

# Transformation in Slovenia

# Contents

- Situation during CPE period
- Political Development
- Gradualism
- Development of Economic Policy
- Privatization
- Banks
- Main Economic Indicators
- Conclusions

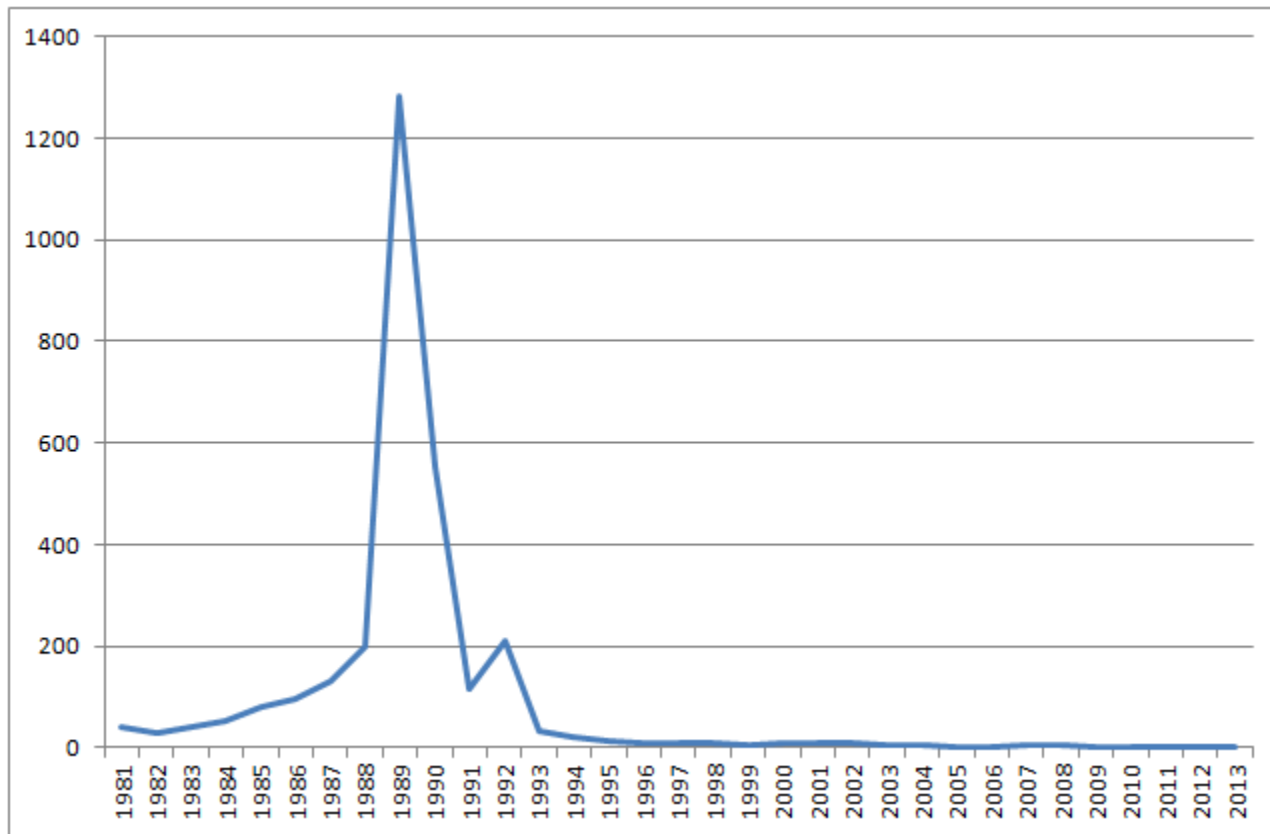
# Functioning of the CPE model

- Slovenia – 2 million - 8% of population but 20% of GDP and 29% of exports
- huge differences among the JUG republics
  - redistribution
- after 1974 – republics highly independent
- differences in the political regime ... differences in the functioning of CPE
  - more orientated towards West
  - western consumption goods
  - price flexibility – kind of ... several waves of (very) high inflation

# Functioning of the CPE model

- borrowing on international markets in the 1970s
  - unable to pay debts at the beginning of the 1980s
- austerity program after 1982
  - relaxed later on
- 1984 restrictions
- another program 1988 – Markovic
  - price liberalization, opening domestic market ...
- high inflation
  - dolarization

# Inflation in Slovenia– Annual Consumer price index - CPI all items (change in %)

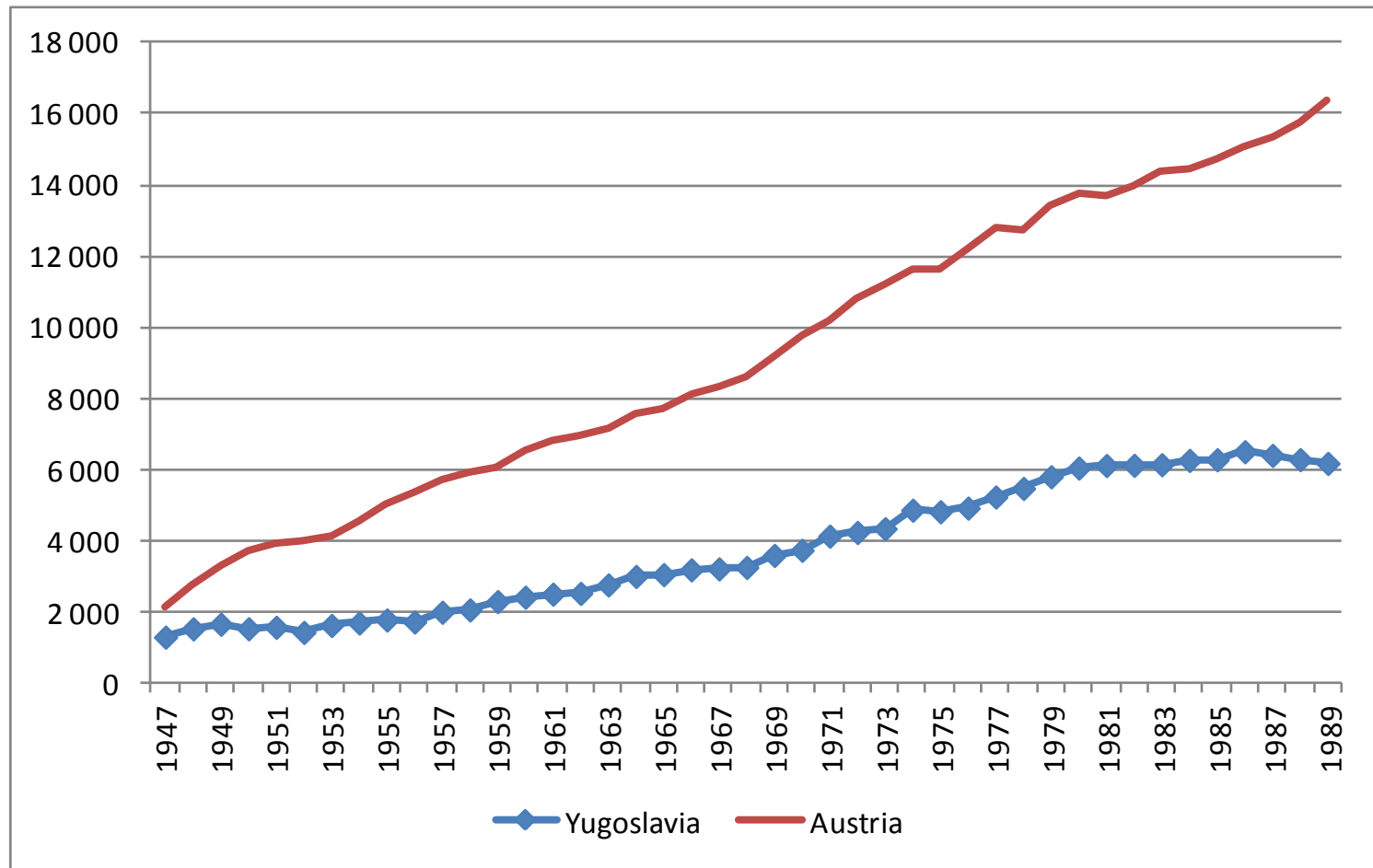


- 1990 reform program – stabilization
  - devaluation + fix, convertibility on current account, bankruptcies, restrictions
  - individual republics did not follow
  - against each other
- federal government not able implement
- runs on banks, hyperinflation, lack of hard currencies
- free elections
- another program July 1991 – country already falling apart

# Gross Domestic Product per capita in Yugoslavia in 1980 and 1989 (all figures in 1972 USD)

	1980	1989	Change (in %)
<b>All Yugoslavia</b>	<b>17764</b>	<b>16820</b>	<b>-5.3</b>
Slovenia	35320	33103	-6.0
Croatia	22505	21238	-5.6
Bosnia	11722	11424	-2.5
Montenegro	14034	12398	-11.7
Serbia	17453	17429	0.0
- Vojvodina	20029	20063	+0.0
- Kosovo	5013	4317	-13.9
Macedonia	11949	10891	-8.8

# GDP per person in Austria and Yugoslavia in USD





# microeconomic situation

- self-management socialism
  - high independence of companies
  - workers councils
  - companies „socially owned“ – not state not private
  - demand for growth of wages
  - soft budget constraint
- relatively low level of private sector
  - in industry
  - high in agriculture

# Share of import value (percent) 1986-96

Import regime	1986	1990	1993	1996
Free imports	3	78	97	98
Conditionally free imports	58	8	0	0
Quotas	37	12	1	0
Licenses	2	2	2	2

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# Political development

- 1990 centrifugal tendencies
- 12/1990 referendum – 90% for independence
- 6/1991 declared independence
  - YUG army attacked
  - 10 days
  - postponing independence
- 1/1992 independence
- till 1995 war in ex-Yugoslavia
- 1993 IMF, 1994 GATT, 1995 WTO, CEFTA 1996
- 2004 EU and NATO

# Political development

- 1990 Communist party gave up its leading role
- 4/1990 elections for DEMOS – centre- right
  - till 1992 toppled
- 12/1992 – Drnovšek – Liberal democratic party
  - till 2002 when he became president
  - Liberal democrats till 2004
- 2004 – Slovenian Democratic Party
  - Janša – later on blamed for corruption
- 2008 – Social Democrats
  - economic crisis strongly hit
- after 2011 unstable political situation

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# Gradualism

- proud of
- definition problem
- initial conditions
  - price liberated
  - trade liberated
  - 75% of trade with West! (95% trade/GDP)
  - + followed strict monetary and fiscal
  - shock therapy?
- in their view – exchange rate was not fixed
  - could hardly afford
- in their view avoided avoided sharp decline in production ....?

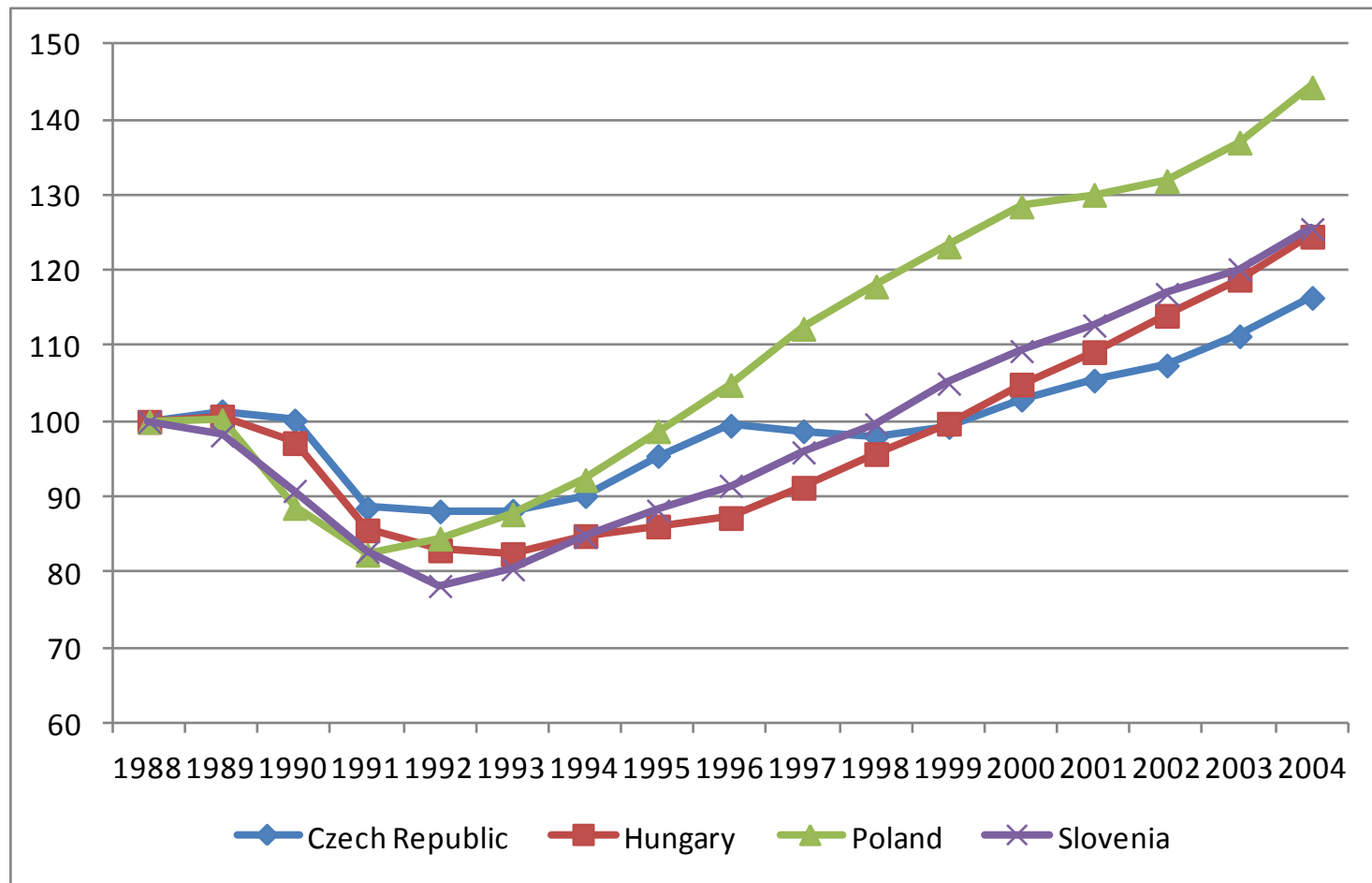
# Liberalization Index 1989 and 1997

Country\Group	1989	1997
Bulgaria	0.13	0.79
Czech Republic	0.00	0.93
Hungary	0.34	0.93
Poland	0.24	0.89
Romania	0.00	0.75
Slovak Republic	0.00	0.86
Slovenia	0.41	0.89

- Liberalization Index – a weighted average of three components: domestic market liberalization (weight 0.3), foreign trade liberalization (weight 0.3), enterprise privatization and banking reform (weight 0.4). Each component, and the average reported in the table, is scored in the range [0, 1].



