FOCUS ON COUNTRIES
DEVELOPMENT OF REGIONAL DISPARITIES IN SLOVENIA

Lučka Lorber, Maribor*

with 3 figures and 4 tables in the text

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Summary

The paper presents a survey over regional disparities in Slovenia measured by Gross Domestic Product (GDP). Slovenian regions at the NUTS-3 level are compared with the Central Slovenian (statistical) Region [Osrednjeslovenska regija].

The paper focuses also on the spatial distribution of economic activities by regions and stresses the necessity to accelerate the economy as well as to increase competitiveness; also that regions must work hard to establish a good balance between stable economic development, structure adjustment and inflation management. It is supposed that this will be a long and arduous process aggravated by the international financial crisis.

The Slovenian regions’ economic structure, determined by Gross Value Added (GVA), is slowly approaching the structure of developed economies with the importance

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of agriculture and manufacturing decreasing and the importance of services increasing. However, financial and business services as well as technologically demanding sectors are growing too slowly in less developed regions.

Slovenia’s basic development goal is to exceed the average economic development of the enlarged EU to be able to secure social security, faster development in all its regions and improve the environment – in other words to strive for a better quality of life and overall human development across the country.

1 Introduction

The paper researches into regional disparities in Slovenia by Gross Domestic Product (GDP) at the level of two NUTS-2 cohesion regions as well as of twelve NUTS-3 regions. The Nomenclature of Territorial Units for Statistics (Nomenclature des unités territoriales statistiques, NUTS) is the common European statistical classification of territorial units that was confirmed by the Parliament on May 26, 2003. The NUTS classification has three levels. By virtue of ES Regulation No. 1888/2005, the entire territory of the Republic of Slovenia has been classified as a NUTS-1 region and is subdivided into two NUTS-2 regions, while at the NUTS-3 level, Slovenia is subdivided into twelve regions corresponding to the precedent statistical regions. It was not until the ES Regulation No. 105/2007 as of January 1, 2008, that Slovenia was divided into the two cohesion regions at the NUTS-2 level.

Figure 1: NUTS-2 and NUTS-3 regions in Slovenia

Source: SORS
The survey comprises the period 1995-2008, in which the transition of the Slovenian economy took place. Slovenia joined the European Union in May 2004 and introduced the Euro January 1, 2007. These events affected the economic development of Slovenia most decisively.

Significant regional differences in economic development were already pointed out as early as in 1969 in a collection of selected papers by a group of intellectuals (“The Full and the Hungry Slovenians” [Siti in lačni Slovenci]). Political circles responded to it by adopting legislation to promote less developed areas. The state allowed investments into infrastructure and the opening of new posts, particularly in labour-intensive industrial sectors with a lower Gross Value Added (GVA). But the results of these investments did not meet expectations and had no significant effect on lessening regional disparities. The trend towards emigration of younger, educated people to the better developed urban areas continued.

Transition and the period after independence generated a new economic situation that had a significantly deepening effect on regional disparities. First signs of crisis appeared in areas with a traditional structure of processing industries. The loss of the Yugoslavian market and an inability to adapt to the new market conditions resulted in a decline of traditional industry sectors, especially the labour-intensive.

For an in-depth analysis of regional disparities adequate statistical data were missing. The Statistical Office of the Republic of Slovenia (SORS) published the first data on regional GDP as late as in 1999 for the year 1996. It was only after 2000 that periodical regional statistical data (by SORS) and topical working papers treating regions in a more comprehensive way, also from the viewpoint of economic geography (by the Institute of Macroeconomic Analyses and Development, IMAD), were published. It is also one of the main strategic goals of the European Union (EU) to lessen regional disparities, both within individual member states as well as in border and contact areas (BUFON 2008) and the newly-established euroregions.

Although Slovenia is one of the European countries with the smallest regional disparities, those are present and even widening. The difference between the most and the least developed region in the country amounted to a 1:1.9 ratio in terms of GDP (Pry 2006) until the end of the millennium. It was in 2001, when this ratio exceeded 1:2 for the first time; and in 2008 it approached 1:2.2.

