



A Slovenian Perspective on The Economics Crisis and Implications For The EU and Eurozone

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Long-term economic cycles

Key factor on which prevailing technologies are based (cotton and iron – coal – steel – oil – chip).

Accumulation regime and method of economic regulation.

Input-output coefficients and “basket of goods”.

We are in a cycle of information and flexible technologies, which have become mature.



Changes in economic optimism are balanced by fiscal and monetary policy.

Modern cycles are asymmetric:

- faults economic policy – financial crisis
- faults development policy – disinvestment
- faults energy policy – “power breakdown”

We are in a period of world financial crisis as a result of the realisation of systemic risk after “Lehman Brothers” bankruptcy.



Long-term saving and “financial products”

“Systemic risk” and state regulation of financial markets

Globalisation of capital movements leading to co-operation among financial markets regulators

Investments depend on development policies:

- American model
- European model
- Japanese model
- Irish-Chinese model



Digitalisation of products, processes and information services

Globalisation of supply and demand

International development competition

Mercantilism and dumping, with impact on employment at home and unemployment abroad

Exchange rate and investments in off-shore zones

Positive effects are convergence of economic development and demand growth on world markets



Overvalued euro

Effects of overvalued euro:

- shifts in production leading to lower employment in the euroarea
- slower economic growth in the euroarea
- slower growth of demand in the main export markets for Slovenia

Confidence of investors in the euroarea

WORLD ENERGY MARKET AND THE SLOVENE ECONOMIC ENVIRONMENT



Fast demand growth in newly developed countries

Constant relative growth of prices of oil and natural gas

Reduction in purchasing power and slower growth of aggregate demand in the import of these goods – also in Slovenia

Growth of purchasing power of exporters of these goods – potential new markets for Slovenia

Importance of state regulation for regular electricity supply



MOVEMENT OF LONG-TERM CAPITAL AND THE SLOVENE ECONOMIC ENVIRONMENT

Membership of the euroarea lowered the regional risk of long-term investments in Slovenia

Possible measures of modern geographic economics
(*30% eligible investment costs*)

Criteria for encouraging foreign investments: added value, export orientation, eco-friendliness

Successful Slovene companies are ever more interesting take-over targets

Development policies include securing the conditions for companies to remain incorporated in Slovenia.

SLOVENIA AND TWO GROUPS OF EU MEMBER STATES



Index of per capita GDP (PPP), 2009 :

- a) Slovenia – 100
- b) EU-15 – 128, Germany 133, USA 168
- c) Ireland 147, Finland 128, Austria 140

Share of expenditures on R&D in GDP, 2008 :

- a) Slovenia – 1.66%
- b) EU-15 – 1.99%, Germany – 2.63%, USA – 2.76%
- c) Ireland – 1.43%, Finland – 3.73%, Austria – 2.67%

SOME RESULTS TO DEVELOPMENT POLICY



Patent applications with the European Patent Office per million inhabitants (2007):

- a) Slovenia – 51
- b) EU-27 – 117, Germany – 291, USA - 106
- c) Ireland – 67, Finland – 251, Austria - 217

Patent applications with the US Patent Office per million inhabitants (2004):

- a) Slovenia – 12
- b) EU-27 – 33, Germany – 83, USA - 274
- c) Ireland – 39, Finland – 104, Austria - 45

INTENSITY OF DEVELOPMENT POLICY IN SLOVENIA AND TWO GROUPS OF COUNTRIES



Annual expenditure on education per student (1000 EUR in PPS):

- a) Slovenia – 6
- b) EU-15 – 7, Germany – 7, USA - 12
- c) Ireland – 7, Finland – 7, Austria – 9

Share of investment of “venture” capital in GDP – initial production phase (2009):

- a) Slovenia – 0
- b) EU-15 – 0.017%, Germany – 0.018%, USA – 0.045%
- c) Ireland – 0.018%, Finland – 0.033%, Austria – 0.007%



- ◆ Trade cycle 2002-2007
- ◆ Growth in raw material costs (with oscillations)
- ◆ Interest rate growth (from 2004)
- ◆ Collapse of real estate market in USA - 2007
- ◆ Contraction of credit activities because of assessments of increased risk – 2007 to 2008



- ◆ Bankruptcy of “Lehman Brothers” investment bank and realisation of systemic risk – 15 September 2008
- ◆ Collapse of financial markets (October 2008 - March 2009)
- ◆ Start of coordinated global fiscal expansion
- ◆ Gradual improvement in economic conditions from March 2009 onwards (growth of GDP)



WHERE DID SLOVENIA'S EXPOSURE TO THE FINANCIAL CRISIS COME FROM?

