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RESTRUCTURING IN THE SLOVENIAN INDUSTRIAL SECTORS

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GENERAL OVERVIEW

- *A story about Slovenia is relatively positive (a success story?)*
- *An example of win win situation– everybody wins*
- *Gradual model of transition*
- *Process of privatisation has been the slowest among new EU members*
- *The role of social dialogue was extremely strong*
- *Several types of development (differencies in regional patterns)*

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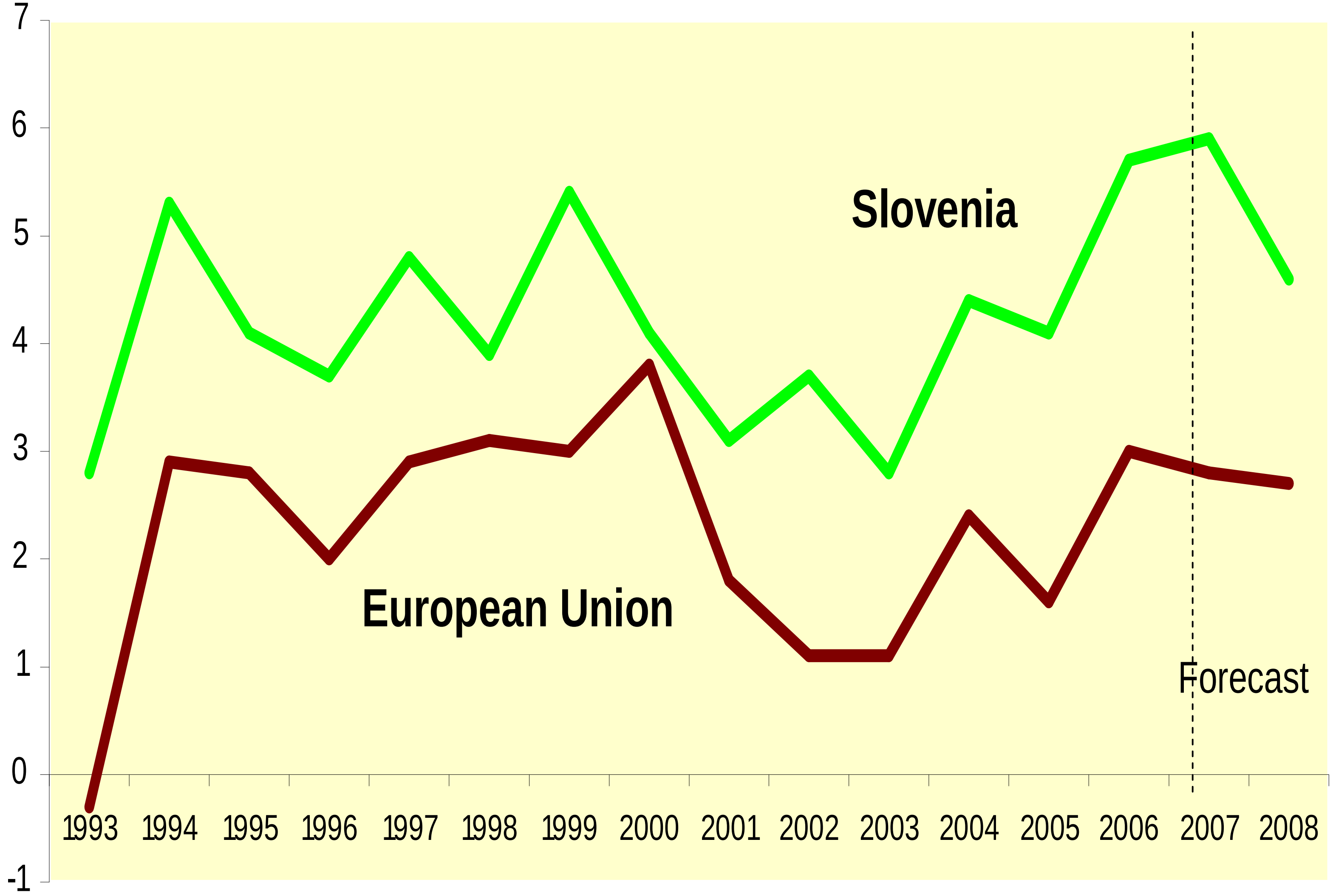
GDP GROWTH, Real growth in %



