ECONOMIC TRANSFORMATION PROCESS IN SLOVENIA

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Conference: Comparison of industrial transition models

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BASIC FEATURES OF SLOVENIAN TRANSITION MODEL

STARTING POSITION: level of development; openess of the country; costs and benefits of separation from Yugoslavia; heritage of selfmanagement and social property; survival of the old economic and political elite;

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1. PRIVATISATION: specific model of decentralized, distributional, and gradual transformation of social property;

2. MACROECONOMIC STABILIZATION: benefits of ignoring Washington agreement with assumption S>D, gradualism versus shock therapy, floating exchange rate;

3. MICROECONOMIC RESTRUCTURING: gradualism versus shock therapy, slow decentralized restructuring, retiring rather than firing, cautious approach to FDI;

4. CREATION OF A NEW ECONOMIC SYSTEM: EU convergence, “acquis” and transformation from a country to a region;

1a. PRIVATIZATION EQUATION

The Law on the Ownership Transformation of Companies

$$(10 + 10 + 20 + (1-x)*40) + (20 + x*40) = 100$$

- 10% Pensionary Fund
- 10% Restitution Fund
- 20% Development Fund
- 40% social property

20% employees

40% social property

$$0 < x < 1$$

$x = 1$ - small successful companies, majority of workers and managers

$x = 0$ - large unsuccessful companies, state property, PF, RF

$0<x<1$ - large successful companies, auctions for vauchers

1b. PRIVATIZATION PROCESS AND OUTCOME

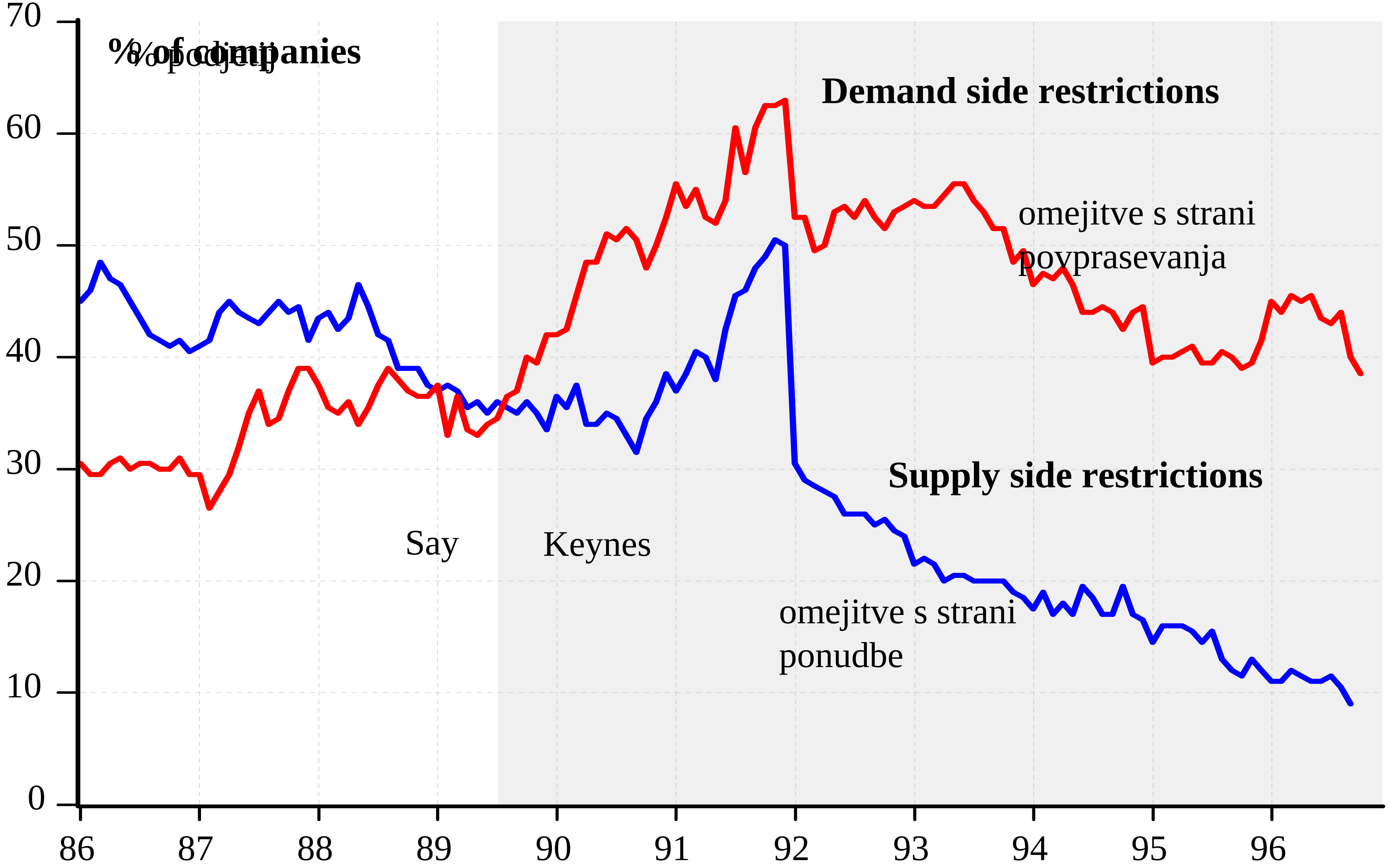
Supply of Capital: shares in 1400 companies