- ◆ **From 2002 to 2008 we began to become a structurally dependent region:**
 - a) **In 2002 we had a 247 million € current account surplus (1% GDP)**
 - b) **In 2004 we already had a 720 million € deficit (3% GDP)**
 - c) **In 2008 the deficit amounted to almost 2300 million € (6% GDP)**
- ◆ **At the end of 2004 Slovenia's gross external debt was 15 bn € (57% GDP) and by the end of 2008 had increased 155% to 39 bn € (106% GDP).**
- ◆ **In 2004 Slovenia was a net creditor abroad of 0.9 bn € (3% BDP).**
- ◆ **In 2008 Slovenia was a net debtor abroad of 9.9 bn € (27% BDP).**
- ◆ **Increased exposure of business banks:**
 - a) **In 2004 banks were net debtors abroad to a level of 2.7 bn €**
 - b) **In 2008 their net debt had increased to 8.8 bn €**
 - c) **The ratio between deposits and loans rose from 2004 to 2008 from 1 to 1.6.**

TACKLING THE CRISIS – MEASURES ON THE FINANCIAL MARKET



- ◆ Full deposit-guarantee scheme.
- ◆ Guarantee for loans on the international banking market (12 billion €).
- ◆ Guarantee for loans for companies (1.2 billion €)
- ◆ Guarantee for loans to natural persons (300 bn €)
- ◆ State deposits in the banking system
- ◆ Establishing a special subsidiary company of KAD: “Company for Restructuring” (PDP) for direct entry into uncreditworthy companies



- ◆ Shortening the deadline for VAT (from 60 to 21 days).
- ◆ Increasing tax reliefs for the investments of small and micro-companies
- ◆ Reducing excise duties of liquid fuels for business purposes, especially in agriculture.
- ◆ Fiscal expansion (+790 million € → multiplicatively ~ 4.7% GDP in 2009).
- ◆ Measures on the labour market (369 million € – 183 million € more than 2008).



TACKLING THE CRISIS – DEVELOPMENT TRANSFORMATION

- ◆ Subsidies for technology centres, R&D and competitiveness (64.2 million €).
- ◆ Increasing funds of the enterprise fund – also for a risk capital fund (87.7 million €).
- ◆ Recapitalisation of export-development bank SID (160 million €).
- ◆ EIB loans for development investments of the automobile cluster (230 million €).
- ◆ EIB loans for SME development investments (308 million €).
- ◆ Total extent of measures: 850 million € = 2.4% GDP.

CONSEQUENCES OF THE CRISIS



- ◆ Fall of GDP in 2009 in relation to 2008 (- 8%).
- ◆ Increased number of unemployed (XII 2009 / XII 2008) by 30,433 or 46 %.
- ◆ Fall in public finance inflows 2009:
 - 1,237 mio € (- 3.6% GDP).



◆ Industrial production (level of growth)

%

	2008		2009				2010	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Δ relative to previous year	-1,0	-10,0	-18,8	-23,5	-17,7	-5,5	0,5	11,5
Δ relative to previous quarter (orig.)	-6,6	-4,7	-13,9	-0,3	0,5	9,5	-8,3	10,5
Δ relative to previous quarter (seasonally adj.)	1,8	-7,5	-11,9	-7,3	1,9	8,4	1,7	2,6

FIRST RESULTS



◆ GDP (constant prices, level of growth)

%

	2008		2009				2010	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Δ in relation to same period of previous year	3,8	- 0,8	- 8,4	- 9,4	- 8,8	-5,7	-1,1	2,2
Δ in relation to previous quarter (orig.)	0,4	- 4,5	- 9,4	8,1	- 0,3	- 1,6	- 6,3	12,7
Δ in relation to previous quarter (seasonally adjusted)	0,2	- 3,3	- 6,1	- 0,6	0,4	0,1	- 0,1	1,1

Source: Statistical office of the Republic of Slovenia



◆ Improving the balance of foreign trade

State of current account of balance of payments

2008	-2286.5 mio EUR
2009	-207.4 mio EUR

State of current account of balance of payments

Jan - Jun 2009	- 240.3 mio EUR
Jan - Jun 2010	- 159.0 mio EUR



◆ Cost of living index (inflation)

