

# 12 KEY ITEMS OF THE CCIS ECONOMIC AGENDA FOR THE NEW GOVERNMENT OF THE REPUBLIC OF SLOVENIA

**“The state has decided to restore the conditions. But it gave up development!”**

*Uroš Mikoš, IBE, extended meeting of the CCIS Management Board, 3 July 2014*

## ECONOMIC OVERVIEW

### a. Employment

- According to the Statistical Office of the Republic of Slovenia's data, the Slovenian economy has lost 100,000 workplaces since 2008. The public sector has reduced the labour costs by using wage-levelling. On the other hand, it employs more workers today than in 2008.
- The ratio between employed and retired persons in Slovenia is 1:1.38. In Austria, the ratio is 1:64 and in Germany 1:2.09.

*Fact no. 1: Slovenia must act against this employment and demographic spasm.*

### b. Economic growth

- Last year, the Slovenian GDP per capita amounted to only 90% of the GDP in 2008. Only Croatia and Cyprus have recorded a more negative growth.
- It is true that the growth of the Slovenian GDP for 2014 is estimated at 0.3% to 0.8%, but these estimations are lower than the estimation of the average growth in the EU (1.6%) and in the Euroregion (1.2%).

*Fact no. 2: Economic growth is too low and in danger of new negative growth.*

### c. Public finance

- The price of government borrowing has decreased, but it is still higher than, for example, in Italy, Spain and Ireland. This year, the state will pay almost a billion Euro of interests.
- The public debt will amount to 80% of GDP this year. Although this is within the EU average, it is rapidly growing. In 2008, the public debt amounted to only 22%.

*Fact no. 3: We must no longer borrow money for current consumption and use EU funds inefficiently.*

### d. Competitiveness

- On the IMD World Competitiveness Rankings 2014, Slovenia was listed 55th among 60 states. One year before, it was placed 52nd.
- The amount of foreign investments in Slovenia, compared to GDP, is far lower than in the Visegrad Group, Europe and Southeast Europe.

*Fact no. 4: Investors see Slovenia as unattractive and unpredictable.*

### e. Banking system economy financing

- Capital increase in the banking system and the establishment of the BAMC was the first step towards the reconstruction of economy. However, this cannot be carried out without financing the economy and real recovery of economic growth.
- Half of Slovenian companies employing more than one third of employees are deeply in debt and need additional systematic measures for financial, business and ownership reconstruction.

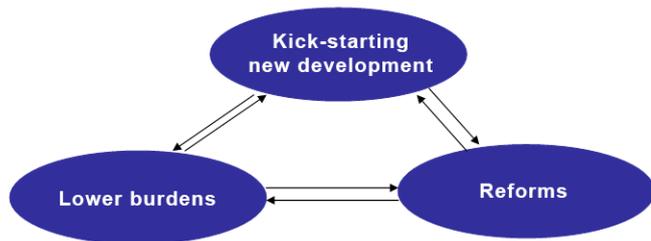
*Fact no. 5: The reconstruction of banks is not completed; rehabilitation of the part of economy that is deeply in debt has only just begun.*

The CCIS Economic Agenda for the new Government of the Republic of Slovenia is based on four key findings:

1. There is an urgent need for new working places in the business sector in Slovenia.
2. They can only be created by kick-starting development.
3. Kick-starting new development cannot be carried out without reducing economic burdens.
4. Economic burdens cannot be reduced without structural reforms.

Besides struggling for the rule of law (against corruption, the grey economy, economic crimes etc.), a new pragmatic economic policy is also necessary to emerge from the crisis.

The CCIS Economic Agenda for the new Government of the Republic of Slovenia strives to achieve a sustainable combination of measures for faster development, lower economic burdens and reforms.



Priority areas of economic measures are:

### 1. THE INTERNATIONALISATION OF THE ECONOMY

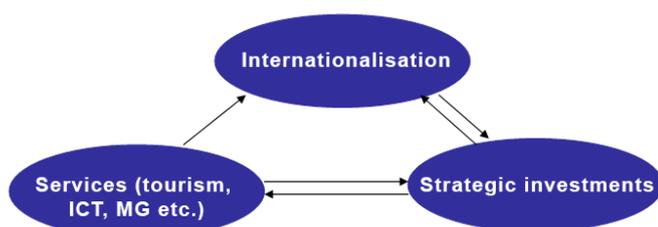
In the last few years, Slovenia has been strengthening exports, but it has not been increasing its global market share. Competitive countries have been increasing exports more rapidly. Therefore, export should be the first priority.

