

# Political Priorities and Economic Challenges for Slovenia

*Presented to:*

**Foreign Policy and United Nations Association of Austria (UNA-Austria)**

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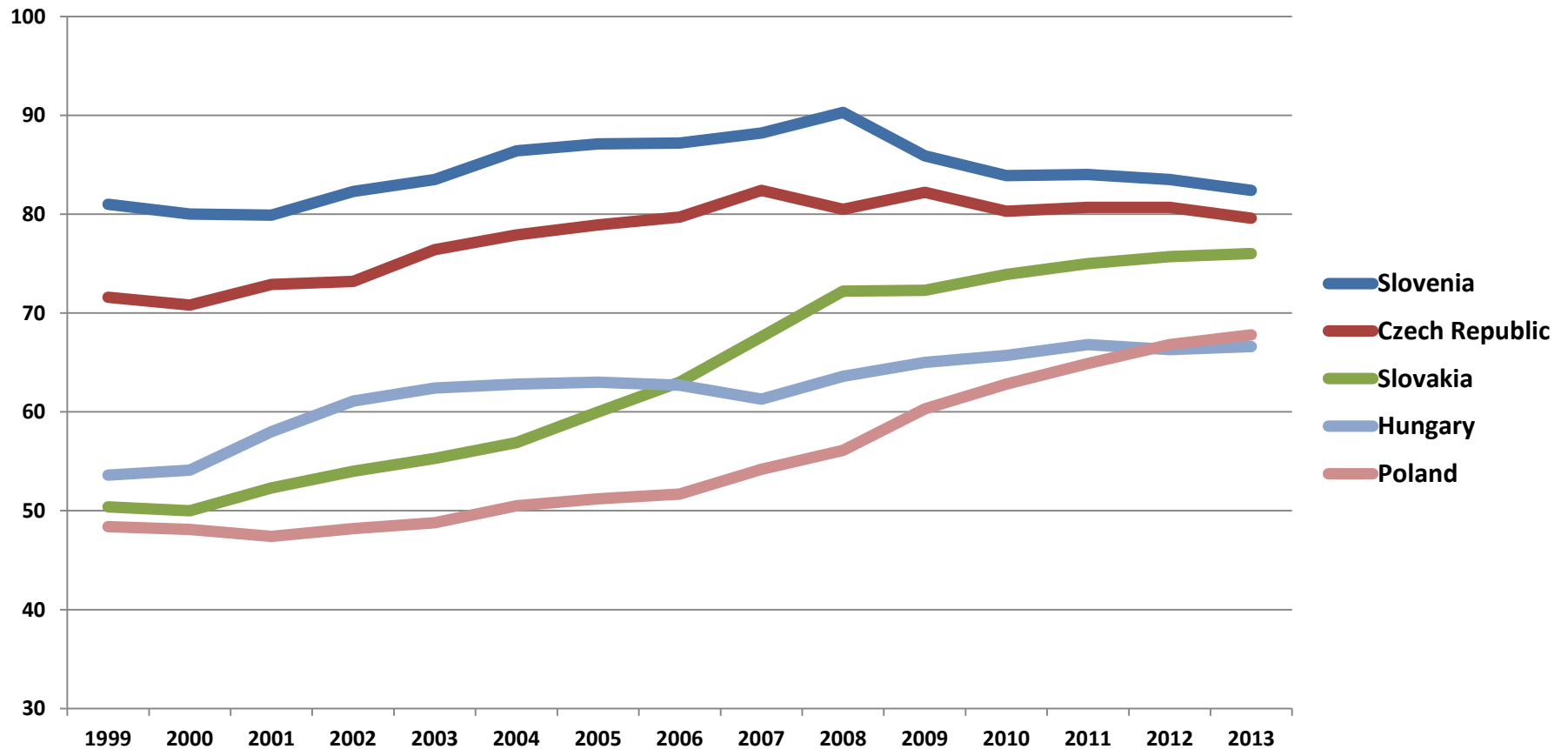
# Outline

- Economic crisis in Slovenia
- Structural reforms agenda
- Economic policy of the new government