# Cumulative economic growth in Central Europe and Slovenia



# Gradualism

- in practice postponing of reforms
  - especially privatization
- relatively slow way of desinflation
- reluctant attitude towards FDI
  
- it seemed to be working for long time
- till crisis 2008

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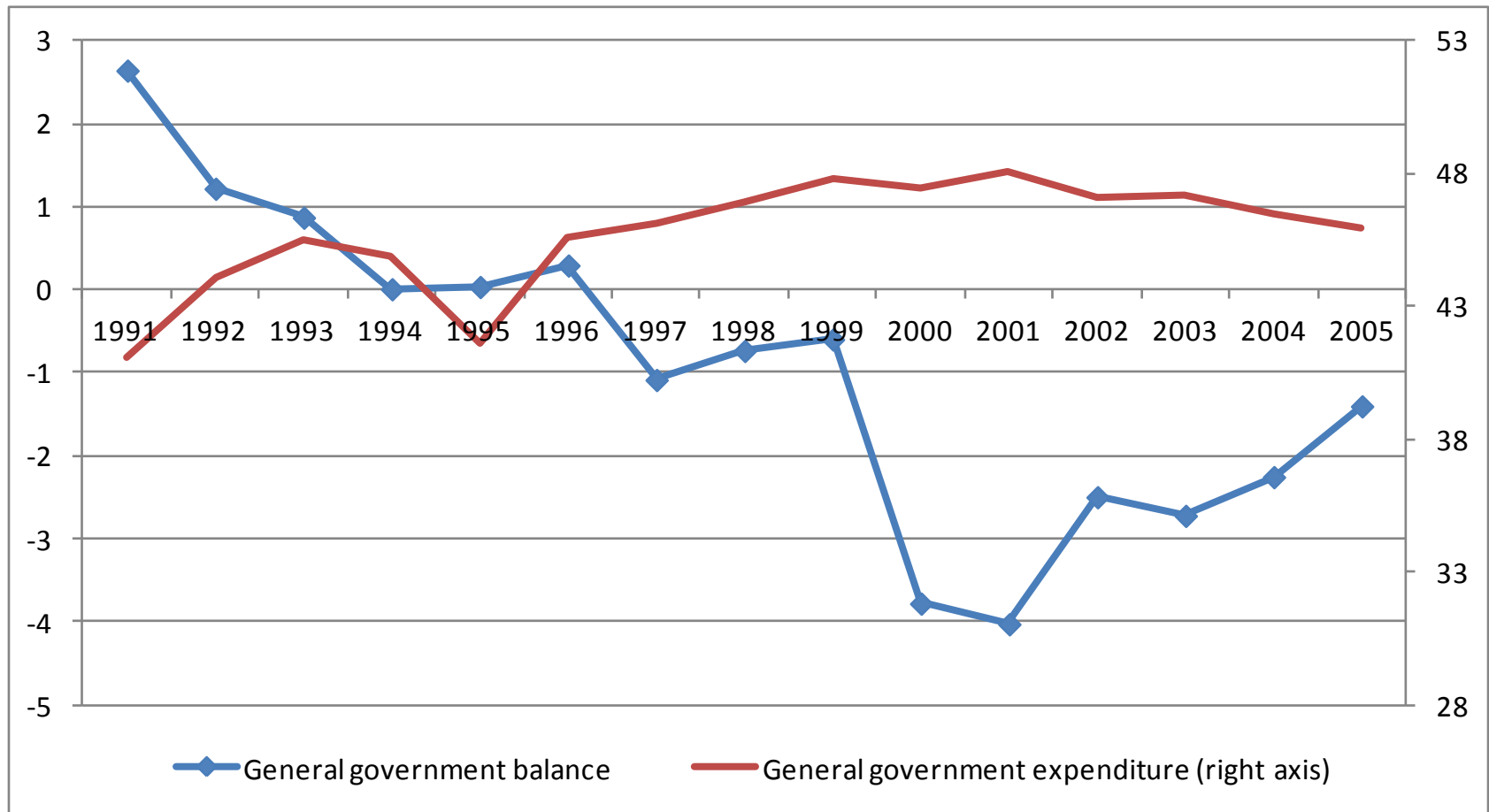
# Economic policy 1990-2

- high inflation
- end of 1990 own currency
- 1/1991 declared control above taxes
- limit payments to federal budget
- 1990 stabilization program
  - restructuring of banks and loosing companies, privatization
- 10/1991 – new currency
  - floating
  - depreciations
  - 1992 to managed floating
- 1991 CB as indepenent institution
- + decline in inflation
- 1991 new tax system
- liberalization of labour market rules – just slightly
- opening domestic market
- decline in production

# Economic policy 1993-6

- slow but steady reforms
  - 1993 foreign trade law
  - 1994 bankruptcy
  - till 1994 most prices liberalized + current account convertibility
- export boom
- excellent fiscal policy
- high level of redistribution
- agreements with London and Paris clubs

# Government deficit and share of government expenditure to GDP



## Share of total output of branches by selected sectors and industries 1990-2000 (percent of contribution)

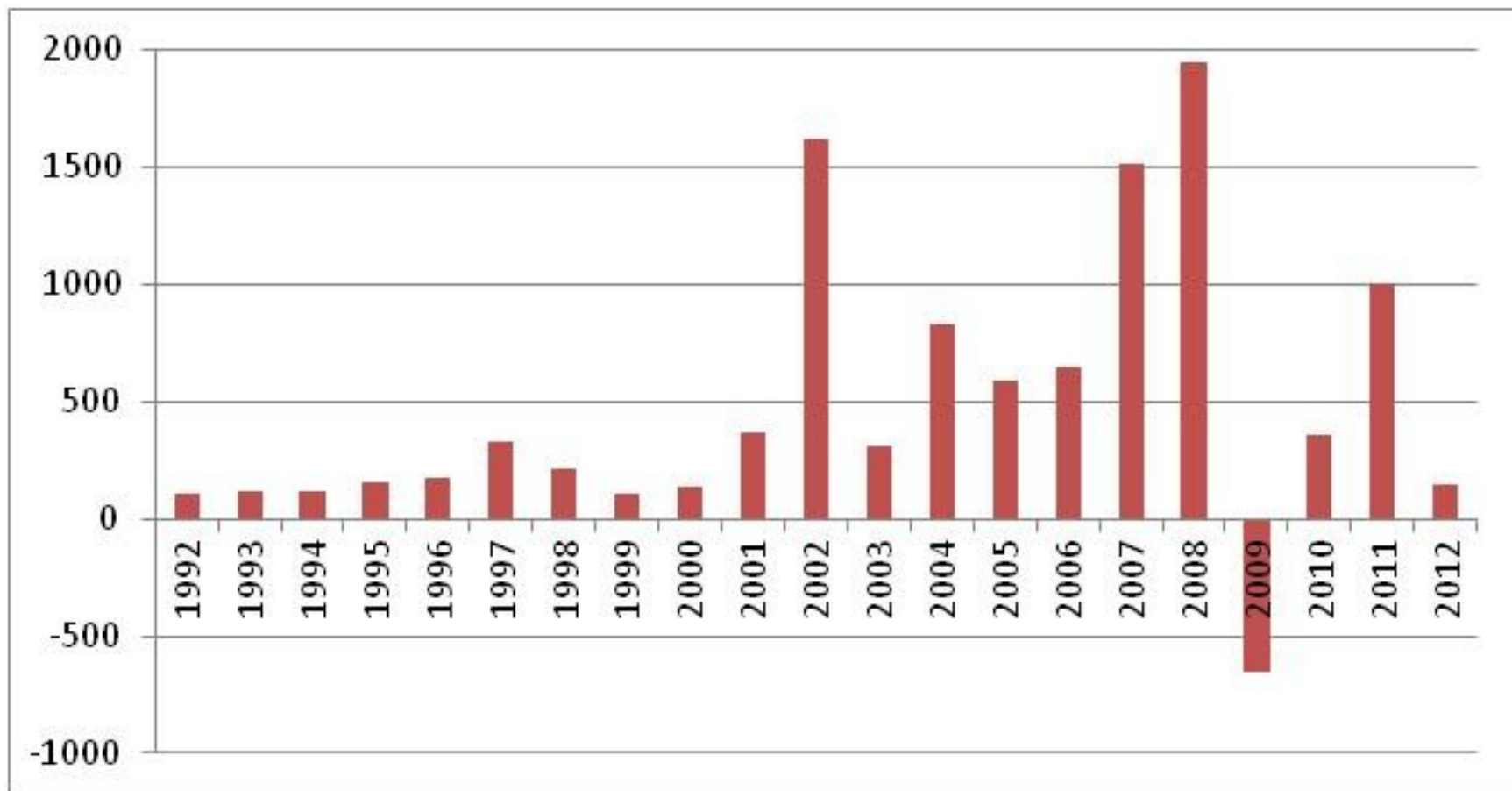
	1990	1992	1993	1995	1996	1997	1998	1999	2000
Total	100	100	100	100	100	100	100	100	100
Goods	50,3	45,8	43,2	42,1	41,8	42,2	42,4	42,2	42,7
Services	49,7	54,2	56,8	57,9	58,2	57,8	57,6	57,8	57,3
Market	87,4	85,6	84,3	83,1	83,3	82,9	82,9	82,8	83,0
Non Market	12,6	14,4	15,7	16,9	16,7	17,1	17,1	17,2	17,0
Agriculture	5,5	5,2	4,9	4,5	4,4	4,1	4,1	3,8	3,6
Manufacturing	36,4	32,0	29,9	28,3	27,7	28,3	28,6	28,2	29,1
Construction	4,4	3,4	4,6	5,0	5,5	5,6	5,7	6,3	6,2
Hotel and Restaurant	2,7	2,6	2,8	3,0	3,0	3,0	2,9	3,0	3,0