Characteristically enough for the majority of new EU member states, regional disparities were increasing faster due to a fast economic development based on extensive Foreign Direct Investment (FDI) inflow and a growing share of foreign banks in the new states’ financial markets.

It is particularly interesting that a fast growth of GDP resulted everywhere in widening regional disparities. Many authors came to the conclusion that an increasing GDP means a smoothing of regional disparities in high-developed countries, while it means exactly the opposite for medium-developed countries. This is very true for Slovenia, where regional disparities widened during the period of the strongest economic
growth. This is logical with regard to the fact that growth of the less developed regions should be much faster than growth of the most developed.

2 Historical summary

Disparities in development and well-being between individual regions have been a part of the history of mankind since the very beginning, when division of work and decision-making amongst the members of human society occurred. Earlier, they depended primarily on natural resources and individuals, whose decisions affected interpersonal relations.

Comprehensive and long-term changes, however, were caused by the Industrial Revolution. By means of the Southern Railway from Vienna [Wien] to Trieste, industrialisation reached Slovenian regions as well. New industrial centres began to develop fastly affecting demographic trends in the area.

Although a very small country of little more than 20,000 sq.km, Slovenia has regions with very distinct historical and cultural identities that are not only apparent in the cultural landscape, but also deep-rooted in the consciousness of the population. These identities (Carniola [Kranjska], Styria [Štajerska], Carinthia [Koroška], the Littoral [Primorsko], Prekmurje) have been founded by the lands of the Habsburg Empire existing from the Middle Ages (13th century) up to 1918. They express themselves a.o. by styles of architecture, dialects as well as ecclesiastical subdivisions (Jordan 2003).

Upon creation of the Kingdom of Serbs, Croats and Slovenes after World War I, the Slovenian regions, within the Austro-Hungarian Monarchy rather the less-developed, became the most developed regions of the new kingdom. During this period, industry was spatially concentrated in the form of a so-called “industrial crescent”. The remaining areas were in economic decline and their demographic structure became unfavourable.

After World War II, a change in the economic system occurred and, following the model of the Soviet Union, state-induced industrialisation accompanied by the generation of a labour class was set as the utmost priority, which caused cities to grow fast. A negative attitude towards private agricultural production in association with forced collectivisation supported the depopulation of rural areas. These socio-economic processes resulted in growing regional disparities. In their work “Siti in lačni Slovenci” intellectuals warned of the inacceptable lagging behind of rural areas in comparison to the fast-growing urban centres as early as in 1969.

In his work “Spatial Influences of Slovenian Regional Policy” Janez Nared (2007) divided the post-war era into three periods. According to Nared the first period (1971-1991) of promoting less-developed areas began in the 1970s, when the government adopted the Act on Measures to Accelerate Development in Less-developed Areas of
the SR of Slovenia (1971) thus beginning to implement an active policy in lessening regional disparities. The Act defined the criteria of defining less-developed areas and provided for instruments to improve the conditions given. The approach used was top-down, which in fact, during the first phase of moving labour-intensive sectors to rural areas, generated a lot of new jobs. At that time, however, the developed part of the global economy had already shifted to the post-industrial stage. The start of transition of the Slovenian economy coinciding with social changes in eastern European countries and Slovenian independence then revealed structural weaknesses of the economy and its unpreparedness for transition to market economy.

The second period (1991-1999) started with the adoption of the Development Promotion in Demographically Endangered Areas Act as an answer to a sharp deterioration of the demographic situation in Slovenia. When defining problem areas, economic criteria were discarded entirely and the process of defining was based on demographic indicators at the level of local communities and settlements. On the background of a lack of funding and an all but perfect strategy, such an approach was necessarily bound to fail.

According to European legislation, Slovenia’s preparations for entering the EU called for a changed approach in solving regional disparities. Therefore, the Promotion of Balanced Regional Development Act, adopted in 1999, put regional policy on a completely new set of foundations. It asserted the principle of endogenity and partnership with the newly established institutional structure.

