic growth and living standards, and to catch up with the EU in terms of economic development. Eliminations of barriers to trade with the EU and integration in its internal market should lead to an increase in trade, inflow of foreign capital and finally to more employment and economic growth. These arguments for the EU accession are of course not specific just for Slovenia, they are more or less equally shared among all other candidate countries with transition economies. A specific feature of Slovenia, as a very small and open economy, strongly oriented towards the EU, is the fact that without a free access to a broad

market, such as the internal market of the EU, its economy practically could not survive. For Slovenia the only realistic option, and therefore its primary long-term strategic goal is to join the EU. In short, accession in the EU for Slovenia represents an opportunity to take advantage of a large and open market as a way to achieving more stability, faster economic growth and higher living standards for the Slovenian population.

Assessment of the benefits and costs of EU accession opens considerable methodological problems. Firstly, the process of integration in the EU is tightly overlapping with the process of transition. It is analytically difficult to differentiate between the effects of the two processes. Some of the costs of the adjustment to the EU were at the same time part of the transitional adjustment, i.e. structural reforms which would have to be undertaken anyway. Secondly, another methodological problem is related to the fact that inclusion in the EU is not momentous, but has a time dimension, and its benefits and costs are changing in time. The process of EU integration goes through different phases (informal preparations, association agreement, accession phase) before entry in the EU finally happens. Some of the structural reforms and adjustments, bringing along related benefits and costs, are undertaken in the anticipation of future EU integration, some as the result of the association agreement, some in the pre-accession period and some at the time of the EU accession. Theoretically, the effects of integration in the EU should be assessed for its individual phases, but practically, analysts have to draw a line somewhere in order to assess benefits and costs of the EU accession for a candidate country.

There were several studies (Potočnik and Majcen, 1996, Majcen, 1999, Damijan, 2002) carried out on the assessment of expected benefits and costs of Slovenia's accession in the EU, with different methodological approach to the above mentioned problems, so their results are not directly comparable. However, they all came with the same overall result that the benefits exceed the costs of the EU accession. Net benefits are expected particularly in the longer run, when most of the adjustment has already been accomplished, while the flow of benefits continues. Although in general different studies broadly agree on the sectors which would benefit most from the EU accession and on the sectors which could be at risk, concrete results in different studies depended on methodological assumptions, including on macroeconomic policies used.

Expected benefits of the EU accession are in fact similar to the goals of integration in the EU. The main advantage of Slovenia's inclusion in the EU is its deeper integration in the internal market of the EU, while the main catalyst of positive effects is trade liberalization with the EU. However, it has to be said that a large part of Slovenia's foreign trade has been liberalized already at the time of signing and implementing the Association agreement, or, for that matter, even beforehand. Another source of expected benefits is financing from the EU budget, i.e. from the common agricultural policy (CAP), as well as from structural and cohesion funds of the EU. These EU financial sources lead to more investment, development of infrastructure and promotion of regional development.

Most of the costs of EU accession are in fact of a non-economic nature. Loss of recently acquired national sovereignty and political independence, questions of cultural identity and the use of national language are among the most debated hot issues of the EU accession. As far as economic costs are concerned, in the first place there are costs of adjustment of the Slovenian economy to the requirements of the single market of the EU. Most of these economic costs, related primarily to the adoption of the *acquis* and harmonization to the EU standards, have occurred over the longer period in the pre-accession period of preparations for the EU. Economic costs are involved also in the cancellation of some free-trade agreements with the countries of the former Yugoslavia, as a consequence of joining the EU, since Slovenian exports to this region would now be on less favorable terms, i.e. burdened with tariff duties. The cumulative cost of this effect over the forthcoming years was estimated to be around 1% of the GDP (Damijan, 2002). Other economic costs of the EU accession are related to the closing of some non-competitive firms, more unemployment and rising prices in certain sectors. Another economic cost of the EU for Slovenia is financing of the so-called Schengen border, an outside border of the EU between Slovenia as a new EU member country and Croatia as a non-member country of the EU.