# Economic policy 1997-2007

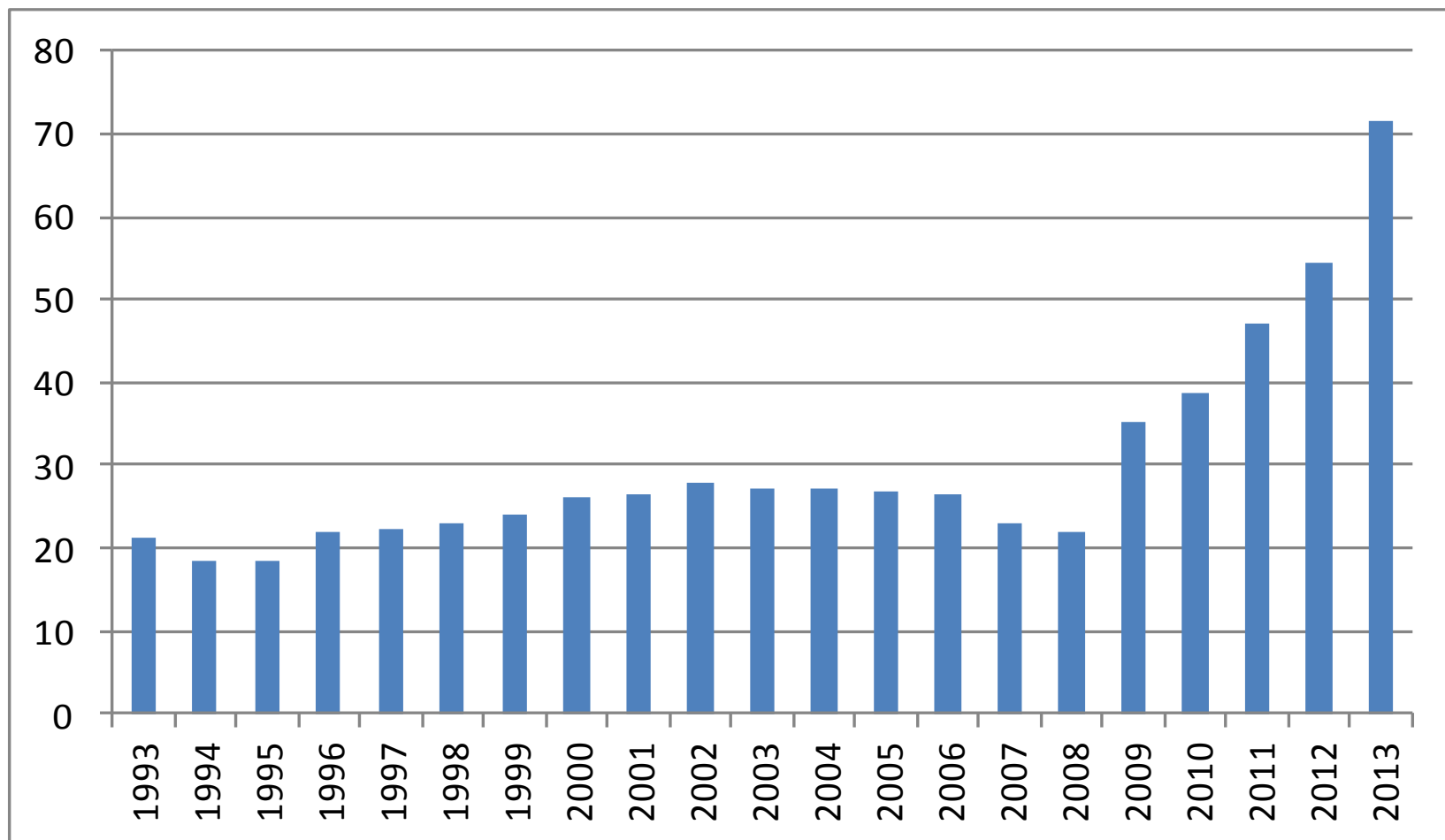
- 1996 asoc. treaty
  - following way – similar to others
  - pressure from the EU against restrictions ...  
deregulation
- only after 1998 allowed more FDI and inflow of capital
- only after 1997 change in indexation of wages in public sector
- changes in pension system
- improving fiscal balance after 2004
  - for accession to eurozone



# FDI inward (US Dollars at current prices and current exchange rates in millions)

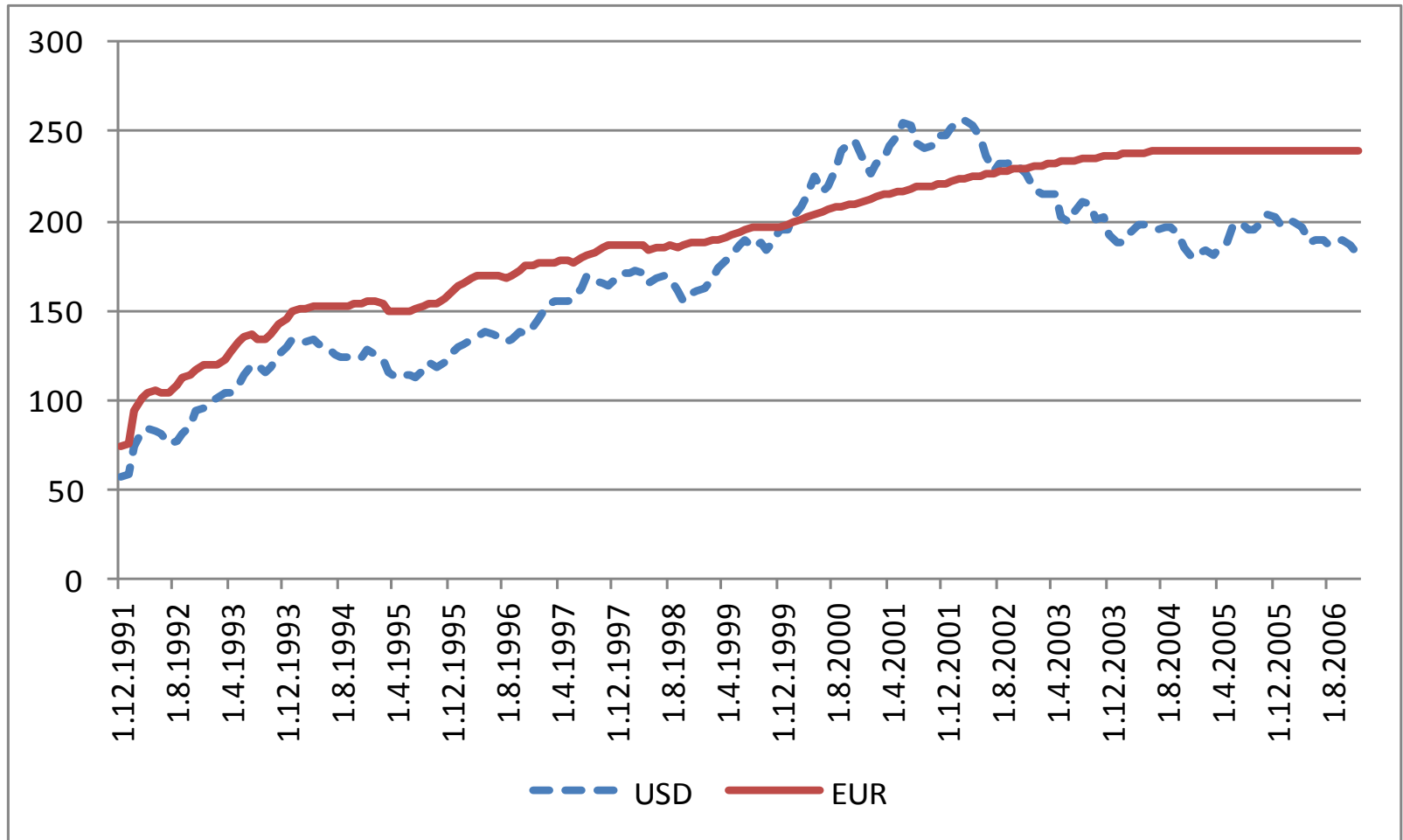


# General government debt (percent of GDP)



- 2002 removed restrictions on foreign capital
- 2004 EU
- 2004 tolar ERM II
- 2005 informal inflation targeting
- only later on low inflation
- 2007 eurozone

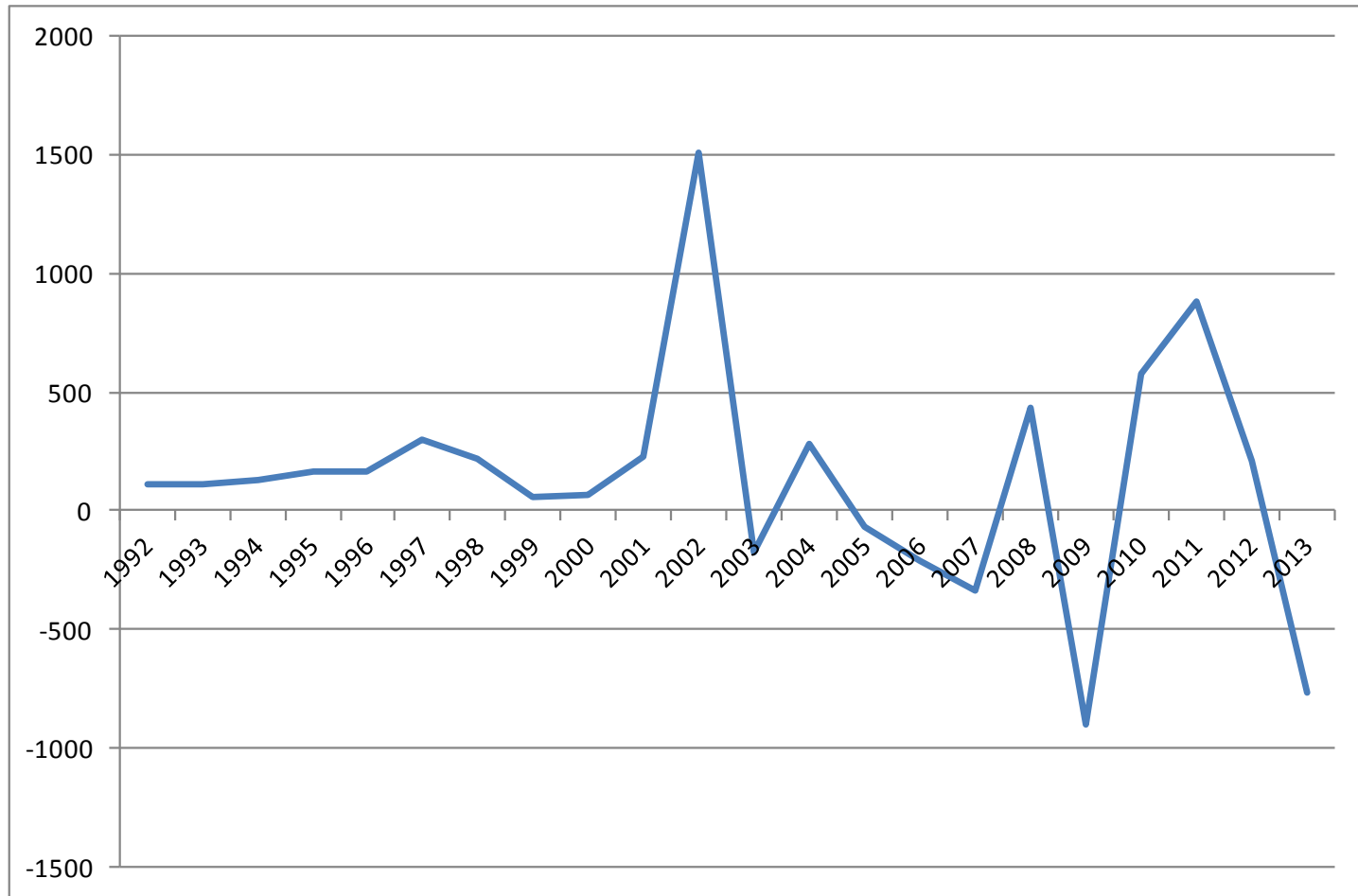
# Development of the exchange rate – Tolar per dollar and Euro (monthly average)



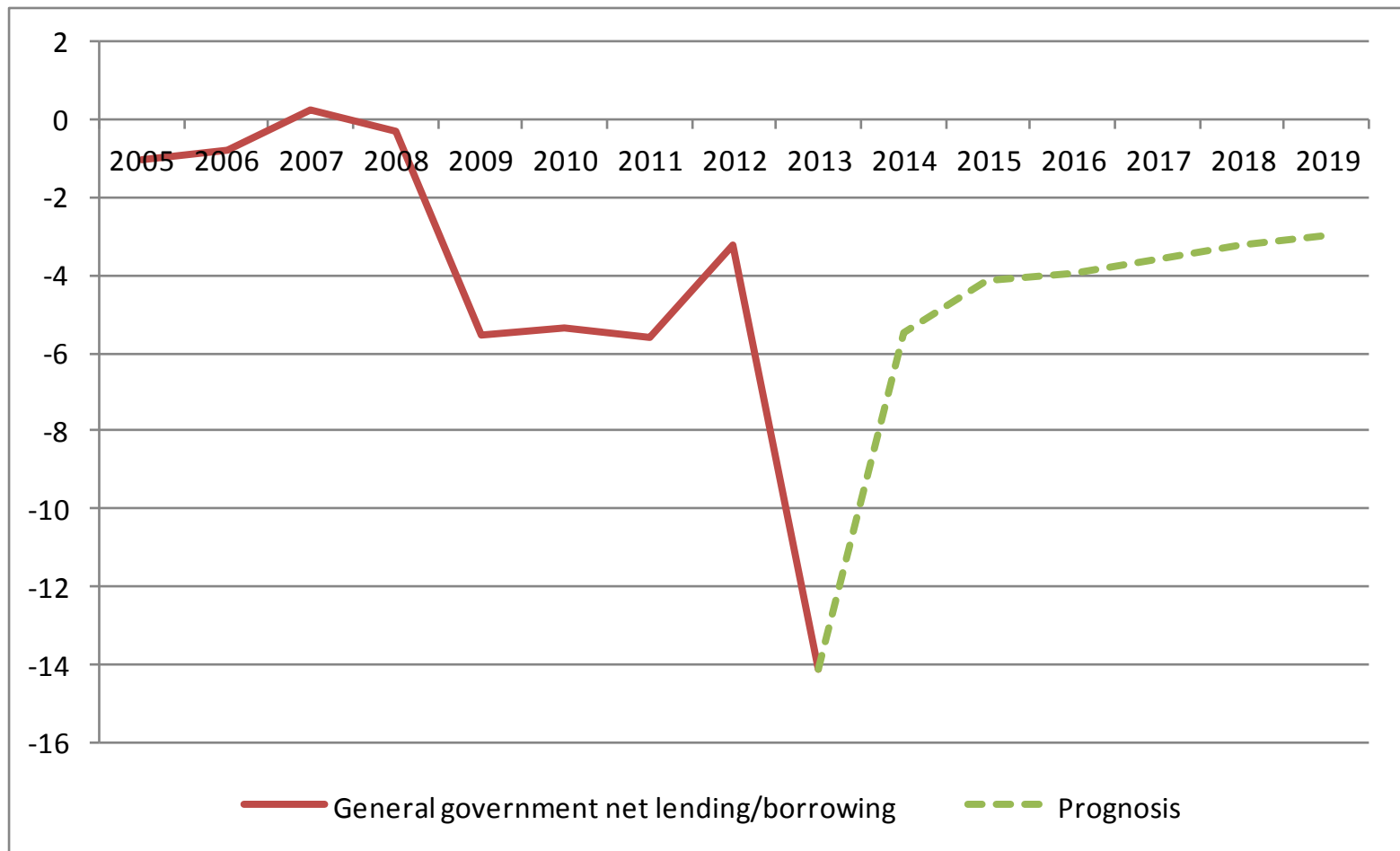
# Economic policy 2008-2013

- long lasting criticism of slow reforms – restructuring
  - low level of FDI
  - government interfering into companies
- 2008 slump
  - outside demand
  - banks
- 2008-9 fiscal parcels ... deficits