SLOVENIA - GDP per capita

	1993	2007
• GDP p.c. in EUR	5,450	16,500
• GDP p.c. in PPS compared to EU27 average	65%	90%

Sorce: SORS, 2007 estimates by SKEP, Eurostat – January 2008

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SLOVENIA - Structure by value added, %

	1993	2007
• Agriculture	4.8	2.3
• Industry	32.5	27.4
• Construction	3.2	6.2
• Services	59.5	64.1

Source: SORS, National Accounts

SLOVENIA - Employment by sectors, %

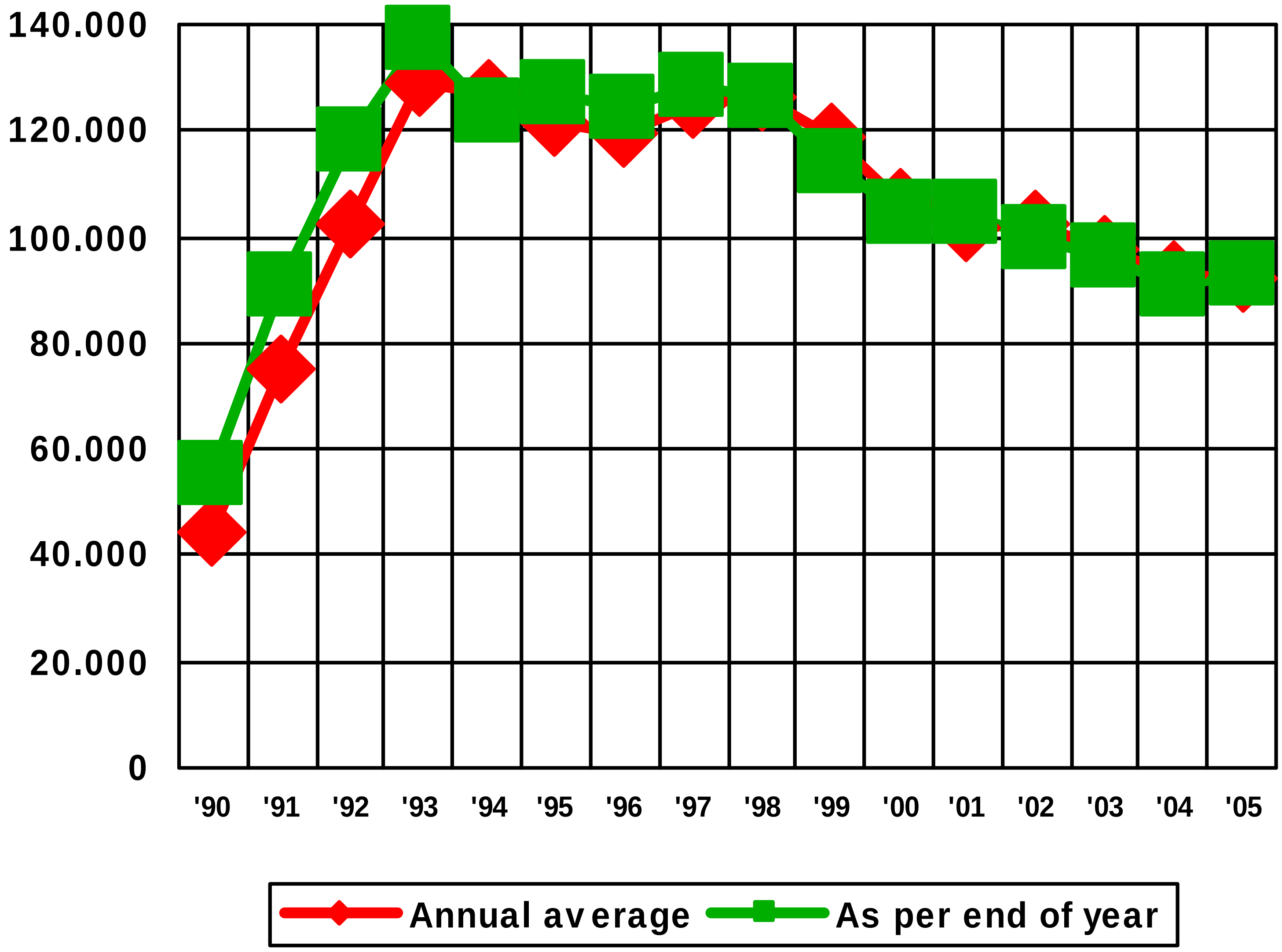
	1993	2007 *
• Agriculture	1.9	9.5
• Industry	41.4	26.9
• Construction	5.3	7.7
• Services	51.4	55.9

