

OUTLOOK 2019

Evaluation of economic trends, the economic policy and managerial practices of enlightened leadership in Slovenia



OBSERVATORY OF MANAGERS' ASSOCIATION OF SLOVENIA FOR COMPETITIVENESS AND WELFARE

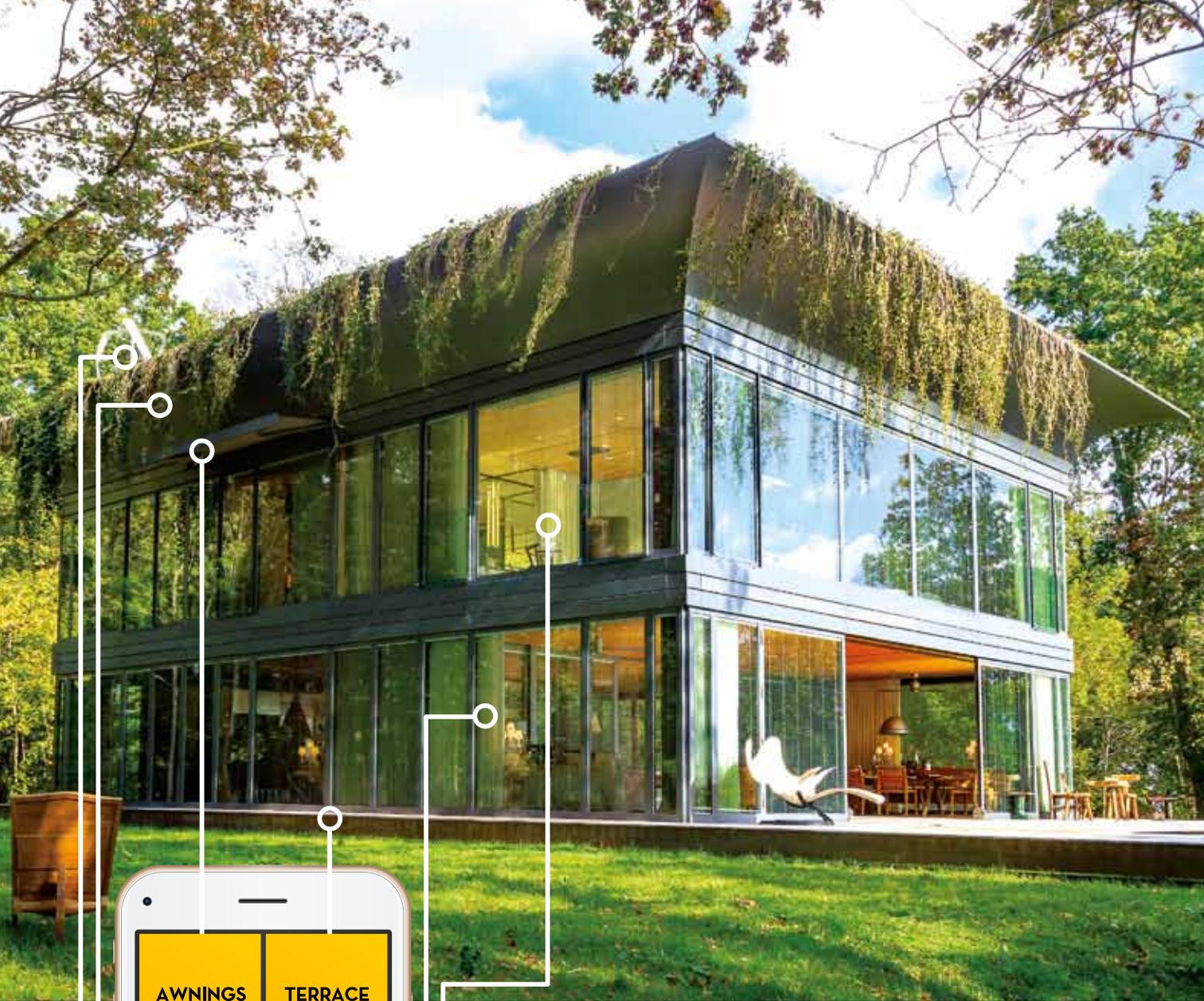
ALI ŽERDIN ENLIGHTENED LEADERSHIP: A HALF A STEP BACK, TWO STEPS FORWARD

DUŠAN MRAMOR LESSONS OF THE LOST DECADE WE MUST PASS ON TO FUTURE GENERATIONS

DUŠAN MRAMOR & JOŽE SAMBT RESOLVING THE AGING PROBLEM IN A SUSTAINABLE WAY

VERICA TRSTENJAK THE RULE OF LAW, PROPERTY AND COMPETITIVENESS

VELIMIR BOLE THE ECONOMY IN 2019



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OUTLOOK 2019



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Outlook is a project of the Managers' Association, which is the publisher of this annual professional publication.

Basic purposes of the project and publication:

To educate managers and decision-makers; to raise awareness of all concerning economic policy and development challenges faced by Slovenia in the EU context; to promote an active dialogue with experts, social partners and media concerning development issues in Slovenia and the EU in the broader international context.

The **Observatory ZM** is the Editorial Board of the publication. It consists of the leadership and the expert core of the Managers' Association, external experts and interested members of the Management Board and the Honorary Tribunal.

The founding members of the Observatory were Aleksander Zalaznik (President of the Managers' Association); Saša Mrak, MBA (Executive Director of the Managers' Association) as the Association's leadership; Prof. Dušan Mramor (Chairman); Jurij Giacomelli MSc (Editor-In-Chief of Outlook); Prof. Vera Trstenjak; Dr. Ali Žerdin; Veljko Bole MSc; Gabrijel Škof (President of the Management Board of the AS Group, the main partner of the publication); and Sergej Simoniti (President of the Management Board of SID – Prva kreditna Zavarovalnica – from 2019). In 2018, the team was joined by two more members, namely Prof. Jože Sambt and Tone Stanovnik (President of the Management Board, Špica, member of the Management Board of the Managers' Association).

The broader discussion within the Observatory includes representatives of the Management Board, the Supervisory Board and the Honorary Tribunal of the Managers' Association.