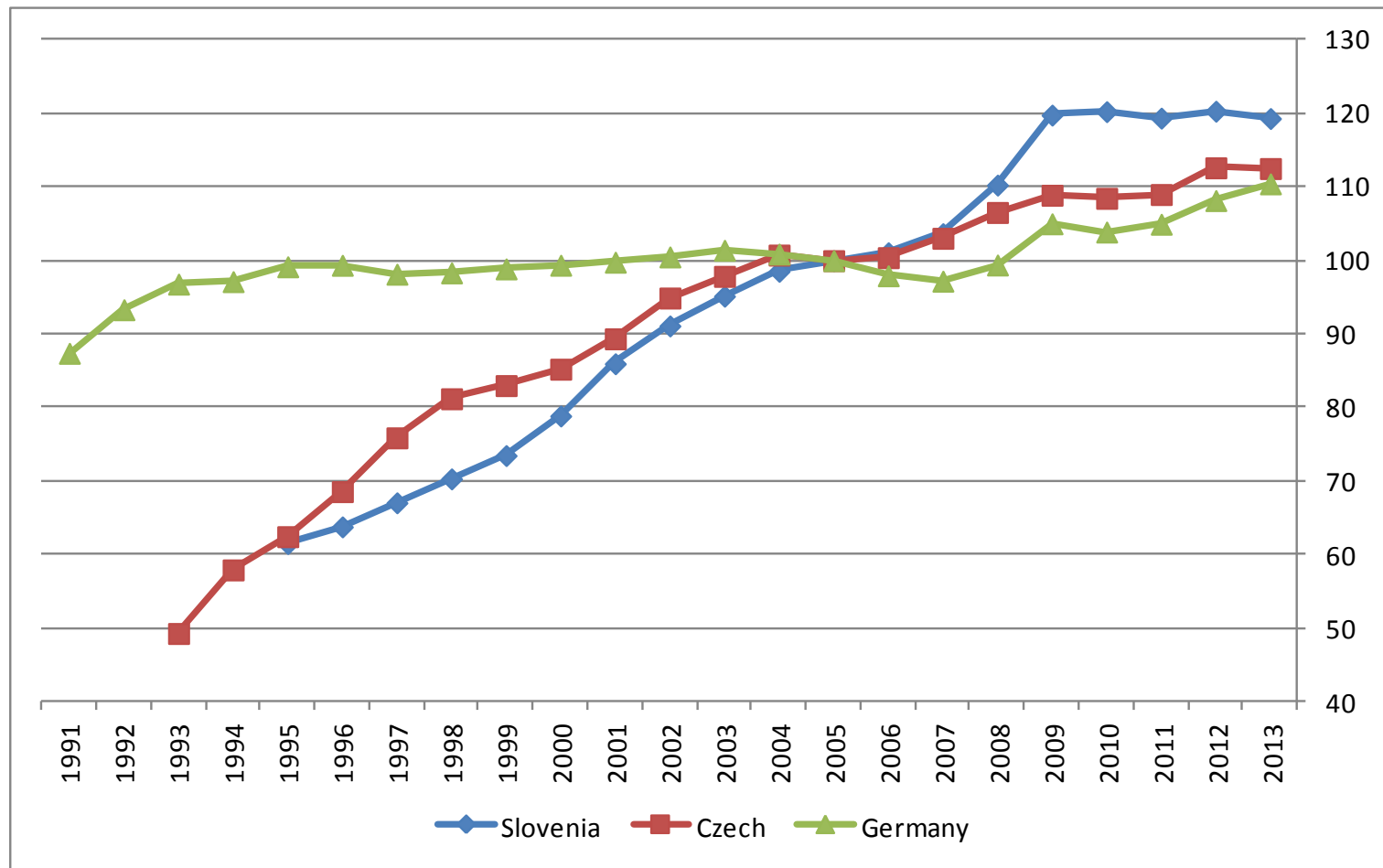
# Net flow of FDI (in millions of USD)



# General government net lending/borrowing and its prognosis (in % of GDP)



# Unit labour costs (index 2005=100)

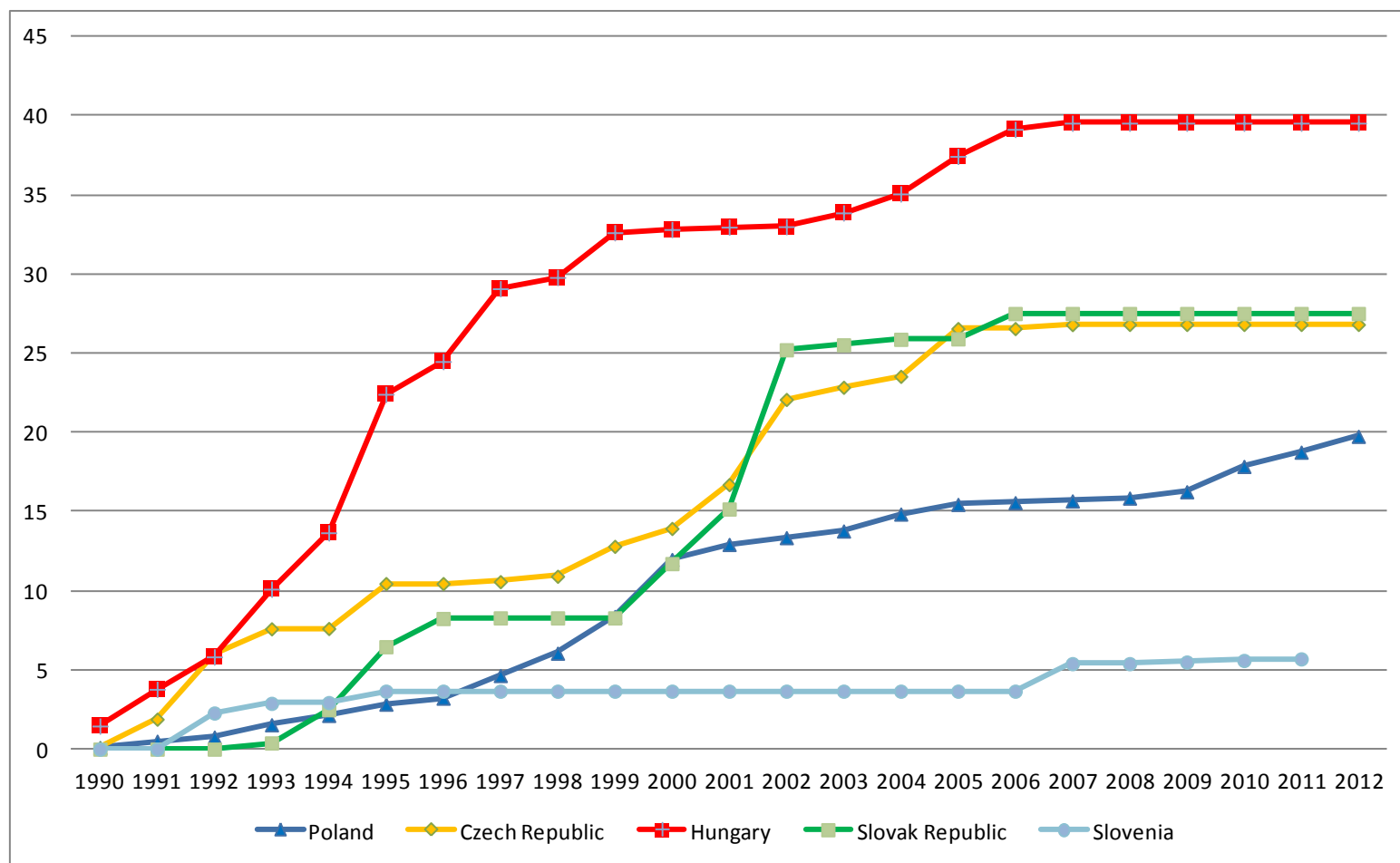




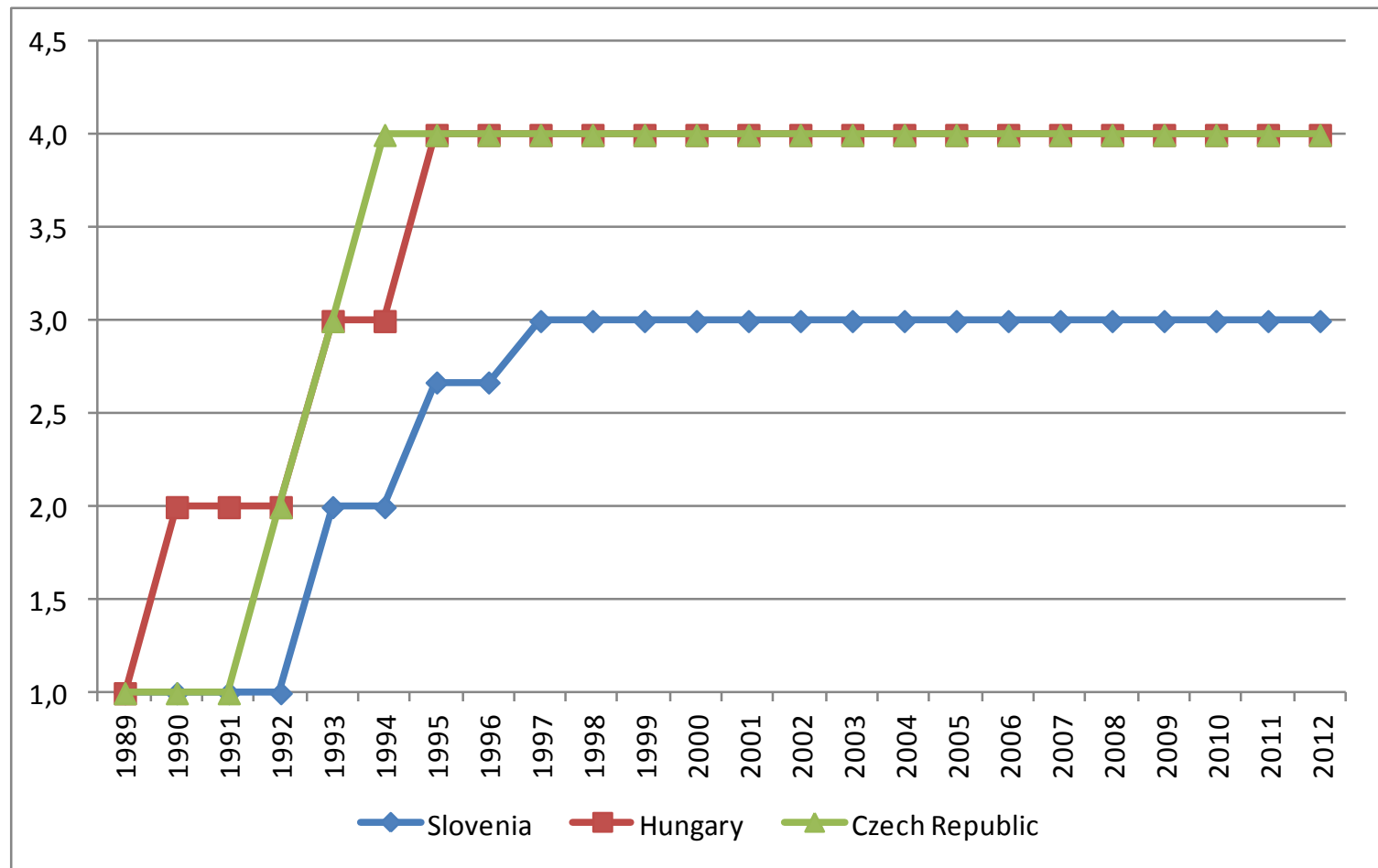
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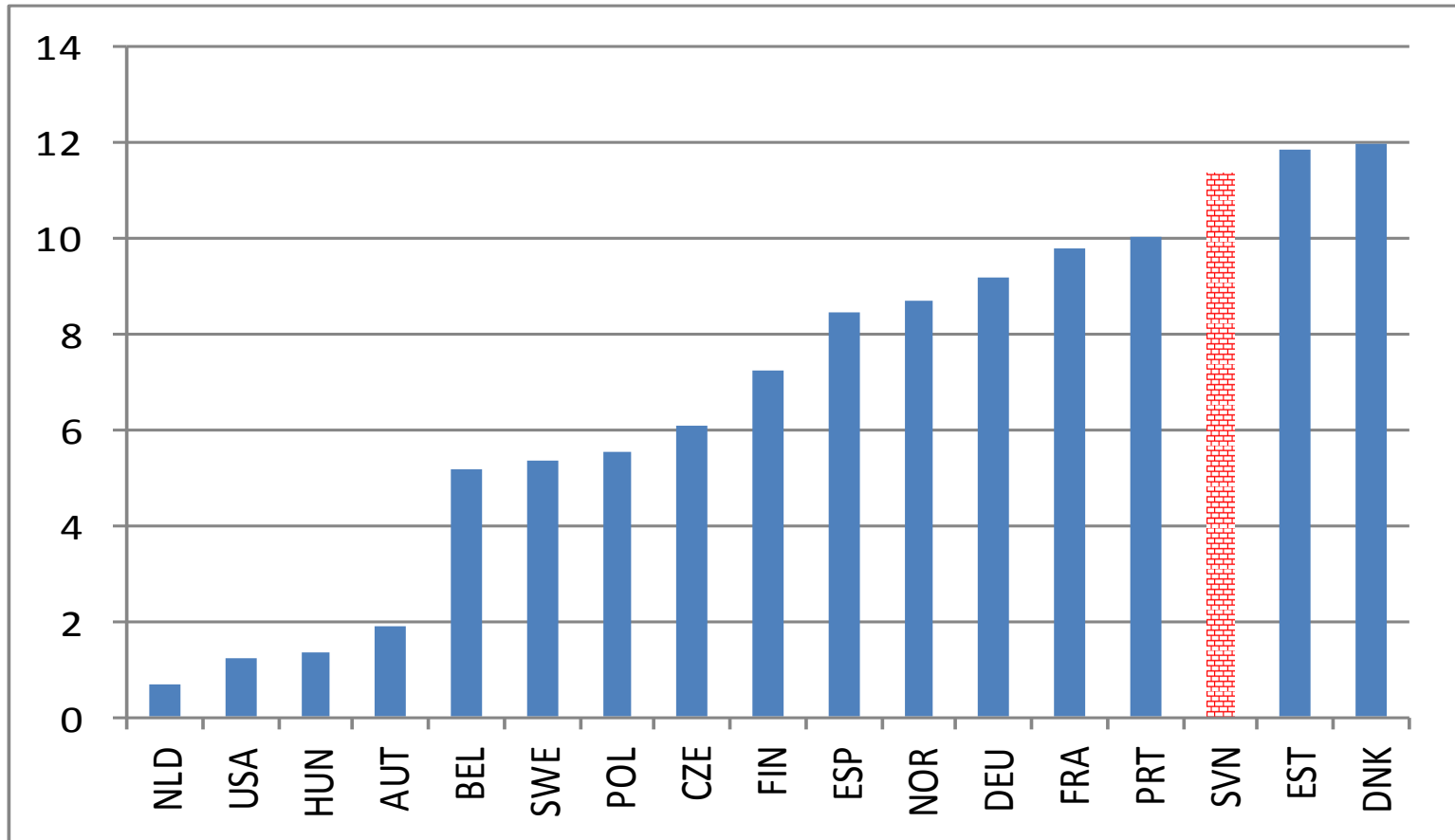
# Cumulated privatisation revenues as a share of GDP