Demand for Capital: certificates, managers-workers by outs, restitution claims, transfers to KAD (pensionary fund) in SOD (restitution fund)

Privatisation outcome: (November 1997) 1127 privatized companies, 70 state owned companies, 82 liquidated companies; privatization gap

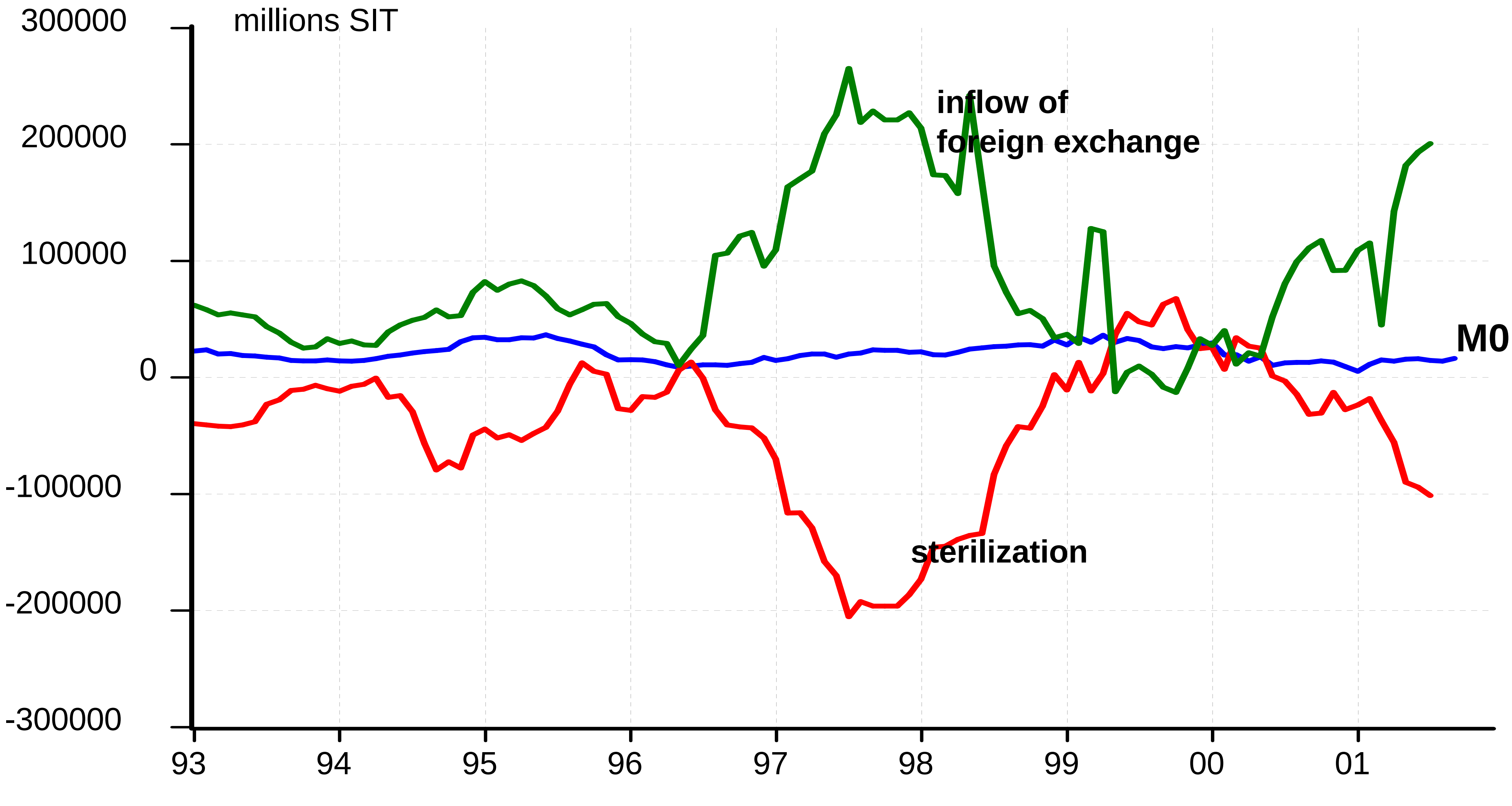
32 companies without insiders, 455 with insiders as minority shareholders, 795 with insiders as majority shareholders