**Part 1**

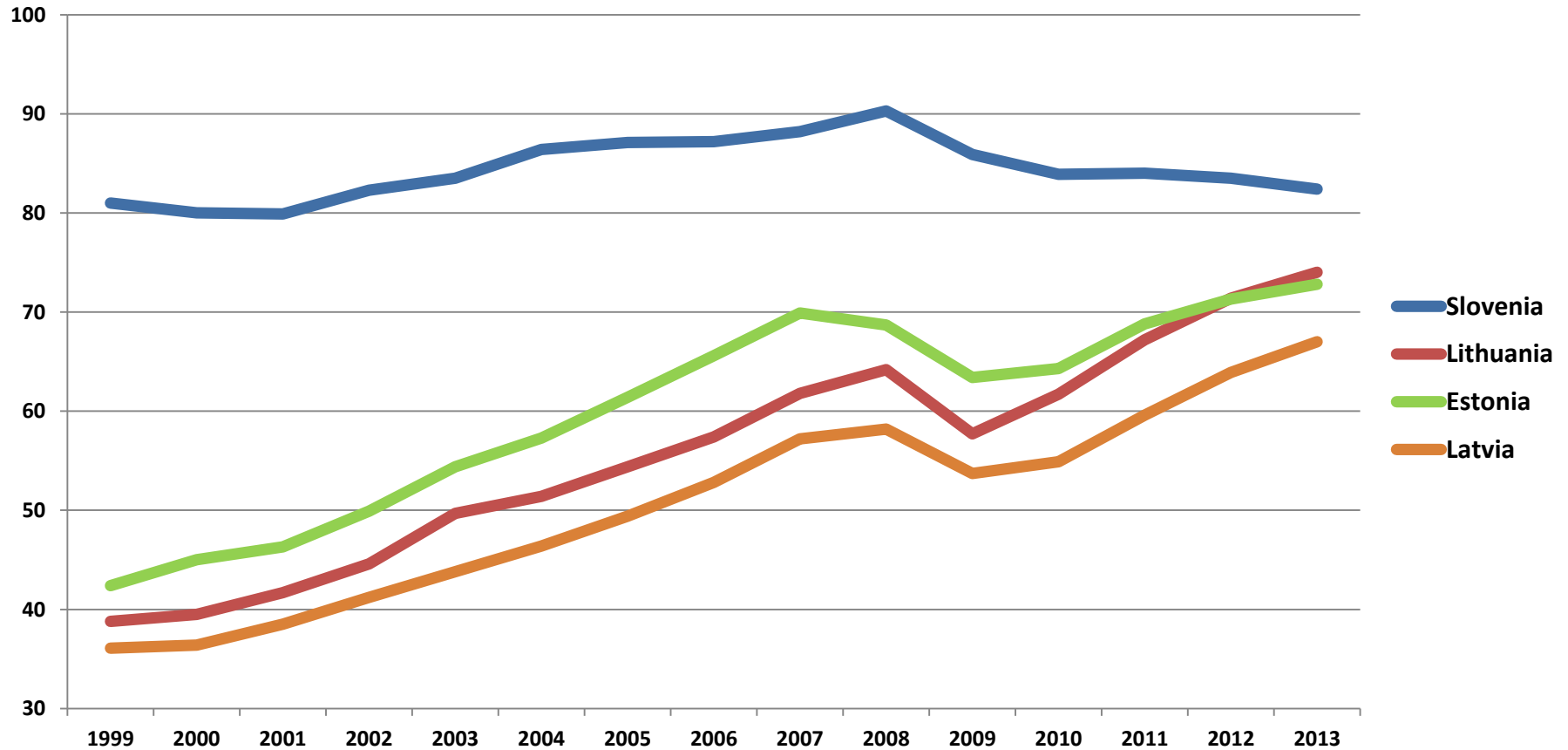
# **THE DEEP ECONOMIC CRISIS IN SLOVENIA**