# Large scale privatization index\* 1989-2012



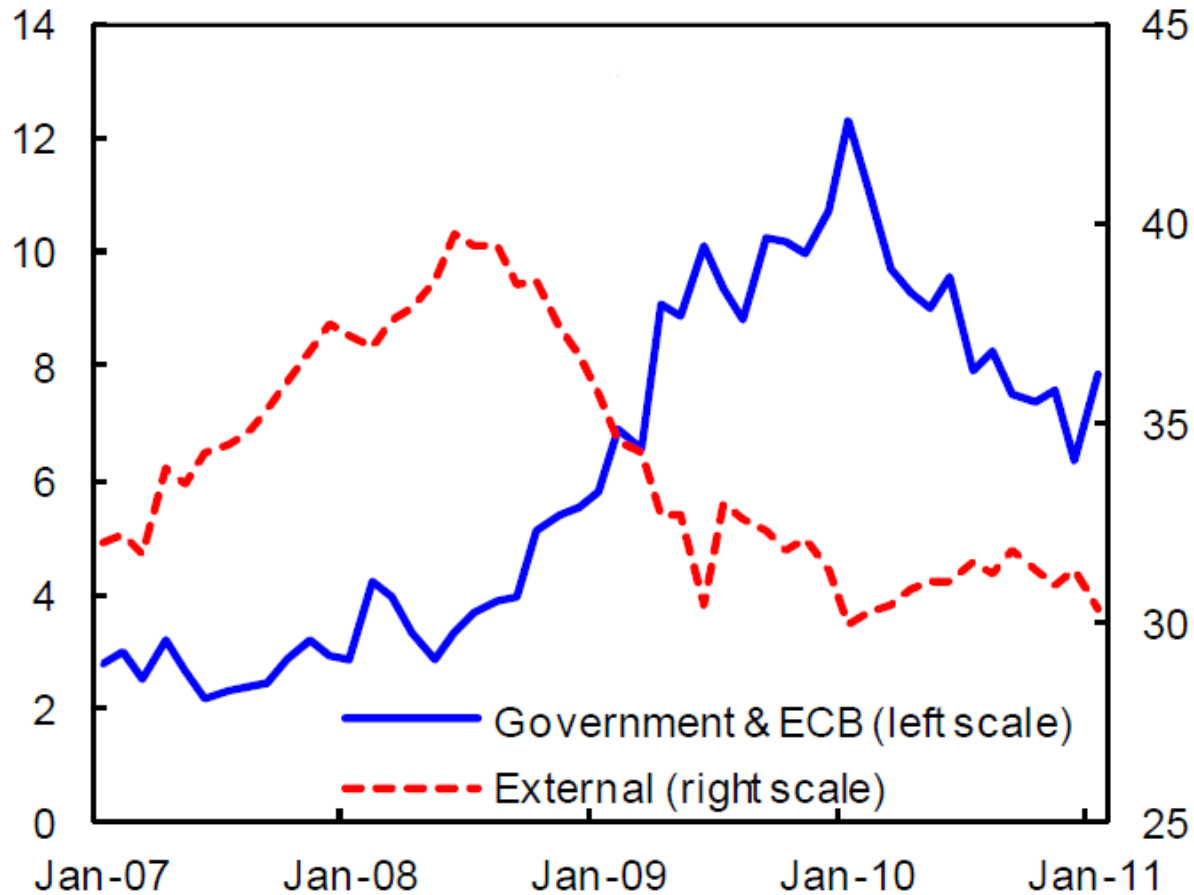
# Public assets (% of GDP)



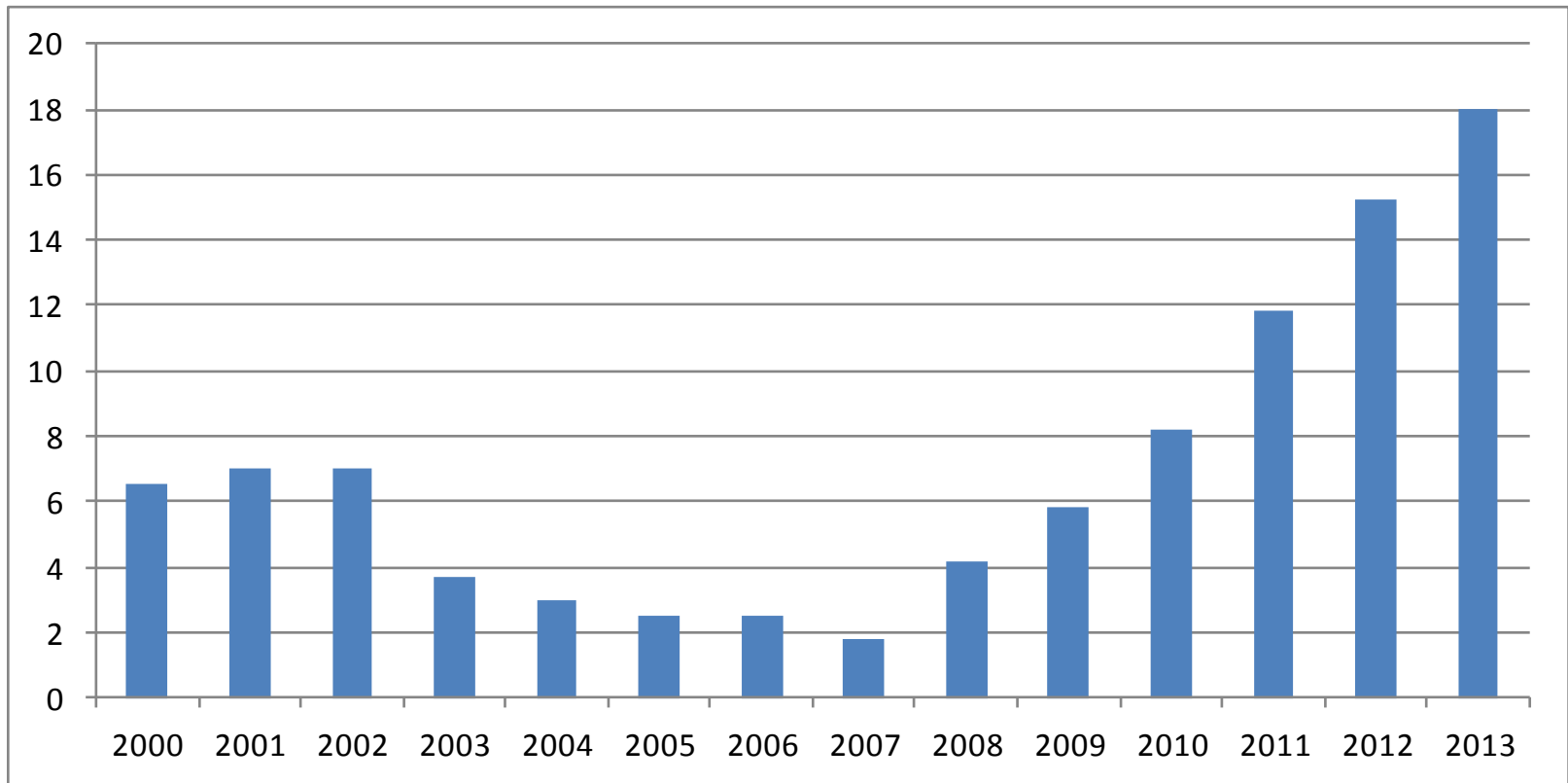
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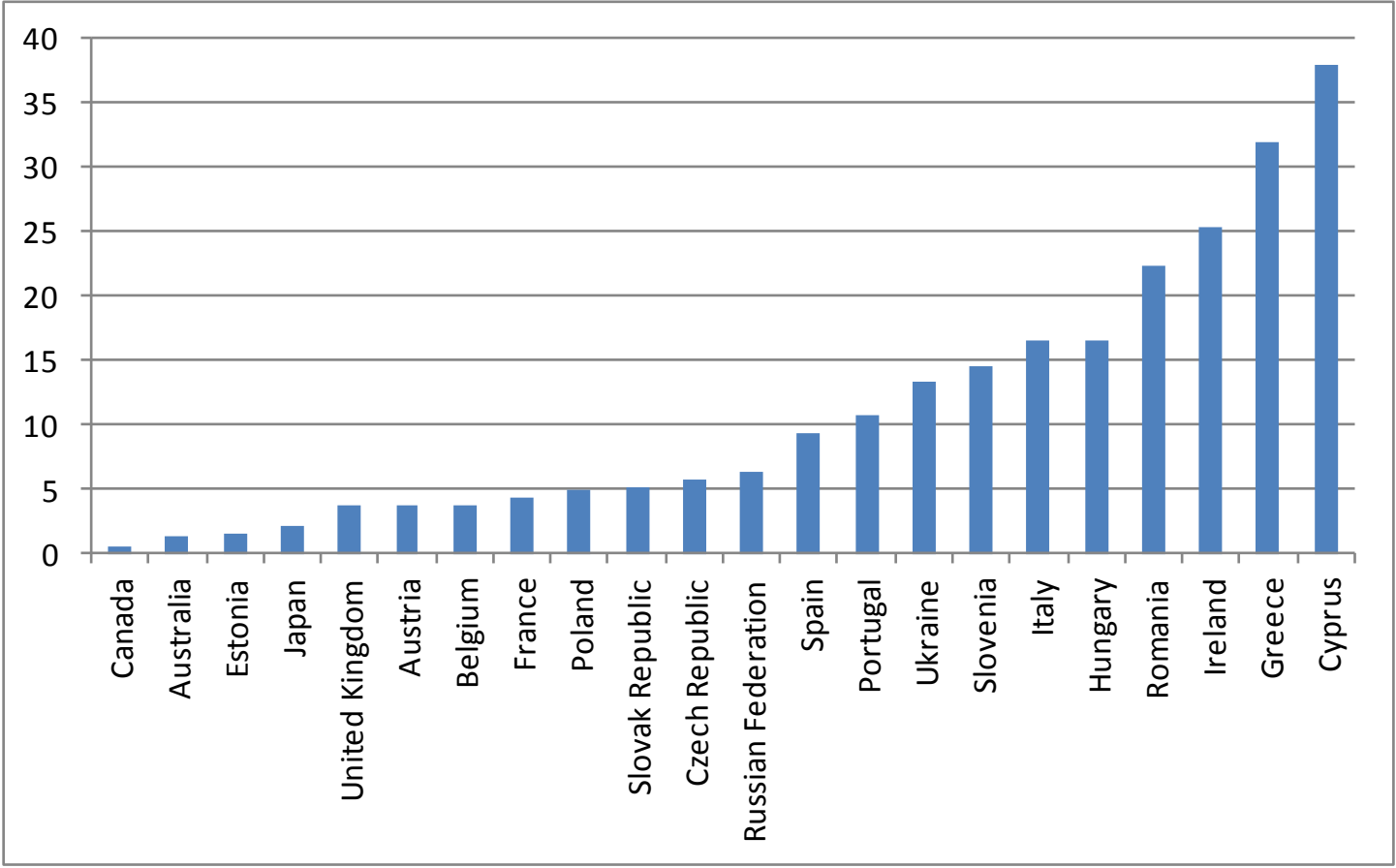
# Bank Funding (Percent of total assets)