2a. THE SHIFT FROM THE SUPPLY PUSH TO DEMAND PULL ECONOMY



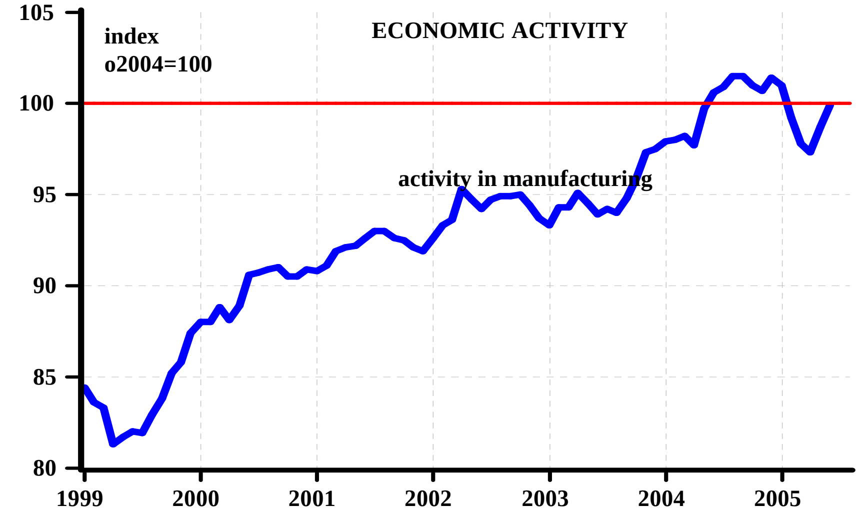
2b. STERILIZATION

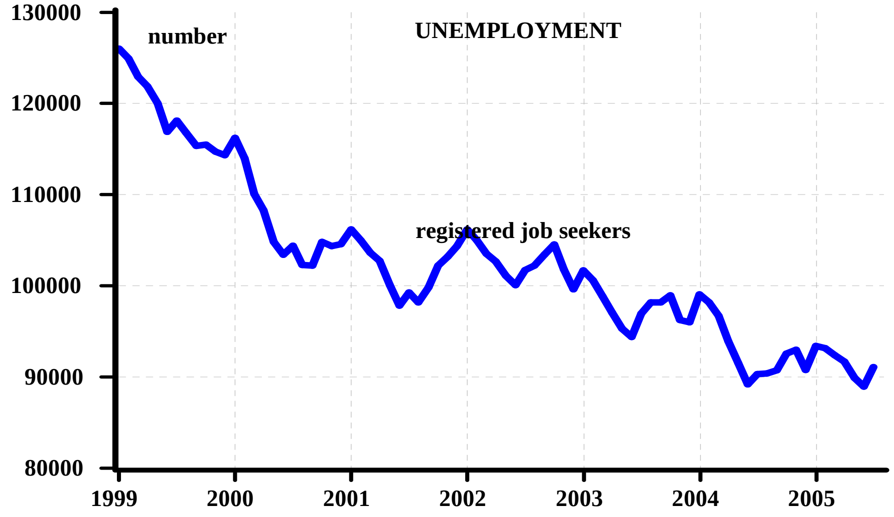