# Advantage lost



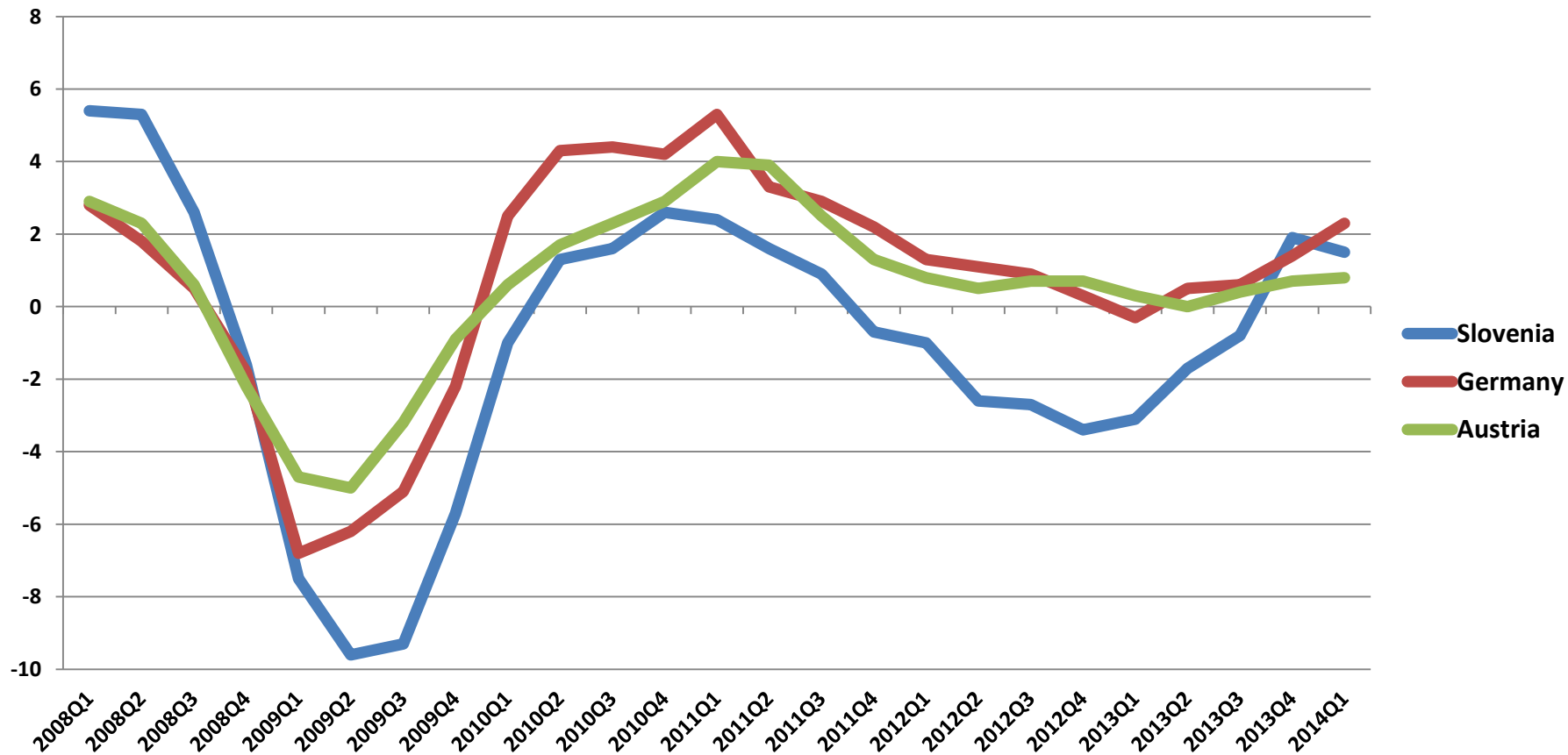
Comparative levels of GDP in purchasing power; EU27=100  
(Eurostat)

# Advantage lost (2)



Comparative levels of GDP in purchasing power; EU27=100  
(Eurostat)