# Non-performing loans (in % of total loans)



# Non-performing Loans to Total Gross Loans (in %) in 2013 (or the latest)

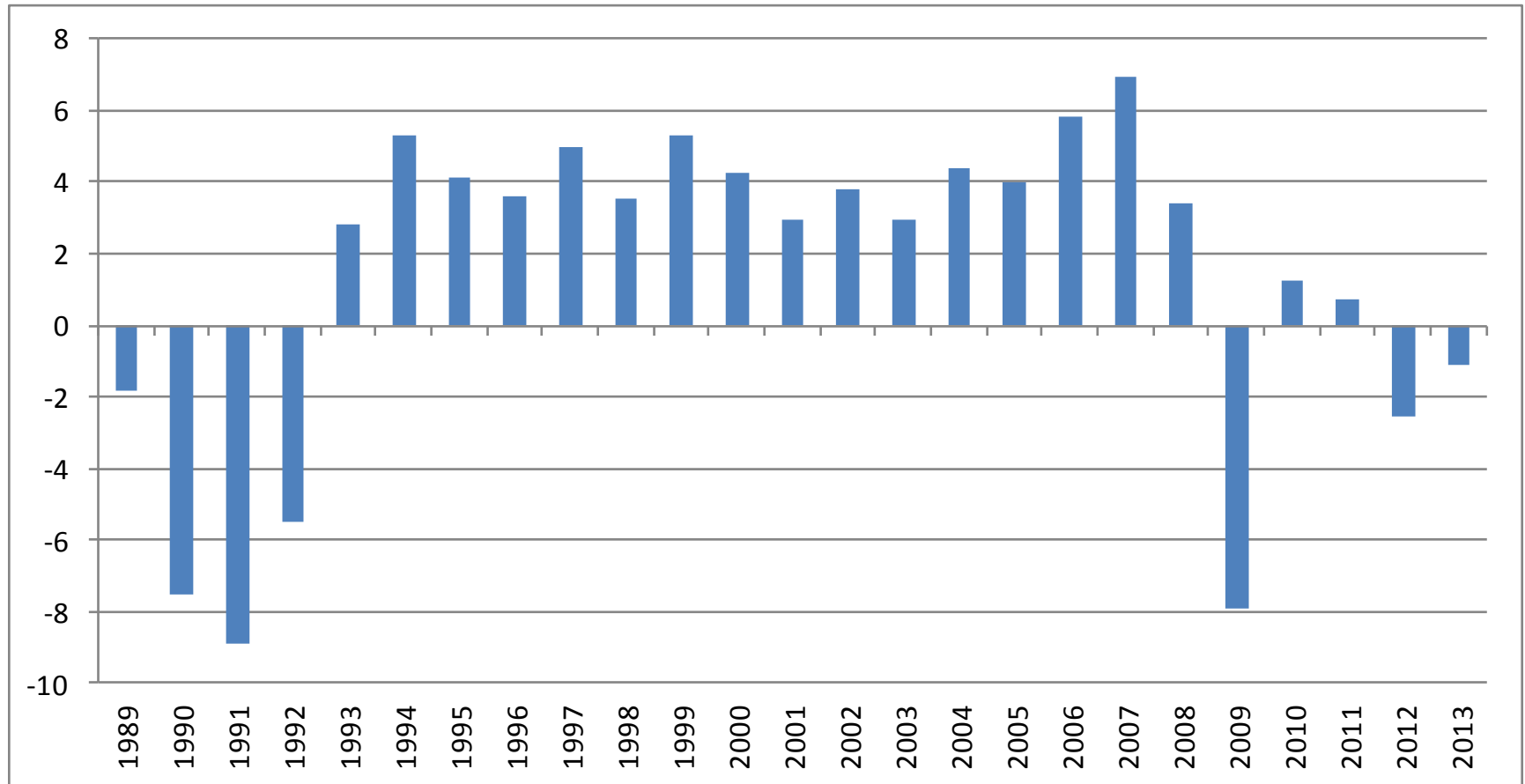




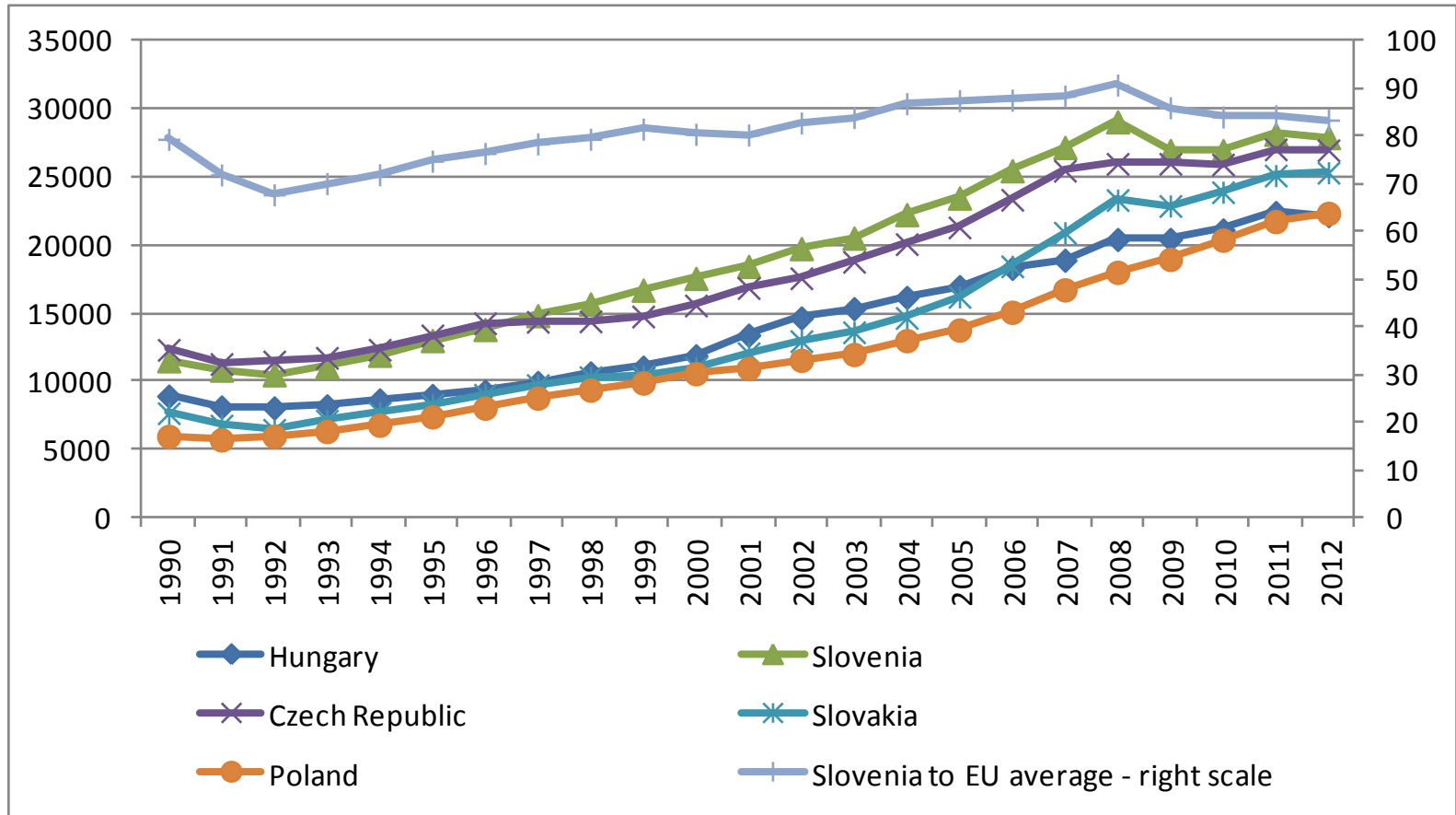
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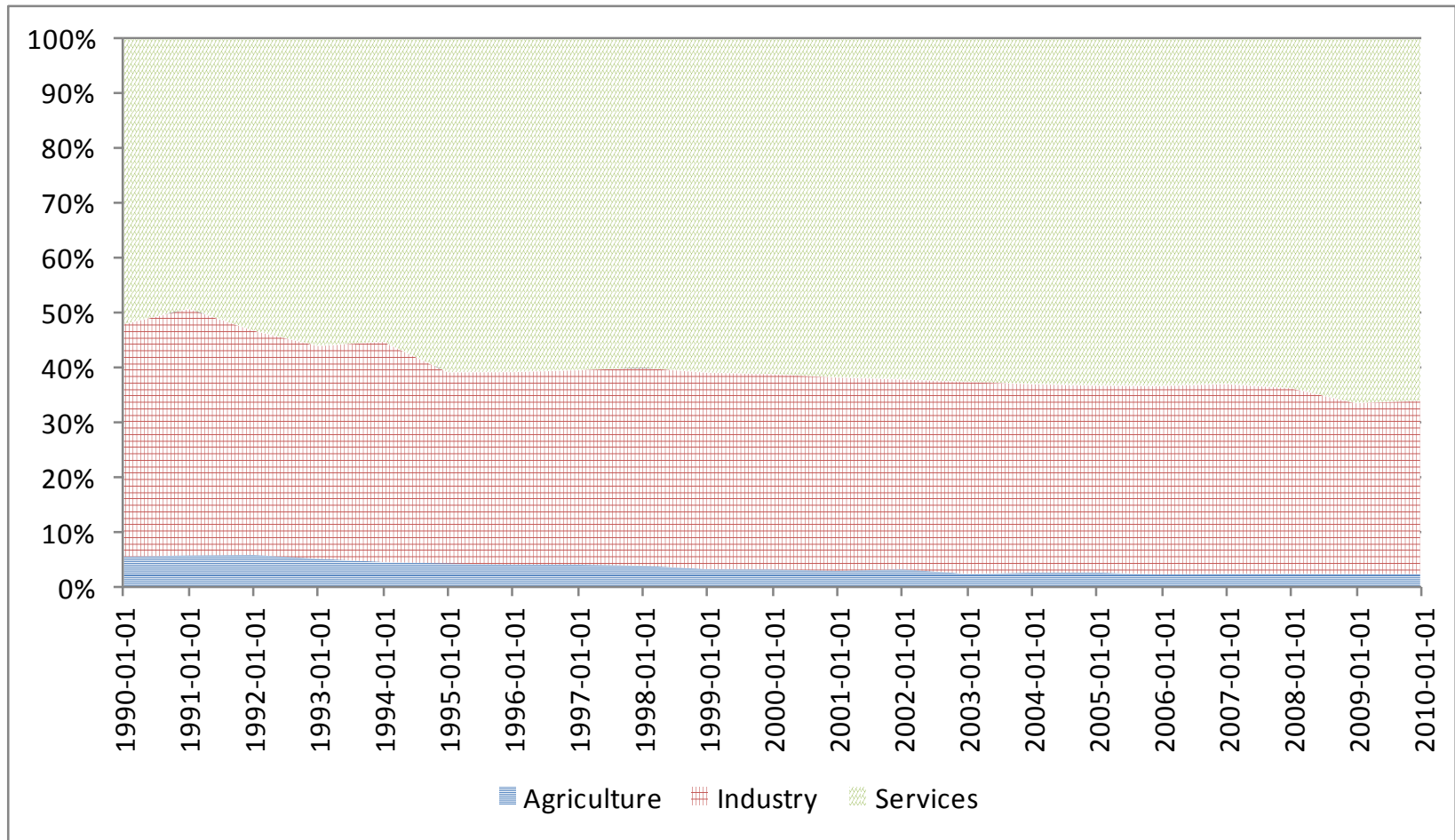
# Development of GDP in Slovenia (year to year change in percent)