THE PILLAR OF MONETARY POLICY

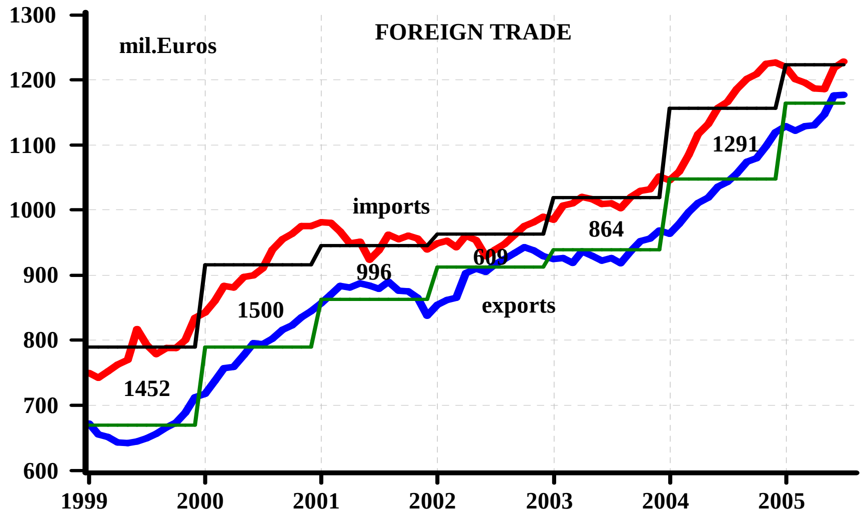


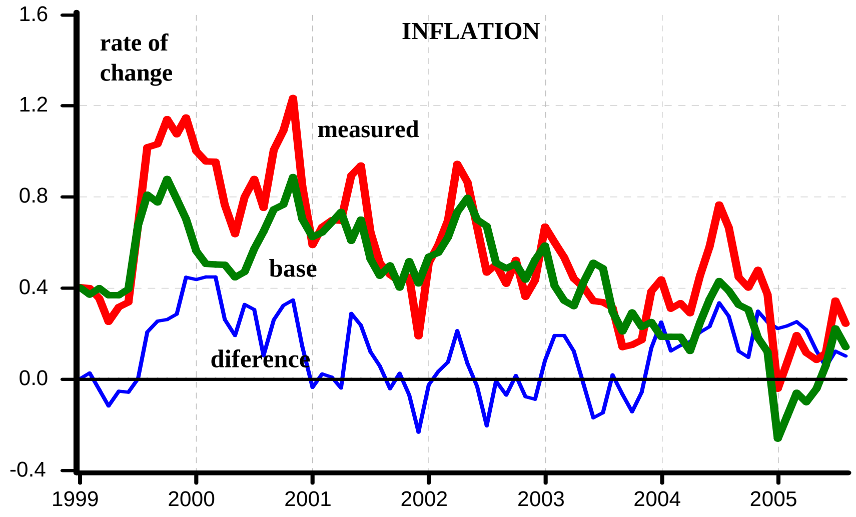
2c. MACROECONOMIC DEVELOPMENT

(1999-2005)