### 2. STRENGTHENING THE SERVICE SECTOR

Services can relatively quickly and cheaply contribute to growth and an increase in employment. Therefore, services and the strengthening of entrepreneurship are a short-term priority.

### 3. STRATEGIC INVESTMENTS

When speaking of strategic investments, Slovenia has no clear national priorities. We need an operational strategy of strategic investments determining the priorities, timeline, potential sources and measures to overcome obstacles.



Due to a lack of resources, Slovenia cannot emerge from the crisis without wide social changes.

We propose the following measures:

## 1. NEW DEVELOPMENT AND EMPLOYMENT

#### a/ Kick-start new exports

Objective: a 5% annual increase in exports and value added on the basis of smart specialisation.

1. Stimulating transparent privatisation and actively attracting foreign investments with the aim of export increase, the transfer of knowledge to Slovenia and increased competitiveness in Slovenia and abroad.
2. The organisation and update of the visa regime for business partners and tourists.
3. Reinforcement of internationalisation programmes for small and other parts of the economy.
4. Reinforcement of cross-border internationalisation in the neighbouring border markets.
5. Priority development support for products and services with higher and high value added.

#### b/ Restructuring indebted companies

Objective: restructuring with the aim of maintaining healthy cores in companies; decreasing the aggregative indebtedness index (net debt/EBITDA) in the business sector from 5.74 to 4 in the next 3 years.

1. By the end of 2014, the formation of a master plan for restructuring companies with priority tasks.
2. By September 2014, amendments to legislation on insolvency will be assessed and additional measures will be taken, if applicable.
3. To ensure the schemes for the suitable liquidity financing of companies in the restructuring procedure and for equity financing of companies by investors.
4. To support the education of crisis managers.
5. To reduce the duration of legal proceedings in courts of first instance in civil and business proceedings, including associated insolvency proceedings.

#### c/ Kick-start new investment

Objective: to promote infrastructure investments with the aim of as many demonstration projects as possible on the basis of smart specialisation.

1. Determining the national priorities in the realisation of investments with a timeline.
2. The fast de-bureaucratisation of procedures that obstruct investments. Economically reasonable sustainable development in the areas included in the Nature 2000 network, which should no longer expand.
3. Establishing models of financing infrastructure investments.
4. The education of public contracting authorities.
5. The implementation of quality standards in public procurements.

#### d/ Development-oriented budget

Objective: restructuring the national budget and the better management of state companies.

1. Reducing public spending in the GDP by 1% per year and increasing the share of public funds for a new development kick-off in the economy on the basis of smart specialisation.
2. The Slovenian real GDP per capita in 2013 is 10% lower than in 2008: By 2016, the share of salaries and other expenditures for public officials in the consolidated state budget balance compared to the GDP should be even with that of 2008, but not with the help of wage-lelling.
3. The management of companies under the controlling influence of the state oblige to accede to and implement Slovenian guidelines of corporate integrity.

#### e/ New education model

Objective: vocational training aimed at kick-starting new development and reducing the unemployment rate.

1. Preparation of the project of mutual planning by social partners connected to occupations there is a shortage of in the labour market.
2. The implementation of business content and ethics in the curriculum from the primary school to university programmes. These subjects should be compulsory at least from secondary school onwards.
3. Financial incentives for companies to employ young researchers.

4. The education of personnel on all education levels in accordance with the employers' needs.
5. The reform of college and higher education institutions with measurable goals for the placement of Slovenian faculties in the global scales.

## 2. LOWER BURDENS

### a/ Tax and contribution restructuring

Objective: tax policy aiming at easing of burdens: removing employment and development cramps.

1. Unburdening of labour,
2. The implementation of an employer contribution cap, i.e. an upper limitation to social contributions with the aim of unburdening the salaries of highly qualified expert personnel, which is of key importance for development.
3. Lower tax burdening of the lowest salaries resulting in increased purchasing capacity.
4. Lowering net environmental and energy duties, contributions and other burdens to the EU average level in comparison with the GPS (directed at development projects).
5. A 100% tax relief for the reinvestment of profit.