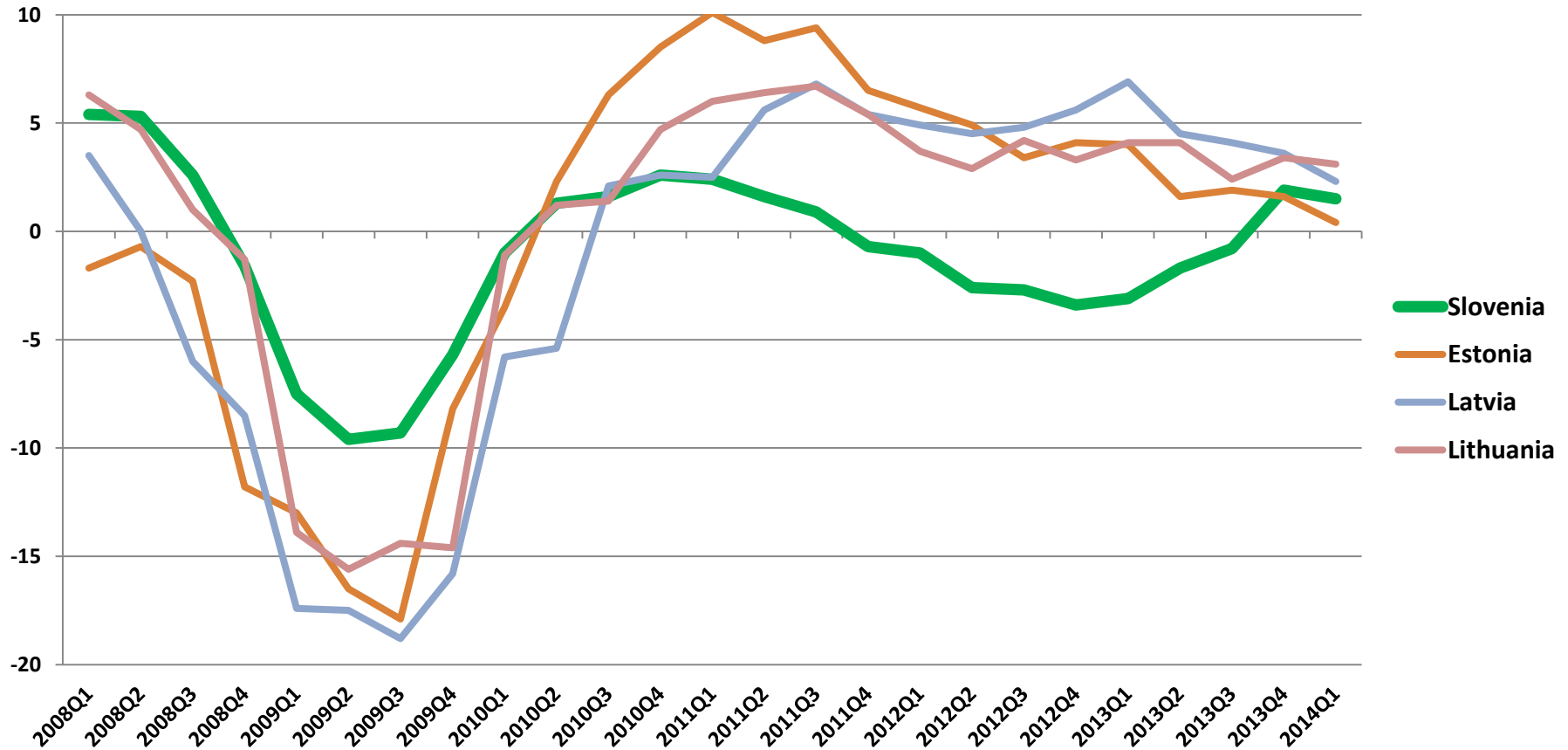
# Severely hit by the recession



Real GDP growth rates, q/q-4, 2008q1-2014q1

(Eurostat)

# Severely hit by the recession (2)



Real GDP growth rates, q/q-4, 2008q1-2014q1

(Eurostat)