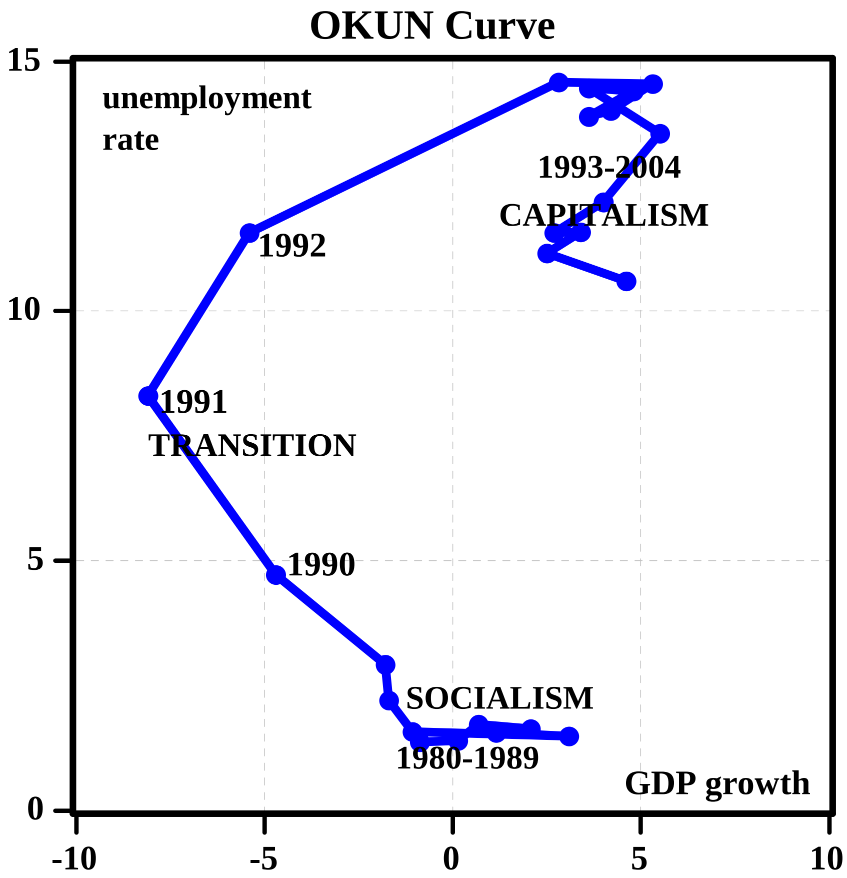


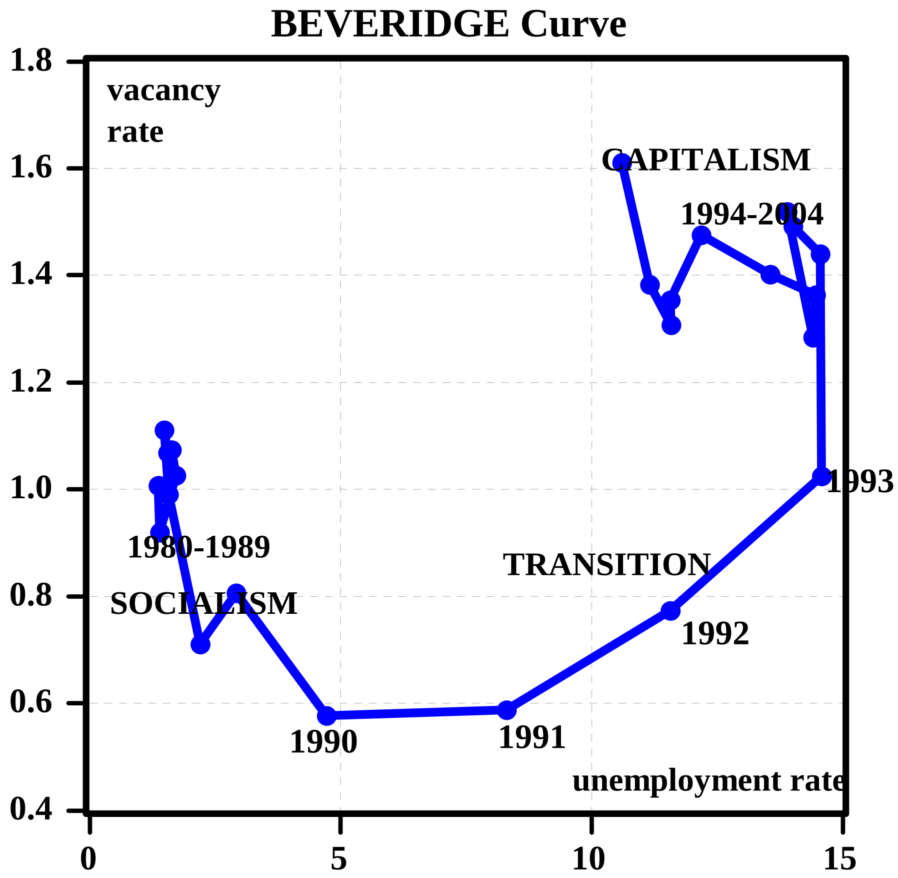


3a. RESTRUCTURING

BY FIRING AND RETIRING

THE SHIFTS OF THE OKUN AND BEVERIDGE CURVES AND “NORMAL” UNEMPLOYMENT RATES





3b. RESTRUCTURING BY FDI

SPILL-OVER EFFECTS OF FDI

THEORETICALLY POSITIVE (OECD 2003)

- FDI transfers technology and know-how;
- FDI contributes to enterprise development and restructuring;
- FDI contributes to international trade integration;
- FDI bolsters competition;
- FDI supports human capital formation;