Source: SORS, National Accounts; * Data for 2006

SLOVENIA: NEW EURO AREA MEMBER

- *Population of 2 million*
- *GDP per capita on a par with Greece, and much higher than in most new EU members*
- *Track record of strong macroeconomic performance*
- *Average annual growth of 4 % in past ten years; 5,7 % in 2006*
- *Stable multi-party democracy*
- *Full member of the Euro area since 1st January 2007*
- *EU presidency in the first half of 2008*
- *Invited to join the OECD*

REGISTRED UNEMPLOYED



CHANGES SINCE 1991

Three important transitions

1. *From centrally planned to market economy*
2. *From regional to national economy*
3. *Accession to EU*

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ECONOMIC INDICATORS, 2006

GDP at current prices	*29.7 bn EUR*
GDP per capita	*14,700 EUR*
GDP par capita at PPS	*20,500 (84% EU-25)*
GDP growth rate, first estimate	*5.2 %*
Exports	*69 % GDP*
Exports of goods and services	*20.5 bn EUR*
Imports of goods and services	*20.8 bn EUR*
Inflation	*2.5%*
Unemployment rate - by ILO	*6.2%*

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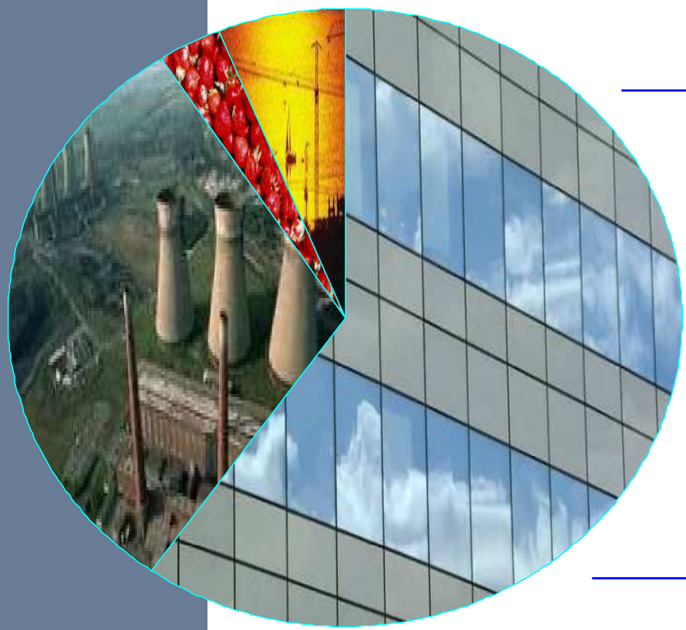
STRUCTURE OF GDP, 2006