3 Sectoral structure of regional economies and regional disparities

Transition to market economy and the abandoning of the Socialist model of the economy resulted in significant shifts between economic sectors. The most affected during the crisis period at the beginning of transition were the industrially most developed regions, the Central Slovenian (statistical) Region [Osrednjeslovenska regija] SI021 in particular. They disposed over highly developed manufacturing activities in traditional labour-intensive branches on the one hand and technologically less demanding and energy-wasting production on the other.

The structure of the Slovenian economy has changed significantly since 1991 similar to other countries. The share of agricultural activities in GDP dropped by more than a half, i.e. from 5.7% of the GDP in 1991 to 2.5% in 2008. There was also a sharp decrease in the share of industry and construction; these activities were creating 44% of the GDP in 1991 and only 33.8% in 2010. There was, in contrast, a strong increase in the share of services, i.e. from 50% in 1991 to 63.6% in 2008.
In 1995, the GDP index of the Central Slovenian Region was 138 (Slovenia in total, SVN = 100), which means that the regional disparity factor was 1: 1.38. It reached the lowest value in 1997 and 1998, when it amounted to 1:1.37, while it was the highest in 2003, 2006 and 2007, when it totalled to 1:1.44. The average value of the relevant time period amounts to 1:1.404 – the absolute difference being 0.07.

The development of the Central Slovenian Region is based on a structure of GDP comparable with the most developed countries. For the year 2008, the share in GVA of agriculture is 1%, of industry 23.6% and of services 75.4%. Slovenia’s capital city belongs to this region affecting its economic power. In the period 1995-1999, the share of the Central Slovenian Region in the overall Slovenian GDP amounted to 33.6% +/- 0.3%, between 2000 and 2004 it was 34.9 +/- 0.8 and in the period 2005-2008 as high as 36.1 +/- 0.2% (see Tables 1, 2 and 3).

Based on data for Slovenia in total (NUTS-1) and the cohesion regions (NUTS-2) compared to the best-developed NUTS-3 region, calculations show that Eastern Slovenia (SI01) had the best ratio in 1998, when it totalled to 1:1.61 (Western Slovenia – SI02 – 1:1.15 in 1997), and the worst in 2006 – 1:1.75 (Western Slovenia – SI01 – 1:1.20 in 2006) (see Figure 2). In other words: The difference between the minimum and the maximum distance of Eastern Slovenia (SI01) from the Central Slovenian Region as the best developed NUTS-3 region in Slovenia amounts to 0.14 (0.05).

**Figure 2:** Regional disparities of Slovenia (NUTS-1, SVN) and of the NUTS-2 regions (SI01 and SI02) by GDP compared to the Central Slovenian Region (SI021)

Source: SORS, author’s own calculations
During the entire period 1995-2008, disparities between the two cohesion regions and the Central Slovenian Region (SI021) diminished (compared to SI01 by -0.02 and to SI01 by -0.01), most affected by the fall of GDP in 2008. This is due to the fact that the beginning of the depression was most reflected by the Central Slovenian Region (SI021) suffering the most from the stagnation of investments and stagnating works in the construction sector.

The NUTS-2 region Eastern Slovenia (SI01) comprises 61.5% (Western Slovenia – SI02 – 38.5%) of the Slovenian territory and hosts 52% (48%) of the overall population generating 44.3% (55.7%) of the GDP in 2008. Developmental disparities can be explained by the GVA structure by sectors, since Eastern Slovenia still holds 3.9% in agriculture (Western Slovenia 1.4%), 41.9% in industry (27.4%) and 54.2% (71.1%) in services.