IN REALITY

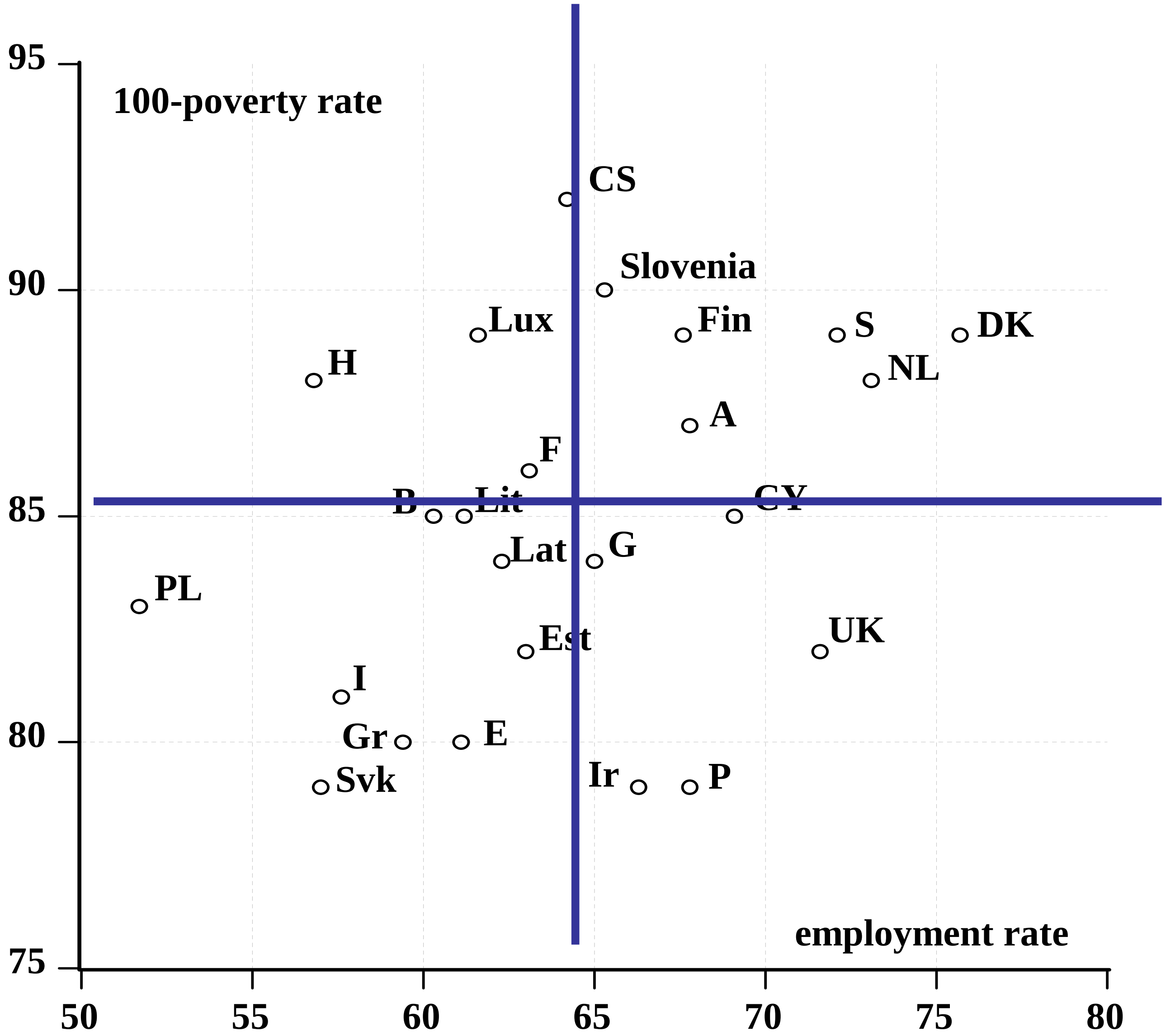
- FDIs were acqusitions rather than greenfield investments, thus not investments in the macroeconomic sense;
- FDIs concentrated to finance, trade, and communications;
- FDIs increased imports more than exports;
- FDIs increased specialization within a multinational cutting links with the rest of the economy;
- FDI brought strong monopolies forcing small emerging domestic firms out of business;
- FDI creates addiction, income account deficit, and gap between GDP and GNP;