When discussing benefits and costs of EU accession for Slovenia one should not forget that the concept of benefits and costs is sometimes used also in another area of integration, integration in the EMU (European monetary union). To start with, Slovenia as a new EU member country can not opt out of the EMU. Slovenia joined the EU with a derogation regarding the adoption of the euro, but has the obligation to join the eurozone when it is ready, i.e. when it fulfils the Maastricht convergence criteria. The assessment of the potential benefits and costs of the EMU, although having an analytical value, is thus of little relevance

for the decision-making on the path to monetary integration. Nevertheless, assessments of expected benefits and costs of the EMU for Slovenia show that benefits exceed costs, which means that Slovenia should look forward to joining the eurozone. Furthermore, Slovenia meets most of the optimum currency area (OCA) criteria (Lavrač and Žumer, 2003). OCA theory claims that gains from the EMU may increase, and losses diminish, or the other way round, depending on specific structural characteristics of the economy. According to this theory Slovenia by meeting most of the OCA criteria seems to be a very suitable candidate for the EMU. Slovenia is not expected to be exposed to specific asymmetric shocks once in the EMU, and the adjustment mechanisms in its economy are flexible enough to deal with such shocks, should they eventually arise.

The real issue concerning costs and benefits of the EMU for Slovenia is probably the following one: What are the benefits and costs of an early inclusion in the EMU for Slovenia, compared to a delayed one? Supported by some analytical argumentation, Slovenia decided for an early inclusion in the EMU (Bank of Slovenia, 2003 and Lavrač, 2003). Preparations for an early adoption of the euro, including efforts to fulfil the Maastricht convergence criteria as soon as possible, became the priority of the Slovenian macroeconomic policies in the last few years. At the end of 2005, Slovenia is in a good position to comply with all of the Maastricht convergence criteria on time and to adopt the euro as planned, in the beginning of 2007.

Table 2: Maastricht convergence criteria for Slovenia in 2004

| Convergence criteria | Inflation | Fiscal deficit | Public debt | Long-term interest rate | Exchange rate stability |
|----------------------|-----------|----------------|-------------|-------------------------|----------------------------------|
| Reference value | 2,4% | 3% GDP | 60% GDP | 6.4% | 2 years in ERM II |
| Slovenia | 4,1% | 2% GDP | 29.4% GDP | 5.2% | Entry in ERM II in June 28, 2004 |

Source: Adapted from European Commission, 2004, p.3

Winners and losers of the EU accession

Benefits and costs of the EU accession are, however, not distributed proportionally in time and space, as well as among different sectors of the economy and groups in the society. Undoubtedly, a broad conviction in Slovenia is that the overall benefits of the EU accession exceed its costs, i.e. that Slovenia as a whole will gain from joining the EU. However, there are some economic, social or interest groups which will become exposed to risks and

pressures as a consequence of the EU entry. As benefits and costs of the EU accession are not equally shared, there will be winners and losers in the process. (For a deeper insight into winners and losses from EU integration for Slovenia, see Stanovnik et al., 2000).

There are certain groups in society which can expect net benefits from the EU accession, and others which can expect net costs. The former groups, which may include whole economic sectors, individual firms, or population groups, are the winners of the EU accession, and the latter are losers of the EU accession, depending on whether their economic position is expected to improve or worsen as a consequence of the inclusion in the EU. Positive effects from joining the EU are in the first place expected for consumers. They are the main winners of EU accession, since they profit from a wider consumer choice, higher quality and lower prices of products as the result of increased competition on the single market. However, most of the consumers are at the same time in one way or another also producers. Their economic position as producers may change after EU accession for the better or for the worse, depending on how successfully their enterprises are competing on the market.