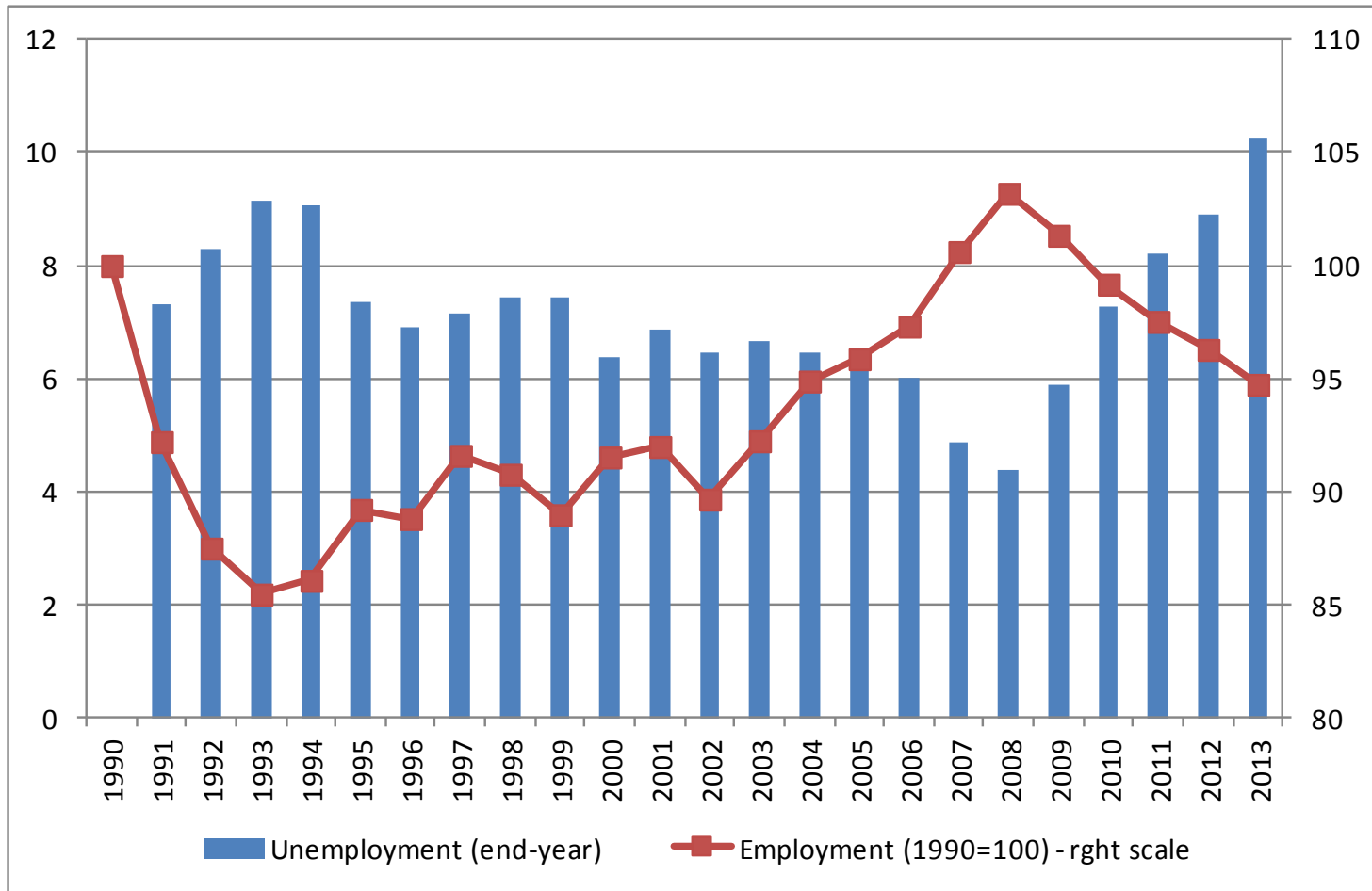
# GDP per person in central and eastern Europe (and Slovenia to EU average = 100)



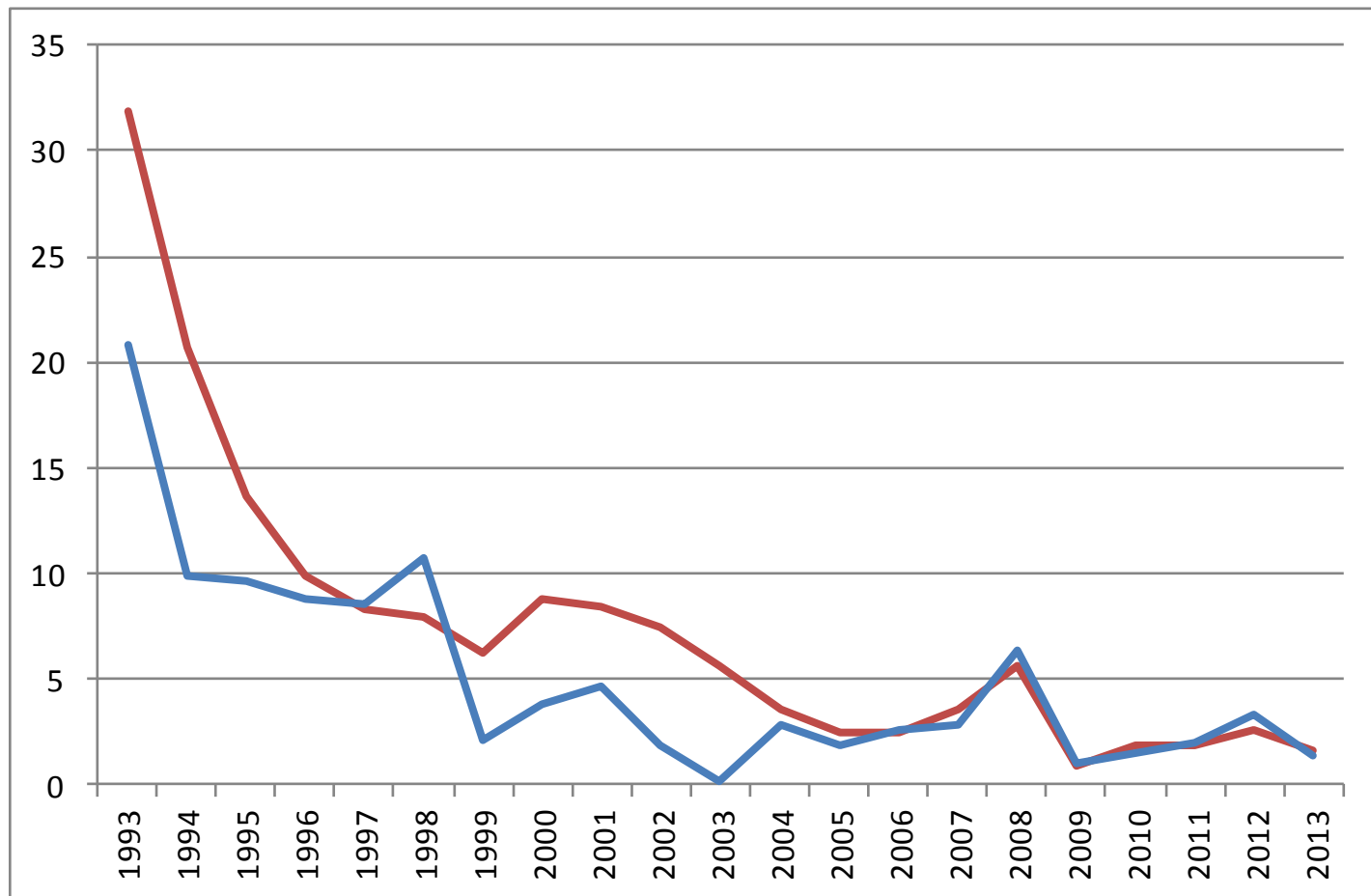
# Share of the sectors - value added (% of GDP)



# Unemployment rate (in percent of labour force) and employment (1990=100) – right scale



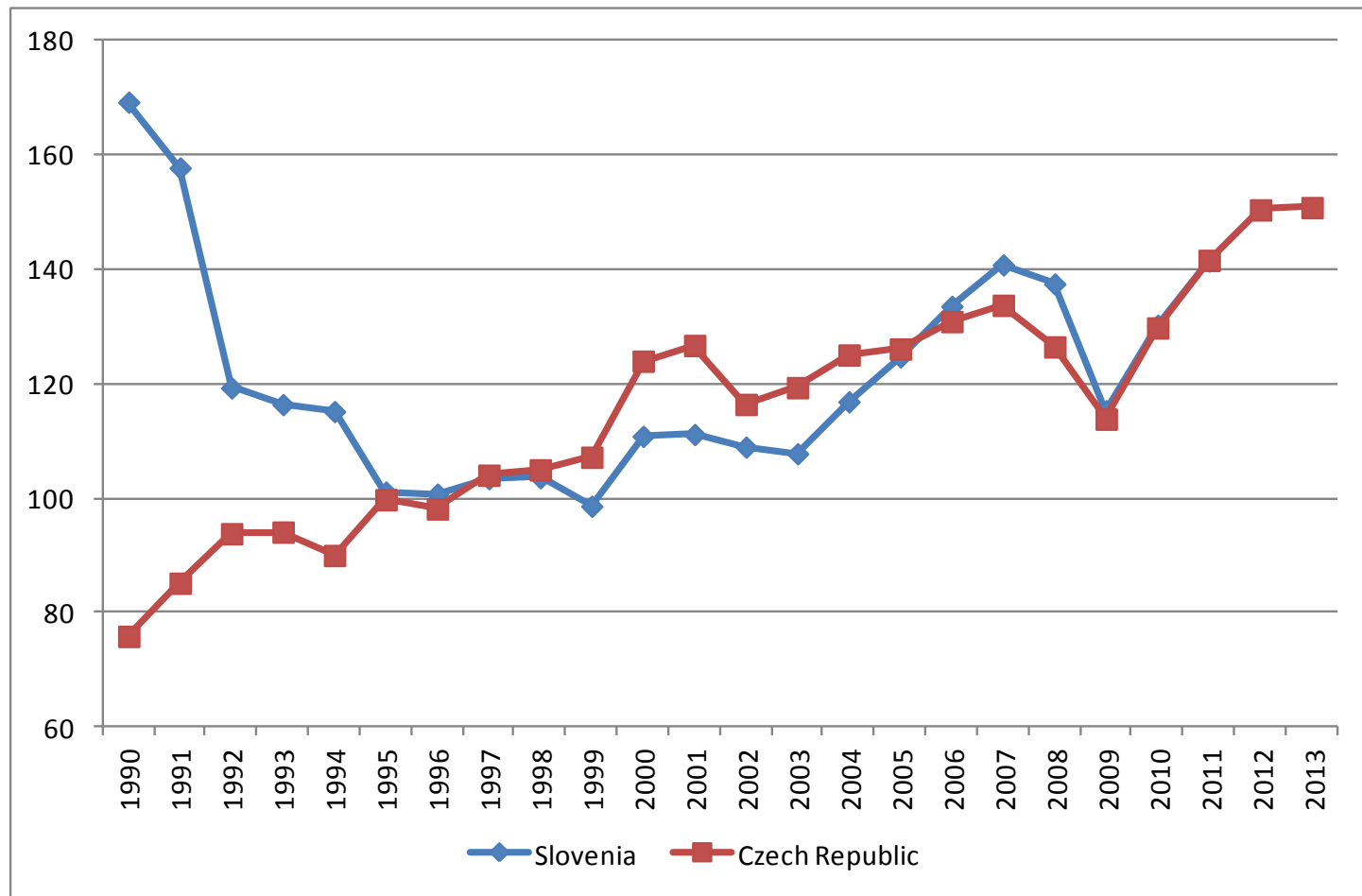
# Inflation (CPI) in Slovenia and the Czech Republic 1993-2013



# Cumulative growth of price level among the transition countries

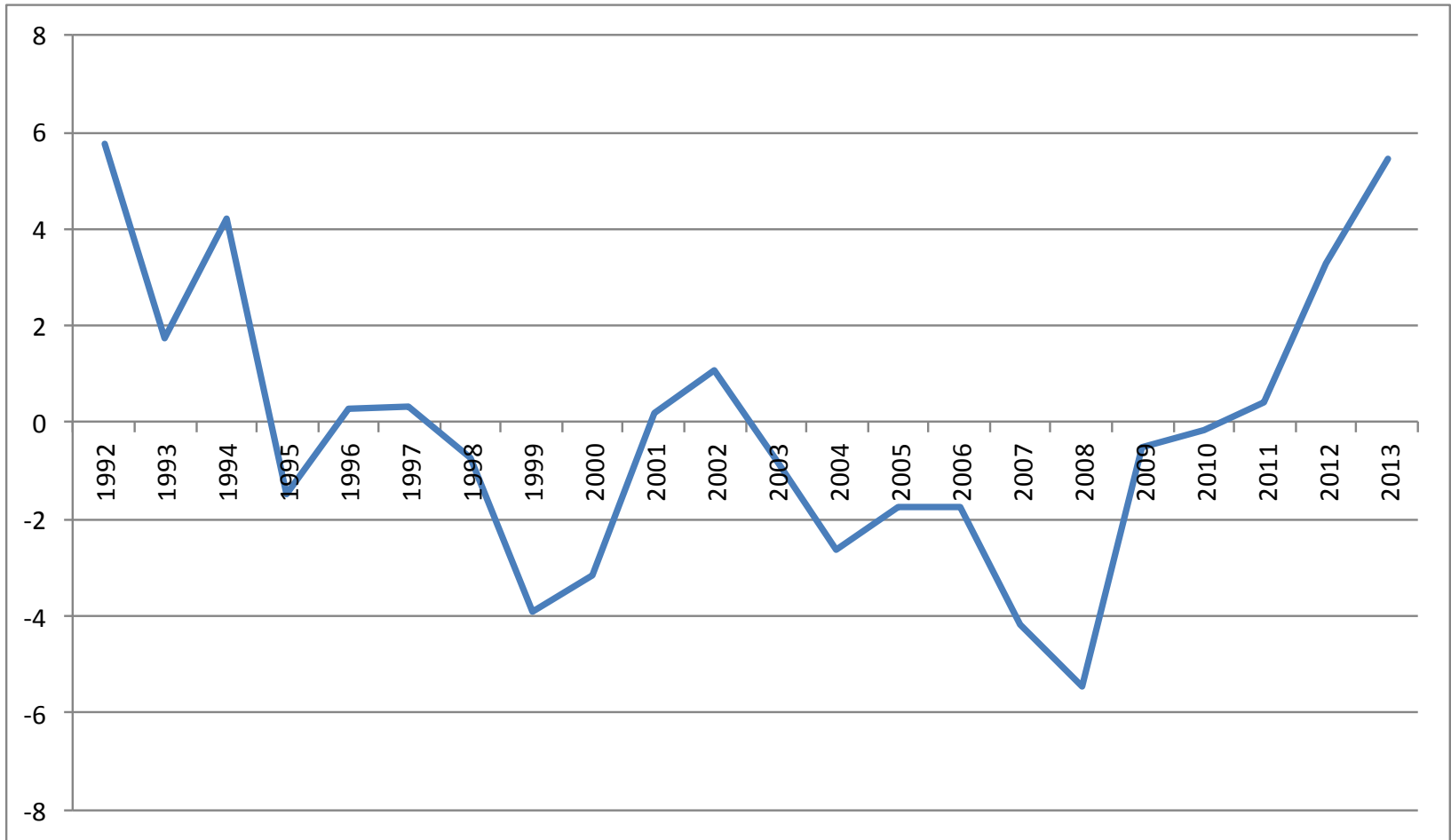
	1990	1991	1992	1995	2000	2004	2007
The Czech Republic	100	152	169	246	341	374	402
Hungary	100	135	166	310	625	804	933
Poland	100	170	244	557	1013	1136	1200
Slovenia	100	215	661	1206	1794	2288	2345