3c. RESTRUCTURING BY FDI

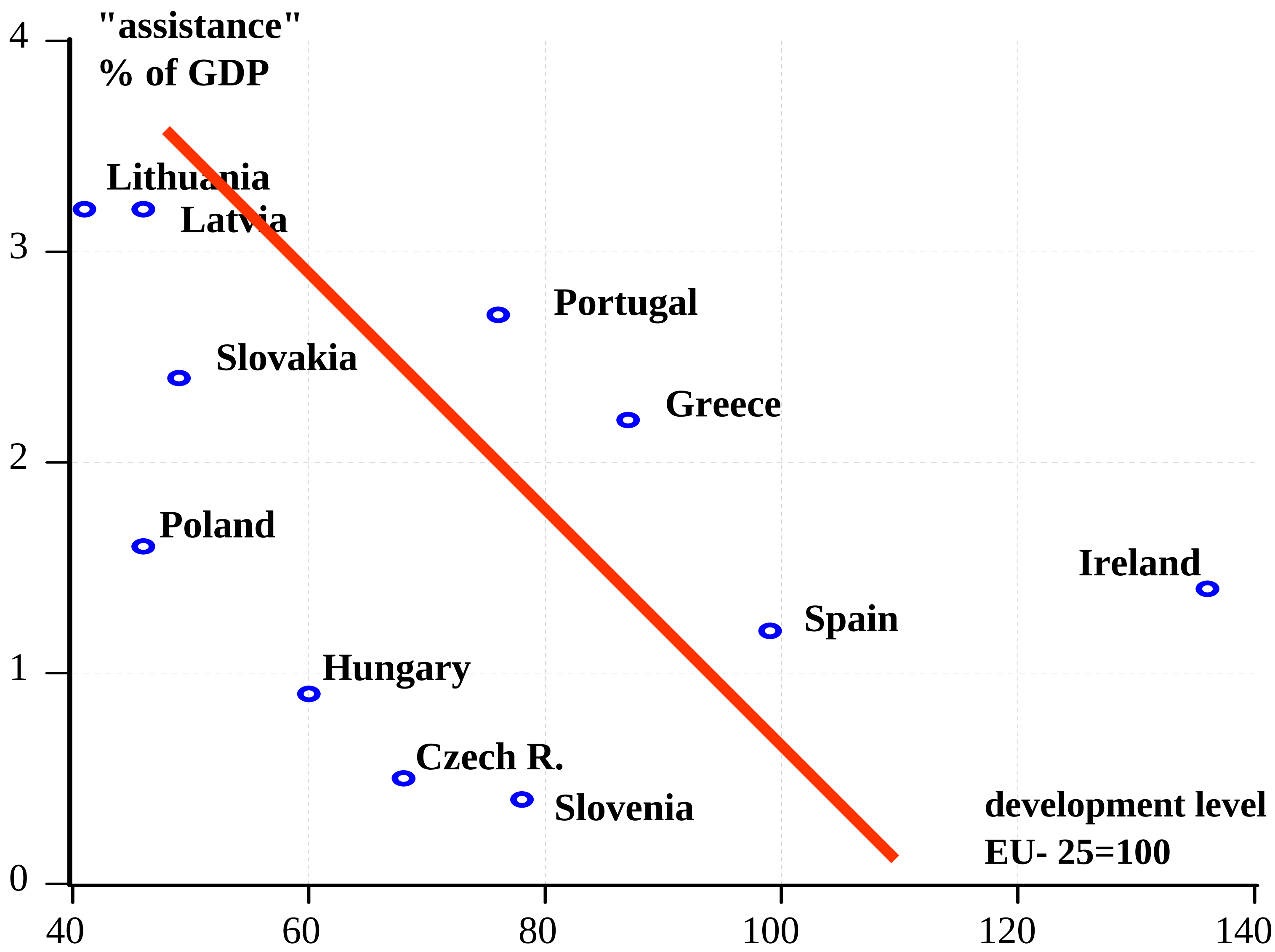
FDI, CURRENT ACCOUNT, AND INDEBTEDNESS

	CA/GDP 10 years average	FDI/GDP 10 years average	Net external position 2004	stock FDI/GDP 1994	stock FDI/GDP 2003	foreign banks in assets 2003
Czech R.	-4.05	5.80	-34.6	11.0	48.0	90.0
Estonia	-7.46	6.03	-99.7	9.2	77.6	98.9
Hungary	-4.40	4.31	-96.9	17.1	51.8	88.8
Latvia	-5.48	5.96	-55.0	7.6	35.1	65.2
Lithuania	-8.36	3.42	-38.9	0.7	27.2	78.2
Poland	-2.64	2.73	-53.3	4.1	24.9	68.7
Slovakia	-6.37	3.44	-37.5	6.1	31.5	85.5
Slovenia	-0.51	1.04	-18.0	9.2	20.7	20.6
Average	-4.91	4.10	-56.7	9.3	39.6	74.5

3d. ECONOMIC PERFORMANCE AND SOCIAL COHESION



4a. EU - ALTERED “GENEROSITY”



4b. ACTUAL FINANCIAL FLOWS BETWEEN EU AND SLOVENIA

	payments	receipts	diference
2004	40.6	43.8	3.2
2005	68.4	72.5	4.1
2007/-10	276.2	248.7	-27.5

PAYMENTS

	trad. own sources	VAT	BNP	British rabat
2004	3.0	6.0	27.8	3.9
2005	6.7	10.5	45.6	5.5
2007/-10	66.1	41.6	149.5	18.6