The winners of the EU accession are definitely to be found among exporters which in general benefit from liberalization of foreign trade and inclusion in the common trade policy of the EU. Slovenian exporting firms now strongly present and competitive on the EU internal market are among the main winners from EU accession. Those firms which will be able to attract new investment and participate in financing from structural and cohesion funds of the EU will also be winners from EU accession. Small private entrepreneurs, and a highly skilled labor force should be counted as winners as well. Finally, some social groups, such as younger educated people, or in general an active part of the population, seeing inclusion in the EU as an opportunity and a challenge, are among the winners of the EU accession.

Those expected to have their economic position worsened after joining the EU, are in the first place to be sought in presently non-competitive economic sectors. Those sectors and firms which failed to restructure on time and now enjoy domestic protection from foreign competition, are the main losers from integration in the EU. Farmers and agricultural firms could also be amongst the losers, but for them the overall effect of the EU accession depends on Slovenian agricultural policy and on the financial support from the CAP.

Obviously there is a strong connection between the position of being a winner or loser of the EU accession and the support for the inclusion in the EU. The more people are informed and rational, the stronger this link is. Based on their self-interest it is reasonable to assume that the winners will support the EU accession, and the losers reject it.

Economic effects of the EU accession in the first year

In May 2004 Slovenia along with other nine countries become a new member state of the EU. A year after the EU accession it is time to make the first assessment and to see to what extent the expectations from the EU membership have been realized. In general, it can be concluded that for the most economic subjects the mere EU accession in itself did not bring many immediate changes. The aggregate economic impact was rather weak, certainly there was no “EU accession shock”, or a structural break which would alter the characteristics and functioning of the Slovenian economy. Over the years the Slovenian economy has in the process of pre-accession adjustment already adapted to the requirements of the EU single market. Expected longer term effects on economic growth, coming from the expansion of trade, easier access to foreign capital, technology and knowledge, should be seen only over the longer period, in the forthcoming years.

The direct effects of EU accession on the Slovenian economy are in the first place related to the change in the trade regime. Change in the trade regime meant adoption of the EU common trade policy, which for Slovenia implied an elimination of residual customs duties for some sensitive agricultural imports from the EU, a lifting of customs formalities with the EU and a termination of Slovenian free trade arrangements with some former Yugoslav countries (Croatia, Macedonia, Bosnia and Herzegovina). The combined effect of these changes in the trade regime was the shift in the regional structure of Slovenian trade (increase in the trade with the EU, decline of trade with ex-Yugoslav countries, except for Croatia, where the customs duties have already been abolished beforehand), changes in the magnitude of trade with the agricultural products (increase of imports, decrease in exports), agricultural and food-processing industries’ output (drop of 6.8% in the production in 2004), and in the prices of agricultural products (some lowering of the prices).

For most of the Slovenian exporters in industry and services increased exposure to international competition after the EU accession was not much felt, as the successful

exporting sectors retained their export dynamics. (Data in this section are based on the study Bednaš, 2005, where also some other effects of the EU accession, such as entry in ERM II, and effect on public finance situation, are analysed). While the overall effect on the manufacturing sector was not significant, some industrial sectors retained their production and export activity after the EU accession (chemical, metals, electrical and optical equipment, rubber and plastics) or even raised it (pulp and paper, non-metal minerals, machinery and equipment), while some labor-intensive industries continued facing problems (textiles, leather, furniture). Finally, there were sectors with negative impact on their activity since the EU accession (food, beverages and tobacco industries).

In the end, it can be concluded that some of the macroeconomic risks, to which Slovenia exposed itself after the EU accession, have not materialized in the first year. There was no rapid decline in international competitiveness in some problematic labor intensive sectors which otherwise could have caused problems for the Slovenian overall economic growth and employment. Negative trends in these sectors, where restructuring was insufficient or lagging, rather continued in line with expectations, also after the EU accession.