SERVICES **64.1 %**

INDUSTRY **27.4 %**

CONSTRUCTION **6.2%**

AGRICULTURE **2.3 %**

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THE CASE OF SLOVENIAN INDUSTRY - early ninties

- *Developed in former Yugoslavia (the driving force od exYU export)*
- *Oriented in EX Yu and SU markets – collaps in 1991 together with shift to market economy*
- *Some of the bigest industrial systems dissapeared*
- *Massive unemployment*
- *Unfavourable conditions for business development (finances, overregulation, rigid labour market, state control…)*

SOME PATTERNS OF RESTRUCTURING

- *Slow process of privatisation – important role of state founds, voucher system (certificates) – preffered insiders*
- *Hidden and regular obstacles for foreign investors*
- *Overegulations on several sectors*
- *Rigid labour market*
- *Process of denationalisation*

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MODELS OF RESTRUCTERING

- *Large old systems survived and developed (farmaceutical industry, electrical industry, machinery)*
- *Old systems restructured into several SMEs*
- *foreign investors bought companies in troubles or blue chips*
- *Foreign investors established new premises and structures*
- *Decentralised model of development*

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EXMAPLES -1

- *Case of GORENJE – household apliances, strong brand in ex markets, new markets, center of the whole region and driving forse for SME's development in all sectors*
- *Case of KRKA – pharmaceutical industry – close connection to academical and research organisations, internationalisation – several others – in common - slow process of privatisation, governemental founds significant role (keep foreign investors away), strong R&D, brand, CSR…*
- *Others (Unior, Talum, Iskra…)*

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EXAMPLES 2

- *SAVA TIRES (Goodyear), JULON (Gruppo Bonazzi), BSH (Bosh Siemens), Anhovo (Lafarge cement), Unitech…*
- *Foreign investors bought domestcic brands with pour future prospectives*
- *Markets, organisation, leverage structure, capital…*

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EXAMPLES 3

- *Hydria, Kolektor, Brest, ETI, Adria Mobile, Helios, Cimos,*
- *“brave” domestic managers formed network and at the begining of privatisation process bougt weak companies, today’s blue chips*
- *Domestic knowledge, interantional framewoek, strategic partners to automotive industry and other important global players*

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EXAMPLE 4

- VIPAP, CARRERA, TOBACOO INDUSTRY…
- Foreign investors bought slovenian companies because of market, resources, limited good conditions
- Poor investment, lack of R&D, process of closing down has started

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OBSTACLES

- *Rigid labour market*
- *Overegulations*
- *Conservativism*
- *The role of polticians/through governement's controlled founds*
- *R&D system*
- *Lack of market conditions in some branches (energy, telecomunications…)*
- *Social expenditure/social state*

EXPERIENCES IN SLOVENIA

- *social peace - consensus*
- *social agreements*
- *Wage policy – stable during last 8 years*
- *Pension reforms, new labour law*
- *national development plan – investments*
- *ILO standards and EU derectives*

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WAGE POLICY

- *Very high labour costs – comparing with competitive countries (twice as much as Poland), but direct income represents less than 43% of labour cost*
- *Rigid system of minimum wage*
- *Several additional costs*
- *Unrealistic expectations on Union's side*

FUTURE SITUATION

- *Union's expectations – salaries should rise faster than GDP*
- *Changes in EU – following Lisbon strategy – into more liberalized regulation*
- *The conflict between social state and globalization*

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Social reforms in Slovenia are focusing on 4 fundamental areas:

- ***<u>the labour market</u>*** *– improving its flexibility, encourage employment, and increase active job search and employment*
- ***<u>social transfers</u>*** *- establishing a system that will offer more motivation for work and at the same time be more socially just*
- ***<u>the pension system</u>*** *- offering more incentives for prolonged employment, ensure the long term sustainability of the system and increase the scope of pension insurance*
- ***<u>- the health care system</u>*** *- ensuring that the current standard of public health services will not have to be lowered as a result of growing costs*