# Economic outlook for 2015 (based on Spring forecasts)

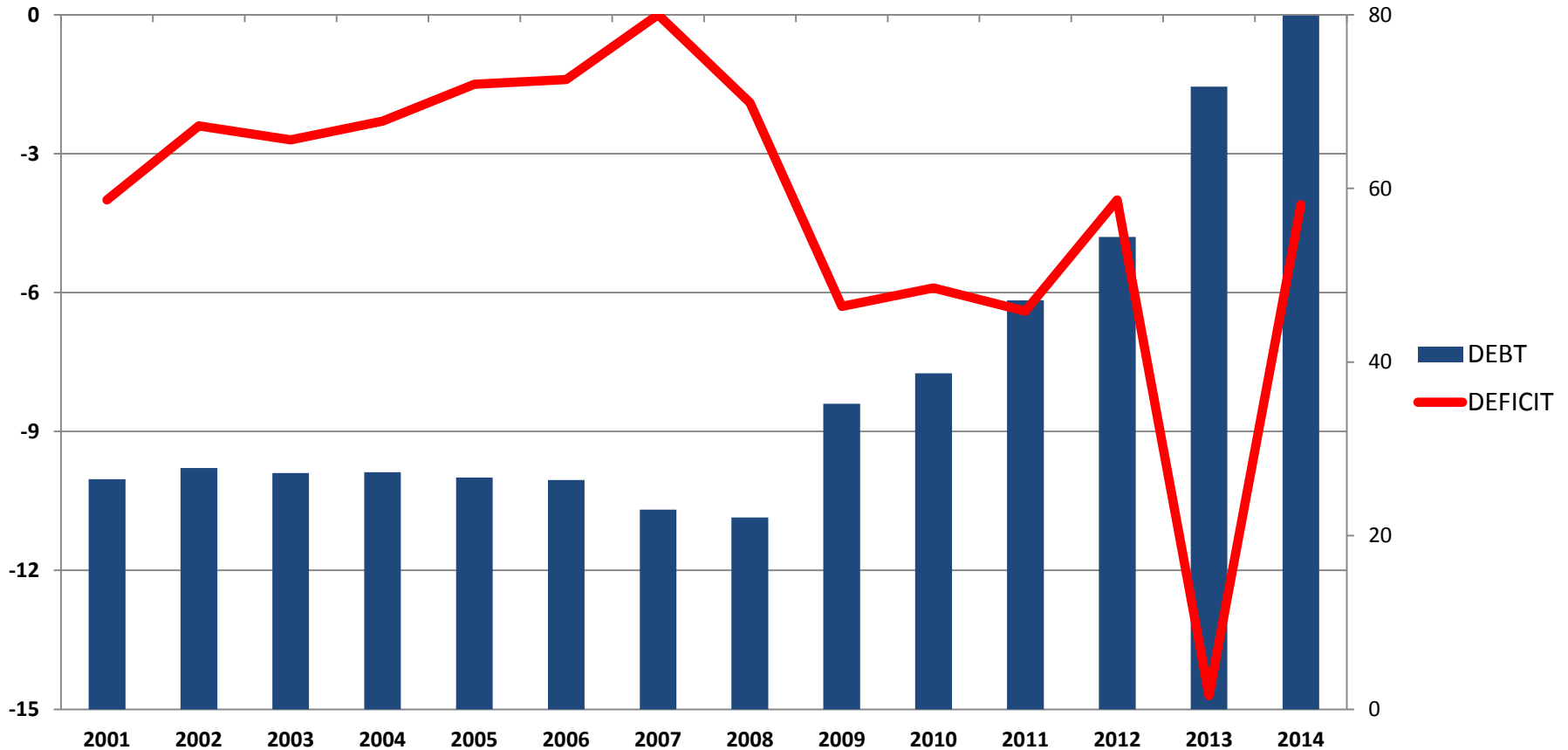
	Real GDP growth rate	Unemployment rate	Inflation
EU Commision	1.4	9.8	1.2
IMF	0.9	10.4	1.6
IMAD	0.7	10.0	1.1
Bank of Slovenia	1.4	/	1.1

*For comparison, EU Commission forecast for:*

Austria	1.8	4.7	1.7
Germany	2.0	5.1	1.4



# A steep increase in government debt



## Government deficit and debt as % of GDP, 2001-2014

Main reasons for debt increase: deficits + declining GDP + bank resolution

# The bank resolution framework

- **Until 2012**

- Repeated recapitalisations of Nova Ljubljanska banka
- No change in governance or ownership
- No systemic approach

- **2012-2014**

- Adoption and implementation of the legal framework for Bank Assets Management Company (BAMC)
- Bad assets partially transferred to BAMC, all major domestic banks recapitalised by the state
- Total cost currently estimated at 1/3 of GDP

# The bank resolution framework (2)

- **Current situation**

- **Financial restructuring of companies is slow**

- Deficient legal framework (bankruptcy/insolvency law)
- Many stakeholders with conflicting interests
  - BAMC, commercial banks, State Sovereign Holding, government, public opinion, financial holdings (cross ownership) ...