Figure 3: Changes in GVA by economic sectors at NUTS-1, -2 and -3 levels

Industrial production remained at the same level as before independence as late as the year 2000. Most affected by the initial transition crisis were the industrially most developed regions, in particular the Drava Valley Region [Podravska regija] SI012. Characteristic for developed industrial regions in this period were highly developed manufacturing activities in traditional labour-intensive, energy-wasting and technologically less demanding branches (Lorber 2005).
Official data on GVA by regions and economic activities have been made available only since 1995 and are so far available up to the year 2008. We divided this period into three time sets, the first comprising the years 1995-1999. During this time, the Development Promotion in Demographically Endangered Areas in the Republic of Slovenia Act was in force (in force actually between 1991 and 1999).

**Table 1: Change of the regional disparity factor compared to the previous year (1996-1999)**

<table>
<thead>
<tr>
<th></th>
<th>SVN</th>
<th>SI02</th>
<th>SI024</th>
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</thead>
<tbody>
<tr>
<td>1996</td>
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<td>0.00</td>
<td>-0.01</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>-0.01</td>
<td>0.01</td>
<td>0.00</td>
<td>0.01</td>
<td>0.02</td>
<td>0.00</td>
<td>-0.01</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
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<td>-0.01</td>
<td>0.01</td>
<td>-0.02</td>
<td>-0.04</td>
<td>0.00</td>
<td>-0.02</td>
<td>-0.04</td>
<td>-0.05</td>
<td>-0.05</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.01</td>
<td>-0.02</td>
<td>-0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>1998</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.02</td>
<td>0.01</td>
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</tr>
<tr>
<td>1999</td>
<td>0.02</td>
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<td>0.07</td>
<td>0.03</td>
<td>0.07</td>
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<td>0.03</td>
<td>0.01</td>
<td>0.11</td>
</tr>
</tbody>
</table>

Source: SORS, author’s own calculations

It is characteristic for this period (see Table 1) that regional disparities between statistical regions were rather low (ratio 1995-1998 1:1.85), while they increased rapidly in 1999 up to the ratio of 1:1.96. Except the year 2003, 1999 was the only year when none of the regions reduced its backlog compared to the leading Central Slovenian Region (SI021). As a sum of the whole period, backlogs compared to the Central Slovenian Region were diminished only in three regions, i.e. in Southeast Slovenia [Jugovzhodna Slovenia] (SI017), the Lower Sava Valley Region [Spodnjeosavska regija] (SI016) and the Drava Valley Region (SI012). These regions disposed over the most developed industry and were the first to start restructuring traditional industrial activities. In this period, only one region, the Mura Valley Region [Pomurska regija] (SI011) exceeded the limit of +0.10 by +0.12; all other regions remained below 0.05.

**Table 2: Change of the regional disparity factor compared to the previous year (2000-2004)**

<table>
<thead>
<tr>
<th></th>
<th>SVN</th>
<th>SI02</th>
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<th>SI014</th>
<th>SI013</th>
<th>SI012</th>
<th>SI011</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>-0.01</td>
<td>-0.04</td>
<td>-0.01</td>
<td>-0.03</td>
<td>0.07</td>
<td>0.01</td>
<td>-0.07</td>
<td>-0.02</td>
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<tr>
<td>2001</td>
<td>0.01</td>
<td>0.00</td>
<td>0.03</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03</td>
<td>0.04</td>
<td>0.01</td>
<td>0.02</td>
<td>0.12</td>
<td>0.05</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>2002</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.03</td>
<td>0.02</td>
<td>0.00</td>
<td>0.01</td>
<td>-0.01</td>
<td>0.03</td>
<td>0.02</td>
<td>0.06</td>
<td>-0.01</td>
<td>0.05</td>
<td>-0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>2003</td>
<td>0.04</td>
<td>0.01</td>
<td>0.05</td>
<td>0.07</td>
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<td>0.07</td>
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<td>0.10</td>
<td>0.05</td>
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<td>2004</td>
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<td>-0.01</td>
<td>0.02</td>
<td>0.00</td>
<td>-0.02</td>
<td>0.01</td>
<td>-0.04</td>
<td>-0.02</td>
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<td>-0.02</td>
<td>0.00</td>
<td>-0.02</td>
<td>-0.01</td>
</tr>
</tbody>
</table>

Source: SORS, author’s own calculations
The second period, between 2000 and 2004, was a time of intensive preparations for Slovenia’s EU access. To overcome the weaknesses of the preceding regional policy and for the sake of an approximation to European guidelines, the Promotion of Balanced Regional Development Act was adopted in 1999. This Act meant an entirely new foundation and introduced endogenous development as a means of solving regional issues.