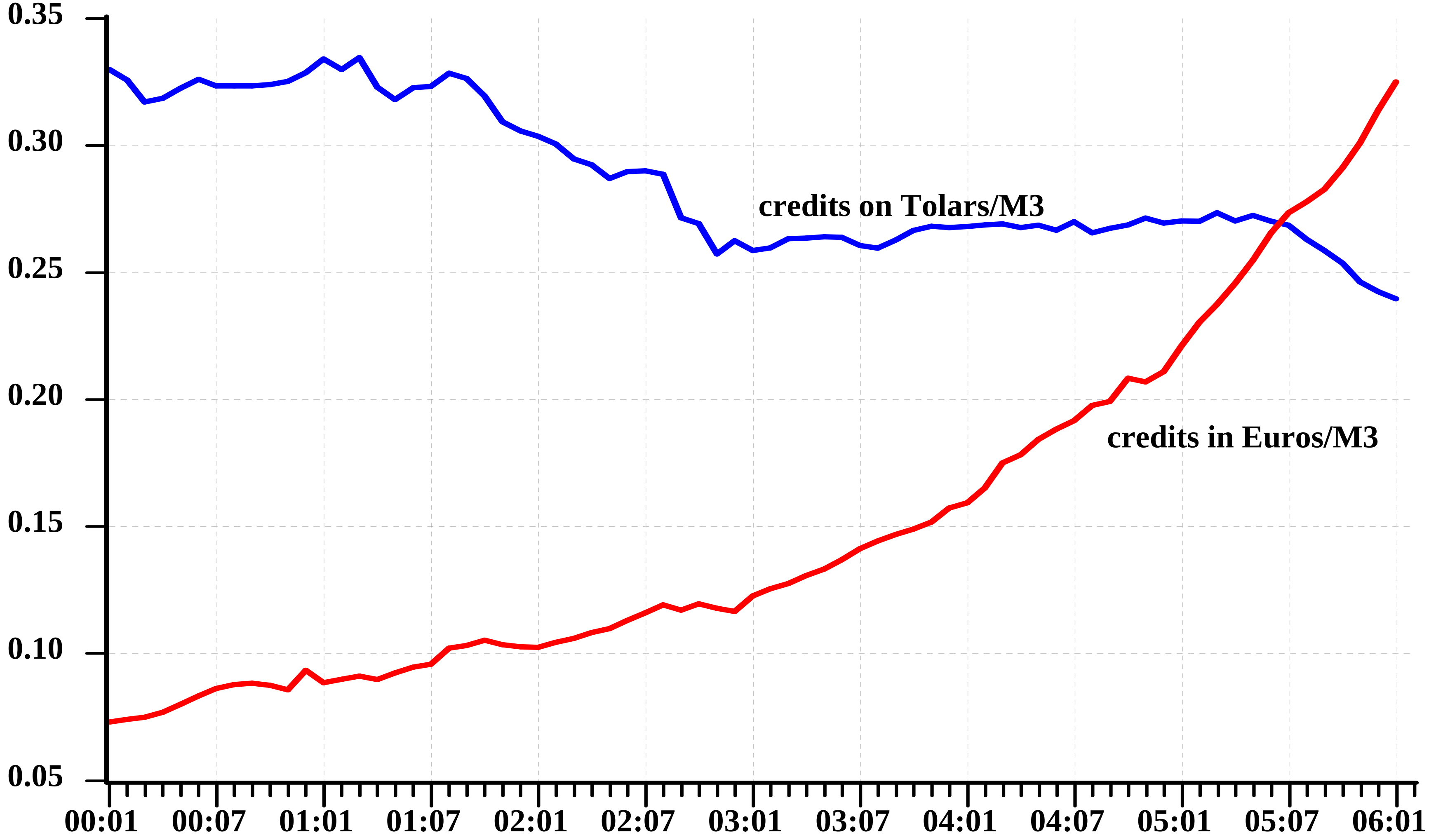
RECEIPTS

	pre-accession assistance	CAP	structural policy	cohesion policy	special contribution	other
2004	10.6	5.5	0.0	0.0	27.0	0.7
2005	11.3	26.7	8.6	1.8	21.8	2.2
2007/-10	6.3	145.3	30.9	13.6	0.0	52.6

2004, 2005 mrd SIT, 2007 mil.€

4c. EUROIZATION OF THE ECONOMY

Credits to the Business Sector



4c. DOES A MEMBER COUNTRY REMAIN AN ECONOMIC ENTITY?

A country as economic entity should be able:

- **1. to print money;**
- **2. to collect taxes;**
- **3. to control the flows of goods, labor, and capital over its borders;**
- **4. to create rules of the game – economic system.**

Indeed,

1. monetary policy is shifted to ECB;

2. fiscal policy is restricted by Stability Pact;

3. countries cannot control flows of goods and capital;

4. “acquis” form economic system.