- **Banking sector is still weak**

- Balance sheets of banks are still not clean
- Lack of fresh equity capital and reluctance to privatise
- Deleveraging puts a heavy burden on economic growth

# The privatisation framework

- **Since Summer 2014, state assets are managed by the State Sovereign Holding**
  - It took 1 ½ years to implement the law!
- **The Parliament in 2013 confirmed a list of 15 companies for privatisation**
  - Only a few successful cases so far
    - Aerodrom Ljubljana
    - Helios (coating and paints)
    - Letrika (electric equipment)
  - Mercator (major retailer) was sold by banks to Croatian Agrokor after several years of political interference

**Part 2**

# **THE UNFINISHED STRUCTURAL REFORMS AGENDA**

# EU Commission assessment of progress in selected policy areas (Spring 2014)

Policy area	Progress (on a 1-5 scale)
PUBLIC FINANCE STABILITY	LIMITED (2)
PENSION SYSTEM SUSTAINABILITY	LIMITED (2)
PRIVATISATION	LIMITED (2)
BANKING SYSTEM STABILITY	SUBSTANTIAL (4)
CORPORATE RESTRUCTURING	NO PROGRESS (1)
INSOLVENCY LEGISLATION	SOME (3)
EFFICIENCY OF JUDICIARY	SOME (3)
ADMINISTRATIVE BURDEN	NO PROGRESS (1)
LABOUR MARKET REFORM	SOME (3)
WAGE MODERATION	LIMITED (2)

# Key EU Council's recommendations

Policy area	Key recommendations
BUDGET	Reduce the deficit below 3 % of GDP in 2015 mainly by reducing expenditures Establish independent fiscal council to monitor the constitutional fiscal rule
PENSIONS	Increase retirement age Stimulate private savings in the second pillar
LABOUR MARKET	Moderate wage growth, including the minimal wage, to support competitiveness Incentives for hiring young and older people Attractiveness of vocational education training
BANK RESOLUTION	Privatise NKBM in 2014 and Abanka in 2015 Strategy for operation of BAMC in 2014

