




## **Weekly Briefing**

**Slovenia economy briefing:  
Economic policies between two governments  
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# **Economic policies between two governments**

## **Short summary**

The developments in Slovenian economy in 2018 were marked by the parliamentary elections in the beginning of June, which led to the formation of a new government in September. Some of the issues which were pressing for the Cerar government (2014–2018) were inherited by the current Šarec government and some of the first measures undertaken by the Šarec government were actually aimed at closing the said open issues.

## **Open issues inherited from the Cerar government**

Addressing some of the biggest challenges of the previous governments, the economic program of the new Šarec government was rather ambitious. Among them, especially important issues to be solved were the issues the management of state-owned companies and the decisions on their privatization, irregularities in the labor market and employment systems, improving of the competitiveness of the small and medium sized companies and the challenges of environmental issues. In the financing of the public sector, the previous government left the negotiations with the public sector syndicates unfinished just at the time of the PM Cerar's resignation. In finances, one of the main tasks to be tackled was the taxation of companies, as its current system has often been criticized by the representatives of the Chamber of Commerce and Industry. Establishment of a stable and predictable tax system is also seen as an important vehicle in inviting more quality foreign investment. Imposing a strict tax discipline and tackling the issues of corruption in public sector tenders was also not addressed sufficiently by the previous governments. Additionally, with the aging population, the establishment of a sustainable tax and pension system was seen as another key issue.

With these diverse challenges and pressing tasks, the new coalition agenda in economy and finances was predictably wide. The planned policies and measures were impacted by the fact that the current Šarec government is a minority government. In getting support for its policies it will have to rely on the votes of either The Left, with which they signed a cooperation agreement, or other political parties from the right of the political spectrum, which is not an easy position to navigate.

### **Economic strategy of the Šarec government**

The title of the new economic strategy is “Economically successful Slovenia, focused on sustainable development and environment protection”. The challenges the program intends to cope with in economy and in finances, are several. One of the inherited issues that this government again seeks to address, is the issue of the managing of state-owned companies and the strategic privatization. Especially, the agenda pinpoints the necessary inspection of the functioning of Slovenian State Holding, a key factor in both of these processes, where a number of issues was identified in the past government mandate. One of the key challenges is to improve the competitive potential of the Slovenian industry. The goal is for Slovenian industry to climb higher on the provider chain in order to produce more added value. The two sectors, which the agenda stresses in particular, are building and wood industry, both of which suffered a considerable decline during the economic crisis. Another challenge is set to reduce the redundant administrative procedures, revision and simplification of the legal standards and measures to facilitate the workforce from abroad, especially in deficitary professions, while also protecting the employment security of the local population. The tax system for companies is to be reviewed, the ambitious task which is set to include lowering tax rate, while at the same time restructuring the tax system and redefining the tax scale in order to compensate for the lowering. The most debated

change was that personal income from the capital and rents will be included in the income tax calculation. This proposal caused a wave of criticism among the owners of several Slovenian companies. The reform of the labor market is planned to ensure development along the safe flexibility model, while on the other hand addressing the pressing issue of growing precarious work. The abolishment of all precarious types of work is first planned as a general measure in public sector. As an important concession to the extra-coalition partners, The Left, the minimum wage is to be raised. Along the similar line, the ideas of economic democracy are intended to be promoted by the new coalition, especially by encouraging cooperatives and social businesses, and new legal regulations are planned to enable the establishment of cooperative banks. In addition, micro-funding and co-working models will be promoted. In order to provide better qualified workforce, more practice-oriented systems will be put in place on all levels of education. Applicative research will be strongly promoted as well. Importantly, sustainable economy is promoted together with smart specialization of small and medium sized companies. Internationalization and economic diplomacy is another key aspect of the new government program, especially with the strengthening of the role of the Slovenian agency for the stimulation of business (SPIRIT) and its activities abroad, with gaps to be filled especially in Asia and Africa. The coordinated action in this field is also set to promote Slovenian tourism, another key element of the new economic agenda. In finances, the emphases are on the stability of public finances, following the so-called golden rule of fiscal discipline and the lowering of the public debt. The task set by the new government is also to successfully negotiate the prolongation of the net-beneficiary status in the new EU financial perspective 2021–2027.

### **First economic measures by the new government**

In the first few months of the new government, several key measures have already started. The first open issue that needed to be addressed was the unresolved negotiations with the syndicates of the public sector. Under the threat of the general strike in the public sector and with the already negotiated compromises with the previous Cerar government, the negotiations started with high expectation on the side of the syndicates. Finally, an agreement was found between the team of the chief government negotiator, Peter Pogačar, and the representatives of three main public sector syndicates, education syndicate SVIZ, two health care syndicate, and with a short delay, also the Coordination of strike committees of the public sector syndicates. The agreement guarantees a general pay raise for the bigger part of the employees in the public sector, an improved validation of certain jobs and higher benefits for work on holidays and Sundays and for night shifts. Together, they reached agreement is worth 306 million Euros.

Another measure, where the new government followed the initiative of its partner political party outside the government, The Left, was the raising of the minimum wage. The measure provoked a lot of public debate and several media scandals, especially on the relation between the Chamber of Commerce and Industry, the Employers' Association and the government. The political debate on the law was much less intense and the law amendment on the minimal wage was passed on December 13 with a total of 56 votes for (and 0 against). By amending the law an important step was made into establishing a difference between the minimum wage and the poverty threshold. By the new amended law, the minimum wage will be raised next year from the current 638 Euros to 667 Euros (net) and to 700 Euros (net) in 2020. Another important change was made with the amendment; all the bonuses will be exempt from the minimum wage calculation with 2020. The calculation for the minimum wage will be limited upwards and downwards with 40% and 20% of the calculated minimum life expenses respectively.

Shortly before the end of the year, Šarec government also managed to bring to a close the long process of privatization of the biggest state-owned bank in Slovenia, the New Ljubljana Bank (NLB). The privatization was part of the conditions negotiated by the Bratušek government. For Slovenia to be allowed to aid the bank from the state budget in 2013, the promise was made to sell 75% of the state-owned bank minus one share by the end of 2017. After failing to sell in spring of 2017, alternative scenarios were put forward by Cerar government to prolong the due time limitation for the sale, especially because an unfavorable sell-off was feared by many experts, all without much effect. After the resignation of Cerar, the selling of NLB ended up being a task inherited by the new Šarec government. The sale began in October and was finalized in December. In the IPO procedure Slovenian state sold off 59, 1 percent of the shares (in the value of 609 million Euros), which grew to 65 percent after a special stabilization option was applied by the Slovenian Sovereign Holding (SDH). The ownership structure is yet unclear, since it is hidden via a depositary bank, the US Bank of New York Mellon. The only two owners, whose shares were revealed due to size were the finance company Brandes Investment Partners and the European Bank for Reconstruction and Development. As for now, the state still owns 35 percent, and the remaining share (10 percent minus one share) is planned to be sold in spring 2019.

## **Conclusion**

After the first part of the year being marked by several difficulties of the ending government term, the consequences of the resignation of the Prime Minister Cerar and the post-election insecurity, the economic policies only started to be more efficient and organized in the second part of the year. After the government was composed in September, a fairly ambitious agenda was put forward, which seems especially difficult to realize due to the minority coalition with unstable support from the other parliamentary parties. Nevertheless, three important tasks were already realized in the first four months, the compromise with the syndicates of the public sector, the amendment of the law on minimum wage and the long-due sell off of the New Ljubljana Bank.