An analysis of the period from the adoption of the Act to Slovenia’s access to the EU shows that despite a good Act, disparities were not lessening; quite the opposite, the period was the most turbulent one (see Table 2).

In 2000, five of the eight NUTS-3 regions of Eastern Slovenia (NUTS-2) reduced their backlog compared to Slovenia’s leading region SI021, the Carinthian Region [Koroška regija] (SI013) most of all, while in 2001 and 2003 none of them did so and in 2004 as many as six of the regions reduced it. In this period, average GDP growth at the state level was higher resulting in an overall widening of regional disparities due to a stronger growth in the most developed regions. The region to widen its backlog least was the Drava Valley Region SI012 (+0.03), while the region to do it the most was the Sava Region [Zasavska regija] SI015 (+0.35), where the coal mines were closed down. The limit of 0.10 was also exceeded by the Gorica Region [Goriška regija] SI023 (+0.11), the Lower Sava Valley Region SI016 (+0.13), the Carinthian Region SI013 (+0.11) and the Mura Valley Region SI011 (+0.15).

Regional disparities in 2000 were 1:1.989 and grew by 2004 up to the ratio of 1:2.118, which was mainly a result of the fast development of the Central Slovenian Region and the structure of GVA by economic sectors. The majority of industrially developed regions widened their distance to the leading region during this period due to the fact that restructuring the production into producing more demanding products with higher added value was not fast and efficient enough. The Drava Valley Region (SI012) is an exception, since it was one of the first to overcome economic problems owing to the fact that the structure of its industrial sector was founded on traditional industrial sectors whose prevailing market was common Yugoslavia (Lorber 2008).

The third period corresponds to the time after Slovenia’s access to the EU (see Table 3). During this period the economy was growing extremely fast. GDP growth was based on rapid increase of exports and structural changes in industry, where production of medium- and high-level products gained at the expense of labour-intensive production. It is characteristic for this period that the negative trend of growing regional disparities stopped and as many as six regions reduced their gap to the leading region, most successfully the Lower Sava Valley Region SI016 (-0.07), the Coastland-Karst Region [Obalno-kraška regija] SI0124 (-0.05), the industrially developed Southeast Slovenia (SI017), the Carinthian Region SI012 (-0.04) and the Savinja Region [Savinjska regija] SI014 (-0.03). Backlog grew the most in the Sava Region (SI015), namely by as much as +0.14.
Table 3: Change of the regional disparity factor compared to the previous year (2005-2008)

<table>
<thead>
<tr>
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<th>SVN</th>
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</thead>
<tbody>
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<td>2007</td>
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<tr>
<td>2008</td>
<td>-0.02</td>
<td>-0.01</td>
<td>-0.04</td>
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<td>-0.02</td>
<td>-0.03</td>
<td>-0.02</td>
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</table>

Source: SORS, author’s own calculations

An analysis of the whole examined period (see Table 4) shows that the worst breakdown occurred in the Sava Region (SI015), where the backlog compared to the Central Slovenian Region (SI021) increased by 0.55. Second ranks the Mura Valley Region (SI011) with an increase of 0.34. In the whole period from 1995 to 2008, only the industrially developed Southeast Slovenia (SI017) with its pharmaceutical and automobile industry as well as its well-performing energy sector, and the Carinthian Region (SI012), which was the only to start comprehensive restructuring immediately after 1991, when the largest decrease of GDP occurred (LORBER 2010), lessened their distance to the leading region, namely by 0.03 points.