Some areas of disappointment

As mentioned before, while Slovenian political elites were strongly in favor of the inclusion in the EU, public opinion polls showed less uncritical enthusiasm and support for the Slovenia's EU accession. There were certain areas of disappointment with the process of integration in the EU, some of them shared among all the candidate countries, and others specific for Slovenia.

First, as the process of enlargement of the EU lasted for more than a decade, the EU itself in time underwent considerable changes. From the point of view of candidate countries this means they were in fact shooting at a moving target. In the last couple of years, just before the EU accession, the changes in the EU were for the worse, which is a cause for disillusionment with the EU in the eyes of the candidate countries. When the EU accession was approaching, it became clear that the EU was not what it should have been according to expectations at the beginning of the integration process. Recent developments in the EU, such as poor economic growth, high and persistent unemployment, weakening competitiveness compared with other economic regions, avoidance and delay of necessary structural reforms in leading EU

countries, problems with the implementation of the Lisbon strategy, failure of adopting the European constitution, problems with reaching an agreement on the European budget for the next financial perspective 2007-2013, can be listed among the main areas of disappointment. It seems that the old EU member countries are primarily interested in retaining their existing privileges and maximizing their net position with the EU budget, which indicates that narrow national interests and selfishness at the moment prevail over a broader European integrationist spirit.

Second, another area of dissatisfaction is the use of the balance of power between the EU and the candidate countries in the process of EU enlargement. In the candidate countries it was often felt as if the interest for the enlargement of the EU was only on their side, as if economic and political benefits from the enlargement for the other side did not exist at all. It was emphasized that the candidate countries are wishing to join the club, and not the other way round, so they have to accept its rules as they are, in principle as a whole, based on “take it or leave it” argument. The process of the EU accession was thus somehow one-sided, based on the existing balance of power, while an opportunity for a dialog among equals was not exploited. Most of the negotiations on the terms of the EU membership were in fact just taking over the European legal order, while concessions given to the candidate countries were rather rare. In the process of negotiations, and even before, the use of double standards, lack of clear principals and power of national interests of individual old EU member countries were frequently felt.

Third, next area of disillusionment was the concept of accession itself. At first it was understood that the candidate countries would be accepted to the EU according to their own merits, i.e. their efforts in preparation and readiness in terms of meeting the Copenhagen accession criteria, and not in a package, as a block. In other words, the leading principle of enlargement was supposed to be a “regatta” approach, where the best reach the goal as first, and not a “convoy” approach, where the best have to wait for the others. At the beginning it looked as if the first approach was actually used, as the first group of six best prepared candidate countries (Luxembourg group) was selected to start negotiations on the EU accession. However, two years later they were joined by another group of six candidate countries (Helsinki group), which in the process of negotiations somehow miraculously succeeded in catching up with the first group, so that in 1994 ten accession countries finally joined the EU. The convoy approach in the end prevailed over the regatta approach, which

was rather disappointing for a country like Slovenia, throughout the process considered to be among the best prepared candidate countries for the EU accession. Slovenian efforts to conclude negotiations early, even at a price of giving up some national interests, in the end turned out to be rather futile, as the same result could probably be achieved anyway, with less efforts and sacrifice.

Forth, Slovenians were quite surprised by the fact that the public opinion in the EU was not in favor of Slovenia as an accession country. When asked which countries would be welcome members of the EU, Slovenia was as a rule ranked low, at the bottom of the ladder, just in front of some problematic or exotic candidate countries. Slovenians found no rational explanation for the obviously bad image of Slovenia, as according to some objective indicators, such as the level of economic development, where if was the leading candidate country, it should be rather somewhere at the top of the ladder. Disappointed by these messages, Slovenians offered some explanations, such as the following: a) Slovenia is not known enough in the EU, so a better promotion is needed, b) Slovenia is because of the similarity of the name mixed with Slovakia or even Slavonia, a region in Croatia, c) Slovenia is unjustly placed into some problematic regions, such as ex-Yugoslavia or Balkans. The fact that Slovenia was not very popular in the EU, fired back, so that Slovenians themselves had probably less reasons to be enthusiastic about the EU accession.