Possible sources:

- higher taxation of property,
- changes in the personal income tax scale at the limit value of income in an amount over 100,000 euros per year,
- restructuring some non-refundable funds into favourable refundable funds (higher responsibility),
- revising and reducing all types of subsidies (economic, employment, environmental, agricultural etc.); non-radical abolishment, yet the retention of development subsidies.

### b/ The effective collection of duties and modern inspections

Objective: reducing the grey economy, improving the liquidity of companies in trouble, modern inspections.

1. Reprogramming the tax due for tax debtors with a determination of the interest rate and duration, but only under the condition that regular duties are being paid and under other conditions preventing abuse; at the same time, implementation of the measure against tax due chaining.
2. A combination of lump-sum taxation (where applicable) and real certified cash registers (direct connection between the Tax Administration of the Republic of Slovenia and VAT-registered businesses).
3. Transparency of inspection procedures following the example of Lithuania (actual information on the contents of inspections on inspection service web pages).
4. Reducing the number of inspection services aiming at the better coordination of the remaining services.

## 3. REFORMS

### a/ Public sector reform

Objective: optimisation on the basis of an in-depth comparative analysis with public sectors in the EU carried out by an independent external international performer.

1. Debureaucratisation: faster implementation of the Stop birokraciji (stop bureaucracy) programme with measurable indicators.

2. Revision of the collective agreement in the public sector with the aim of optimisation.
3. A higher quality system of hierarchical responsibility and motivation in the public sector
4. Better absorption of EU funds with the help of simpler and transparent tenders for companies.
5. The cessation of activities in the public sector that are not necessary and the transfer of activities from the public sector that can be more effectively carried out in the private sector.

### b/ Health care reform

Objective: optimisation on the basis of comparative analysis with other EU health care systems without additional financial inflows in the health care sector.

1. Strict separation of public and private health care: preventing the outflow of public funds from public health care and maintaining private health care as a healthy competition.
2. Redefining the basket of rights (adapting the scope and structure of rights from compulsory health insurance; removing unnecessary costs from the health care budget).
3. Reducing the amount of the contribution rate for currently the most burdened persons subject to the payment of contributions and shortening the payment period for sickness, which presents a burden for employers.
4. Optimisation and specialisation of the health care activity network.
5. Co-financing of preventive programmes in companies to maintain the health of their employees.

### c/ Labour market reform

Objective: a more flexible labour market creating more working positions.

1. Implementation of the principle each work counts - spreading the base on which contributions are paid. This results in an increase of income due to more collected contributions and reducing the burdens for the most burdened type of work, that is the regular employment relationship.
2. Flexibility: to enable increased employment flexibility to companies due to business fluctuations. For example: registering an employee the employer currently does not need at the Employment Service of Slovenia (without the termination of the employment contract), granting him/her the right to compensation and receiving 50% of the compensation from the Employment Service if the employment contract is consensually terminated.
3. Limitation of student work so that only secondary school and university students who meet criteria associated with performing their school obligations can carry it out.
4. Changes within the disability insurance system by the renovation of the quota system etc.

### d/ Pension scheme reform

Objective: rapid improvement of the ratio between the employed and retired persons.

1. Changing the system of pension insurance by changing the register into a system of integrated working positions and reducing the contribution rate.

2. Immediate start of preparation of a new pension scheme reform, clearly determined by an international comparison of demographic ratios between employed and retired persons.

#### **e/ Public procurement reform**

Objective: rational, expert public procurement with safety regulations against corruption risks.

1. Integration of the EU directive on public procurement into the Slovenian legal order in the first quarter of 2015.
2. Arbitrated solving of disputes.
3. The centralisation of public procurement and the implementation of investments with higher values (an agency including also specialised support offices for public procurements).
4. The reasonable execution of mutual public procurements with lower values.

*\*Detailed information can be found in the following documents: The CCIS Economic Agenda for the new Government of the Republic of Slovenia (material for public debate), Agenda 46+, AgendaMG and Kisik za gospodarstvo at [www.gzs.si](http://www.gzs.si).*