Table 4: Change of the regional disparity factor compared to the previous year (1995-2008)

<table>
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<tr>
<th></th>
<th>SVN</th>
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<th>SI013</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Average 95-08</td>
<td>0.04</td>
<td>0.02</td>
<td>0.07</td>
<td>0.09</td>
<td>0.14</td>
<td>0.00</td>
<td>0.07</td>
<td>0.16</td>
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<td>0.55</td>
<td>0.10</td>
<td>0.12</td>
<td>-0.03</td>
<td>0.34</td>
</tr>
</tbody>
</table>

Source: SORS, author’s own calculations

4 Future directions

Janez NARED (2007) presents a comprehensive analysis of the conditions in his “Spatial Influences of Slovenian Regional Policy” and conceives a directed polycentric development of cities as an opportunity for better regional development. David BOLE’s (2008) “Economic Transition in Slovene Cities” is logically associated with this idea. The paradigm of Postfordism can sufficiently explain economic transition and its main results – the de-industrialisation and tertiarisation of urban space. Polycentricism in
the urban region is a possible solution to alleviate the emerging unsustainable spatial patterns that are direct outcomes of economic transition (Bole 2008).

These considerations can be applied to transitional processes of NUTS-3 regions. Polycentric strengthening of cities based on the paradigm of endogenity could generate a creative environment for further development. Local communities should use an interdisciplinary approach to search for advantages and opportunities both at the local and the regional level. They should also attract young, professionally trained co-operators who could, having elaborated proper development programmes, apply for European cohesion funds as well as solicit for FDI stakeholders. Only a critical analysis of the current conditions and a wide scope of new development programmes based on natural and human resources can assure appropriate restructuring of the existing local and regional economy.

In the past years the main focus was laid on improving infrastructure, which – due to a lack of investments into small and medium-sized enterprises – actually deepened regional disparities. In order to improve the sectoral structure, GVA and investments into Research and Development (R&D) will have to increase significantly. In the year 2008 the ratio of investment into R&D between Western and Eastern Slovenia was 71.3:28.7 as a percentage of Slovenia in total.

5 Conclusions

Regional disparities between Slovenian NUTS-3 regions are the result of structural inadequacy of regional economies. As data show, only two regions exceed the average of Slovenia: Central Slovenian Region and Coastland-Karst Region. These statistical regions have a sectoral structure of the economy similar to developed countries. All other regions have problems, larger or smaller. Most endangered are border regions and regions lacking adequate transport links to the motorway network. Contrary to other new states, Slovenia had a reserved attitude towards FDI and a liberalisation of the banking system. Considering that it entered transition with the highest GDP by Purchasing Power Parities (PPPs) and also due to its smallness, Slovenia was divided into two NUTS-2 regions, which facilitate its drawing on European cohesion funds, since Eastern Slovenia reaches less than 75% GDP in PPPs of the EU-27 average, which is the limit when drawing from European funds.

In 2009 Slovenia fell into a deep economic crisis. Rapid growth after EU access was based on rapid growth of export and cheap money, which promoted excessive growth in building of homes, business and sports facilities on a mortgage basis. In 2009 the breakdown of the building industry began, which affected also building materials and equipment industry. Access to money became extremely difficult practically over night. Difficulties of large building companies affected their subcontractors, which resulted in a large number of bankruptcy processes of small enterprises.
This time of recession should be used to implement distinct structural economic changes which will enable creating and growth of high-quality jobs. This means that the labour market will have to become more flexible and that educational reforms will have to be implemented. Restructuring of the public sector is supposed to be a priority to ensure social cohesion, which is the European Union’s global advantage in the context of quality of life and development of democracy.

By consistent implementation of regional integration processes and changing priorities regarding European structural resources, a network of European economic power centres will develop, which will be able to reduce regional disparities using their multifunctional influences.

The current crisis, paradoxically, may provide more political space to make these kinds of changes possible, given the widely shared experience of severe economic insecurity of all relevant actors in society.

6 Bibliography


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