

## **Slovenia's Economic Growth May `Surprise' This Year, Bajuk Says**

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May 27 2008 (Bloomberg) -- Slovenia's economic growth, set to slow this year from 6.1 percent in 2007, may "surprise" forecasters including the central bank, said Finance Minister Andrej Bajuk.

"It will surprise again, it won't slow as quickly as forecast," Bajuk said in an interview in Ljubljana on May 23. "The real economy is responding differently than anticipated to downside risks and the business climate is still significantly above the historical trend."

Slovenia's economy may grow 4.2 percent this year after expanding at the fastest pace in a decade in 2007, the government and central bank have estimated. Rising exports and surging investments increased its "economic potential," Bajuk said.

"We are still a country in transition to a market economy and the adoption of the euro has brought us stable rules," said the minister. "The euro is demanding responsibility from all economic players as well as from our economic policies."

Inflation in the Alpine nation, the first east European nation to adopt the European single currency, accelerated to 6.9 percent in March, the fastest pace in more than five years, before slowing to 6.5 percent last month. Consumer-price growth is the quickest among the 15 countries sharing the euro.

"Inflation will slowly ease, but we have to take into account unpredictable movements in oil prices," said Bajuk, 64. "There are signs food price increases are slowing."

European Central Bank council member Lorenzo Bini Smaghi said in November Slovenia's fiscal policy is "too lax," adding to inflationary pressures. Slovenian central bank Governor Marko Kranjec in February blamed the uncompetitive retail market for the consumer costs increases.

"Fiscal policy is not to blame for the inflation spike," Bajuk said. "It's not domestic demand-driven inflation, it's the shocks on the supply side. Retailers in Europe have partially absorbed the surge in food prices, whereas here they increased their margins by 50 percent."

Slovenia had a budget surplus of 37 million euros last year on higher tax receipts from expanding businesses, and the surplus is set to widen to about 70 million euros in 2008, Bajuk said.

The government canceled a planned 1 billion-euro bond sale this month as the government sees less need to issue debt because of its "sound fiscal position," he said.