# Key EU Council's recommendations (2)

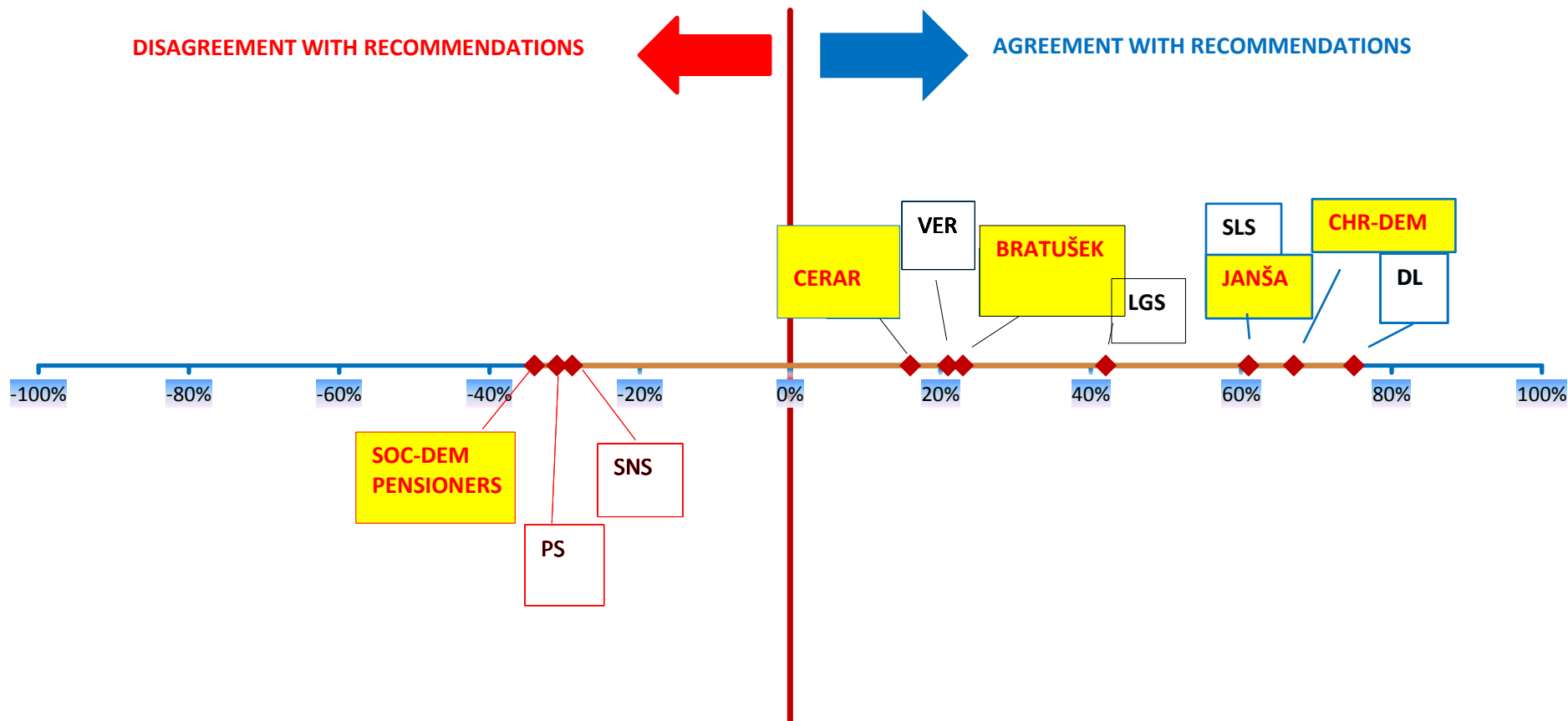
Policy area	Key recommendations
PRIVATISATION	Implement the privatisation plan of the Parliament Divestment strategy for State Holding in 2014
RESTRUCTURING	Set up central restructuring task force Improve on changes in insolvency legislation Reduce the length of judicial procedures
DOING BUSINESS	Liberalise regulated professions Reduce the administrative burden Strengthen the Competition Authority
CORRUPTION	Take effective measures to fight corruption
TAXES (by OECD)	Reduce income tax for all brackets Abolish the low VAT rate for non-subsistence items