# External trade of goods and services per GDP (in %)

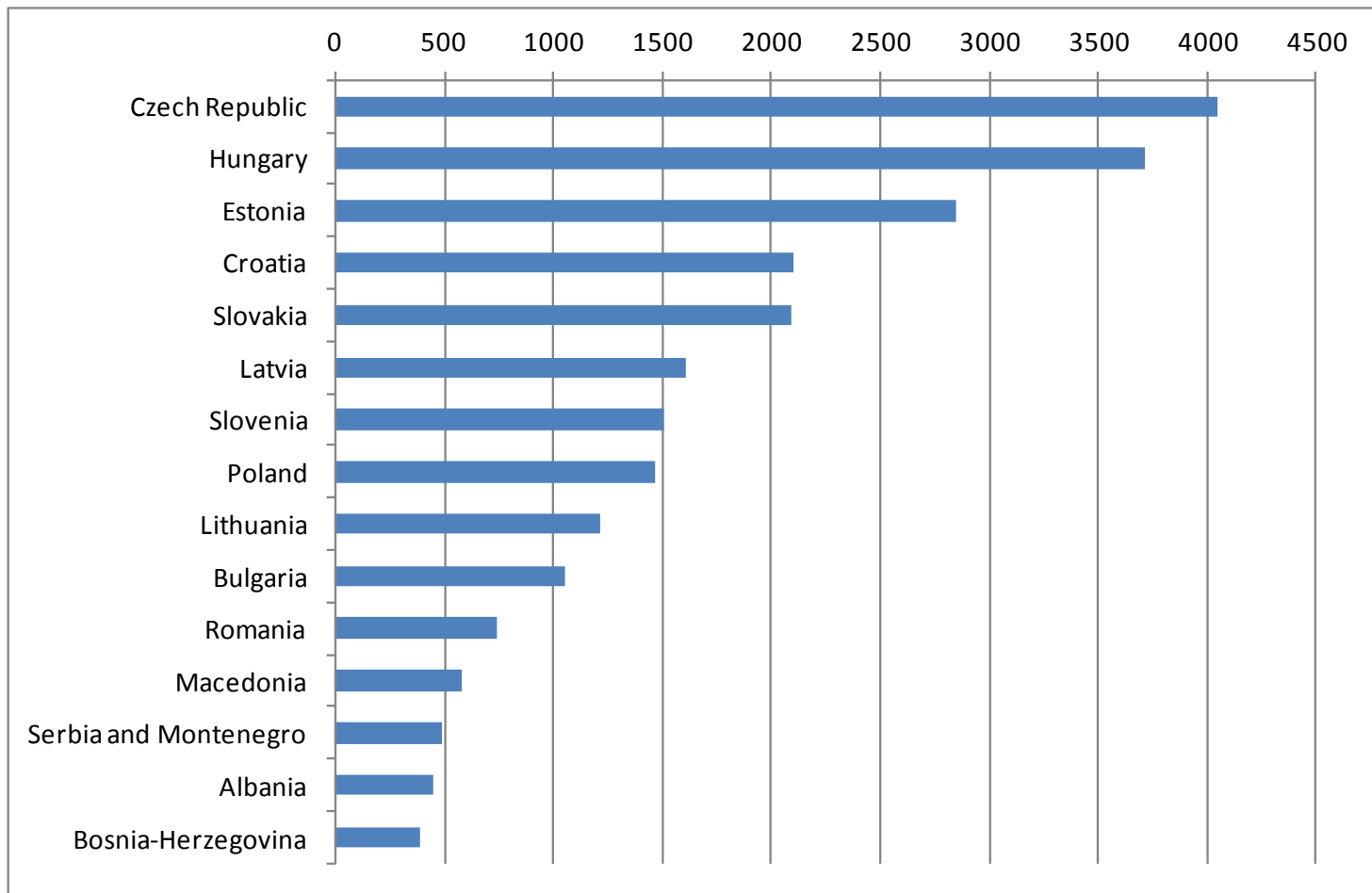




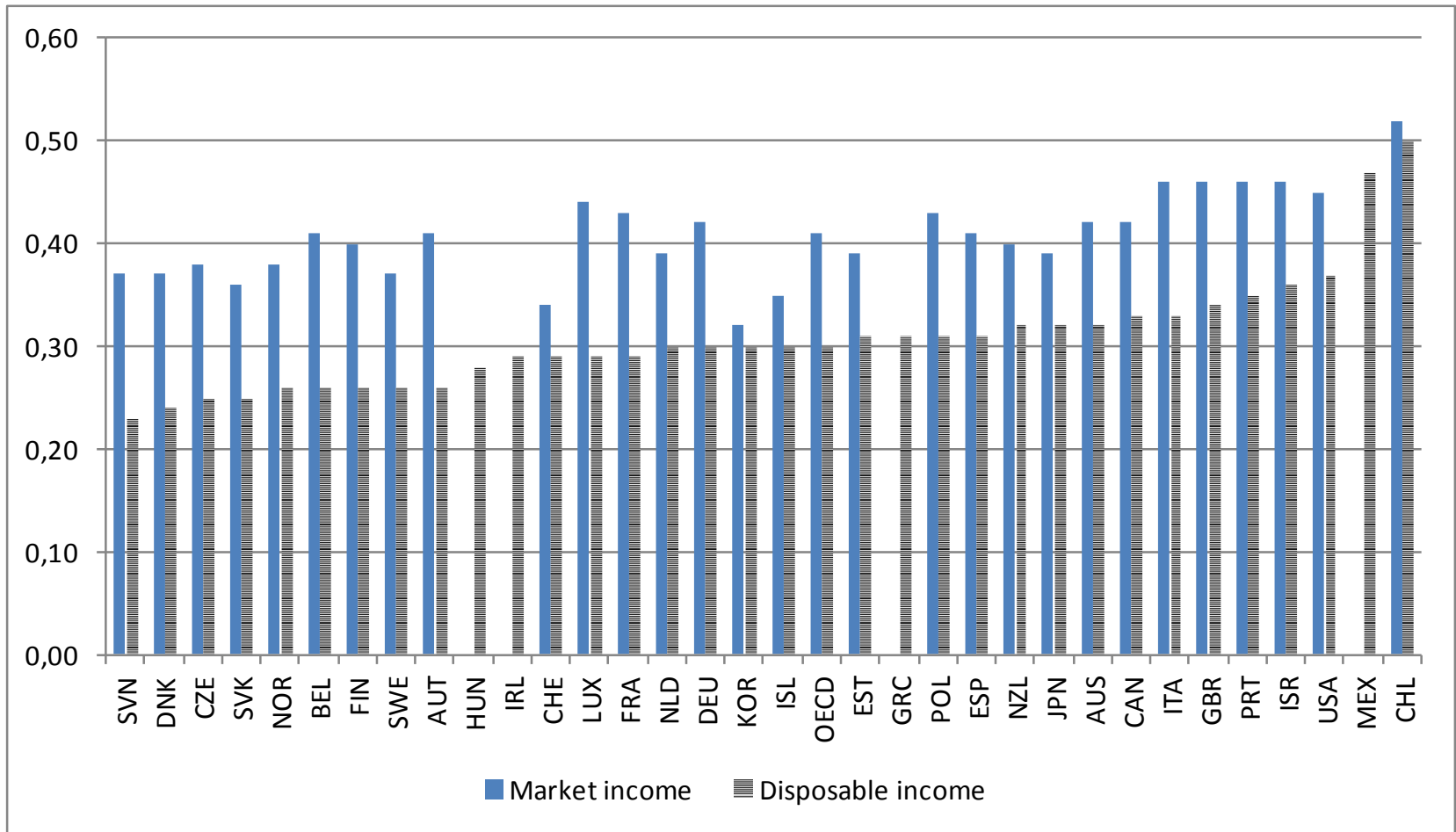
# Current account balance (percent of GDP)



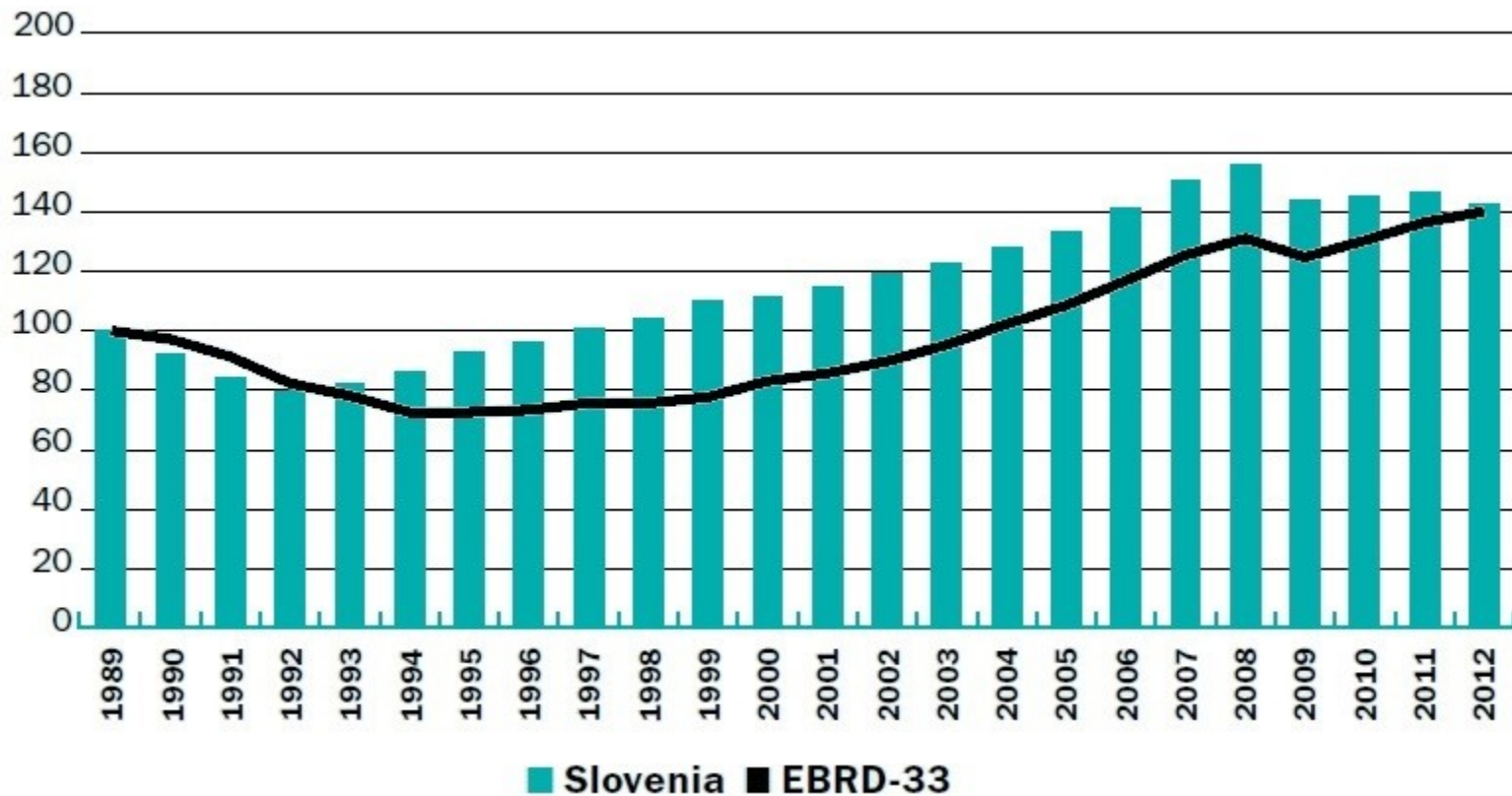
# Cumulative FDI inflows per capita, 1989-2004, in US\$



# Gini coefficients\* of inequality of market and disposable incomes; Persons of working age (18-65 years-old), late 2000s



# Real GDP (1989=100), Slovenia and EBRD 33



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