Fifth, in more concrete terms, the sensitive issues of negotiations on the EU accession, such as agriculture, environment, regional policies, budgetary flows with the EU, Schengen border, etc., could always be seen as areas where more could be gained or less lost for Slovenia. However, in public discussion, these matters did not attract the main attention. The main areas of dissatisfaction have to do more with some specific problems which Slovenia met along the path to the EU, either in the process of negotiations, or even before, at the time of preparing the Association agreement. The main areas of disappointment which raised a lot of attention and led to heated public debates have to do with the two issues: The rights of the EU citizens to purchase land in Slovenia even before signing the association agreement and demands of the EU to close Slovenian free-trade shops on the state borders with Italy and Austria before the EU accession. Of course, selection of the problematic issues is by definition to some extent subjective, and an alternative list of topics, including for instance the treatment of denationalization in the negotiations and approach to the possibilities for the migration of the

Slovenian labor force to the EU, could be prepared as well. (For a detailed and balanced assessment of the mentioned main problematic issues, see Bučar and Brinar, 2005).

Conclusions

Slovenia became an independent state in 1991, after the dissolution of Yugoslavia. Slovenian transition process had a triple dimension: a) transformation of the economic system, b) shift from a regional to a national economy, and c) change from being a part of the federal state to becoming a member country of the EU.

When embarking on the road towards its EU membership Slovenia had some starting advantages, compared to other transition economies in the Central and Eastern European region. Favorable initial conditions had to do with the legacy of the former Yugoslav economic system with quasi market economy and with the fact that Slovenia was, and still is, economically most developed among the countries in the region. This helps explain why Slovenia chose gradualist approach to structural reforms in the process of transition and in preparations for the EU accession. Slovenian gradualism contributed to maintaining economic, political and social stability throughout the period, but also to less dynamism, some inertia and delays in needed structural reforms, thus losing some of the initial advantages in the process of EU accession.

While the process of integration in the EU as a whole was smooth and successful, it is interesting to note that Slovenia was the last among the candidate countries to sign an Association agreement with the EU, although throughout the period Slovenia has always been considered as one of the best prepared candidate countries. Later on, in the process of negotiations with the EU on the terms of Slovenia's membership in the EU, the results of negotiations were well accepted in the public. This was finally confirmed by a highly positive outcome of the 2003 Slovenian referendum on its EU membership.

There were many arguments for Slovenia's inclusion in the EU, historical, geographic, cultural, political, economic, social and security related. However, potential economic gains from the EU accession were decisive in the case of Slovenia. An undisputed overall assessment in Slovenia was that expected benefits exceed the costs of the accession and that net benefits are particularly to be expected in the longer run. Of course, the overall effects are

not proportionally distributed, there are some economic or social groups which may be at risk after the EU accession. This should perhaps be taken into account in designing economic and social policies, in order to sustain economic, social and political stability and cohesion in the country.

One year after the entry in the EU, it can be said that not much has changed in Slovenia. Most of the adjustments have been done before, in the period of preparations for the EU. Most people felt practically no difference in their everyday life. Macroeconomic overall effect was positive, but negligible, and sectoral effects were in the expected direction, in fact in line with the previous trends. There was certainly no "EU shock" in Slovenia, and no potential risks of the EU membership were realized.

Finally, Slovenia decided for an early entry in ERM II and EMU. The plan is to adopt the euro in the beginning of 2007, less than three years after the EU accession. At the moment, Slovenia is in a good position to fulfil all the Maastricht convergence criteria on time and to become the 13th member country of the eurozone, the first among the new EU member states. This is seen as another important step in deepening the EU integration in Slovenia, which builds upon and upgrades its successful inclusion in the EU.

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