## **Part 3**

# **ECONOMIC POLICY OF THE RECENTLY ELECTED GOVERNMENT**

# Attitude of political parties towards EU and other institution's recommendations

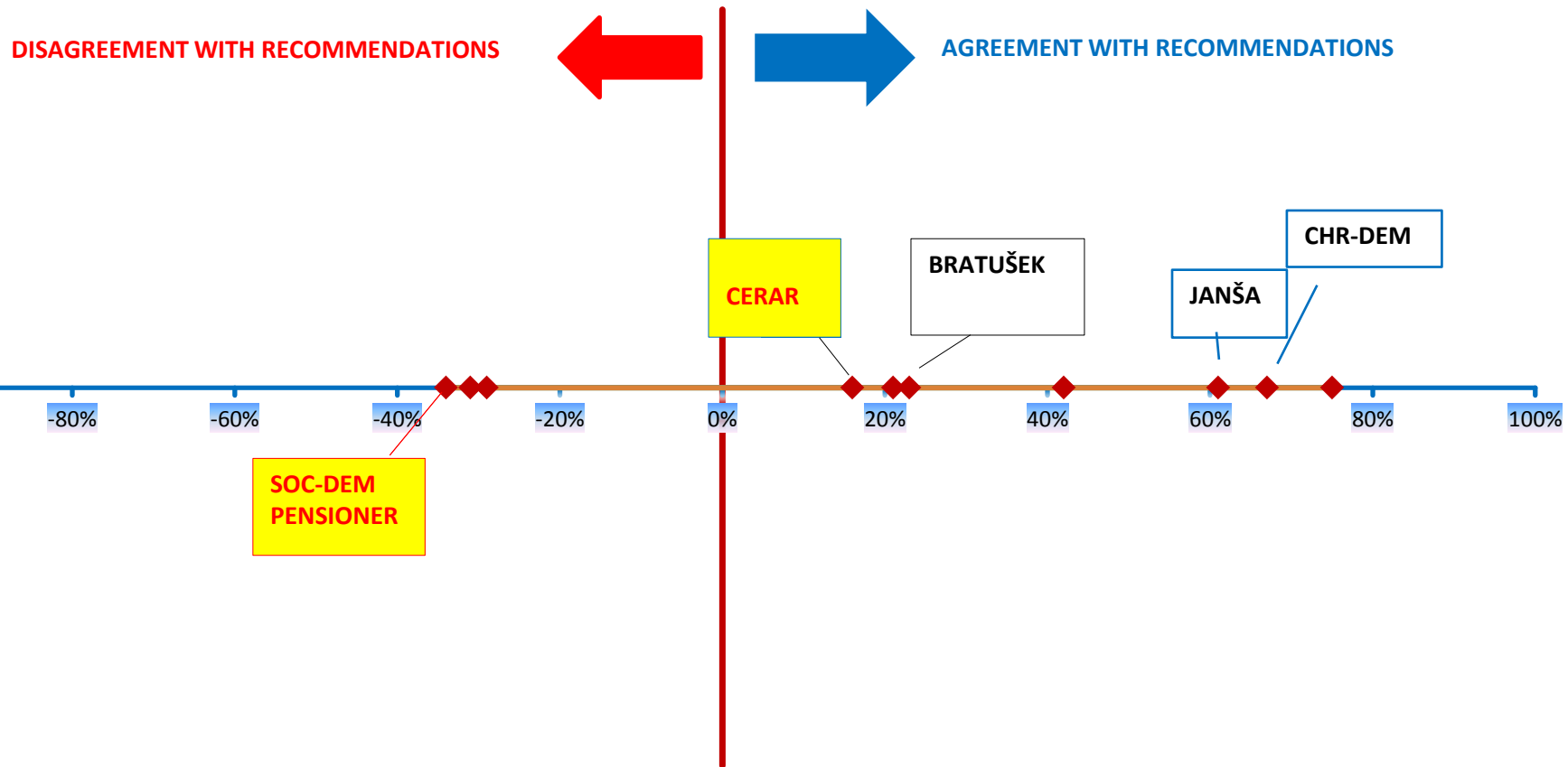


Based on the pre-election survey by author (July 2014)

Normalised on -100 to +100 to reflect the attitude against or for reforms;

parties marked in yellow were elected to the Parliament (Syriza-tipe United Left did not reply)

# Attitude of the new government coalition towards reforms



Based on the pre-election survey by author (July 2014)

Normalised on -100 to +100 to reflect the attitude against or for reforms  
parties marked in yellow are in the Government coalition

# How does the coalition agreement reflect the EU Council's recommendations

Policy area	Key recommendations
BUDGET	Reference to recommendations, but with reservations and with no new measures for expenditure reduction Fiscal council to be established
PENSIONS	Increase in pensions promised Pension reform „to be discussed“ only
LABOUR MARKET	The problem of wages / labour cost not mentioned Employment policy measures for the young Voucher scheme for apprenticeships Measures for flexibility and reduced segmentation
BANK RESOLUTION	No firm plans for bank privatisation Strategy for operation of BAMC promised

# How does the coalition agreement reflect the EU Council's recommendations (2)

Policy area	Key recommendations
PRIVATISATION	No commitment, not even for the existing list as confirmed by Parliament (case by case approach) Many reservations (no infrastructure privatisation, strategic and controlled privatisation...)
RESTRUCTURING	Better coordination of stakeholders Insolvency procedures to be made more efficient Trial period for judges, reduction of backlogs
DOING BUSINESS	Liberalisation of professions mentioned in passing Reducing the administrative burden promised No strengthening of the Competition Authority
CORRUPTION	Several measures to fight corruption announced
TAXES (by OECD)	No firm plans for reduction in labour taxation

# Conclusion: Why I am not an optimist?

- The economic problems are deeply rooted in the institutional and economic structure, not transitory
- The electorate and coalitions are moving away from understanding and supporting the structural reforms agenda
- Over 25,000 mostly young and educated people left Slovenia during crisis, alongside with some of our best entrepreneurs
- Trade unions and socialists are stronger than advocates of reforms and business associations