	XII 09 / XII 08	I-XII 09 / I-XII 08
2008	2.1%	5.7 %
2009	1.8%	0.9 %

	IX 10 / IX 09	I-IX 10 / I-IX 09
2010	2.0%	1.9%

Source: Statistical office of the Republic of Slovenia

COMPARISON OF MORE IMPORTANT POLICIES 2009/2008

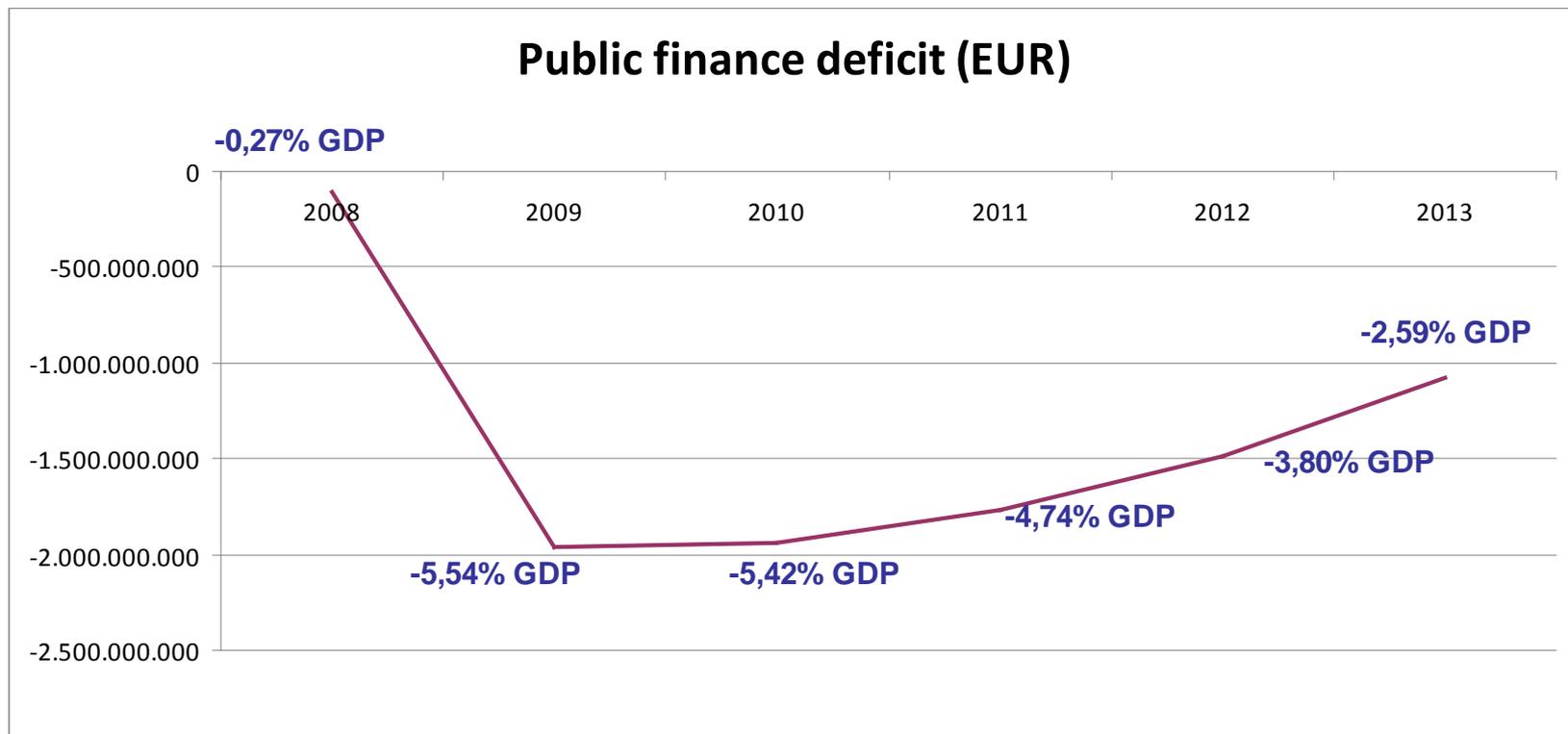


€

Policy	Realisation 2008	Share RE 08 in GDP	Realisation 2009	Share RE 09 in GDP	Difference RE 09 – RE 08	Index RE 09 / RE 08
Labour market	186,254,205	0.50	368,785,658	1.03	182,531,453	198.00
Higher education, science, technology and informatics	490,481,139	1.32	624,128,871	1.74	133,647,732	127.25
Stimulating enterprise and competitiveness	286,652,535	0.77	320,770,312	0.89	34,117,776	111.90
Social security and healthcare	2,148,802,835	5.79	2,362,943,399	6.59	214,140,564	109.97
Education, culture and sport	1,507,107,618	4.06	1,627,037,149	4.54	119,929,531	107.96
Investment	981,493,019	3.00	1,097,629,956	3.00	116,136,937	111.83

Source: Ministry of Finance

PUBLIC FINANCE DEFICIT



Source: Results Ministry of Finance RS

HOW ARE WE ACHIVING THE AIMS?



1. Changes of excise duty on cigarettes, heating oil and electricity.
2. Fiscal rule: limiting budget expenditure to 10 bn € (of which 1 bn € EU funds).
3. Importance of social partnership.
4. Modernisation of real-estate tax.

FISCAL CONSEQUENCES OF STRUCTURAL REFORM



- ◆ Reform of the labour market – net inflows
- ◆ Reform of the pension system – net inflows
- ◆ Reform of the healthcare system – net inflows
- ◆ Reform of social expenditures - neutral



- ◆ With economic growth, public finance deficits will be reduced.
- ◆ On average in the EU, 1% growth GDP → 0.34% reduction of public finance deficit (Mencinger, February 2010).
- ◆ The success of the developmental transformation will accelerate economic growth and remove the public finance deficit.
- ◆ It will be possible to maintain the public standard on a considerably higher level than at the start of the term of office 2008-2012.