Project partners

AS Group, Riko, SID – Pva kreditna zavarovalnica and Interenergo are the project's long-term partners. Delo (www.delo.si) is the media partner and the organiser of the annual event that takes place to mark the publication of Outlook. Giacomelli media (Gm) is a project partner of the Managers' Association and the Pogled/Outlook project manager.

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A country can prosper only if its economy thrives



Aleksander Zalaznik

President of the Managers' Association

In recent years, the Managers' Association has been dealing with the questions of how much influence Slovenian management has on Slovenia's successful development, how we can improve the life of Slovenians, and, last but not least, how managers in Slovenia can boost their influence and reputation.

As managers we understand that we do our work well, as this is supported by the results we achieve, but we are also aware that we need to significantly improve in the future as both managers and as members of society as a whole, so that Slovenia can become a state with a high standard of living for most people. In the past few years, we have often spoken about taxes, bureaucracy and labour legislation. From a broader point of view, the demands expressed may seem narrow-minded to many, but in their own way they have implied that we need to make changes in the economic sphere in order to move Slovenia's development into a higher gear. I am convinced that most citizens of Slovenia want to live in a state with high standards and suitable healthcare and education, and to have wages comparable to those in successful European states, together with appropriate pensions. But I believe that as a society we are not sufficiently aware that there is only one path to an economically prosperous country, and it runs through a thriving, growing and profitable economy. This is empirically illustrated by Dušan Mramor and Jože Sambt in the feature story.

Within the Observatory and the Outlook project, with this publication as its main element, the Managers' Association wants to provoke reflection and discussion on the changes in society necessary to facilitate the required economic growth in the next decade, and to encourage managers to continue to ambitiously develop the companies they run.



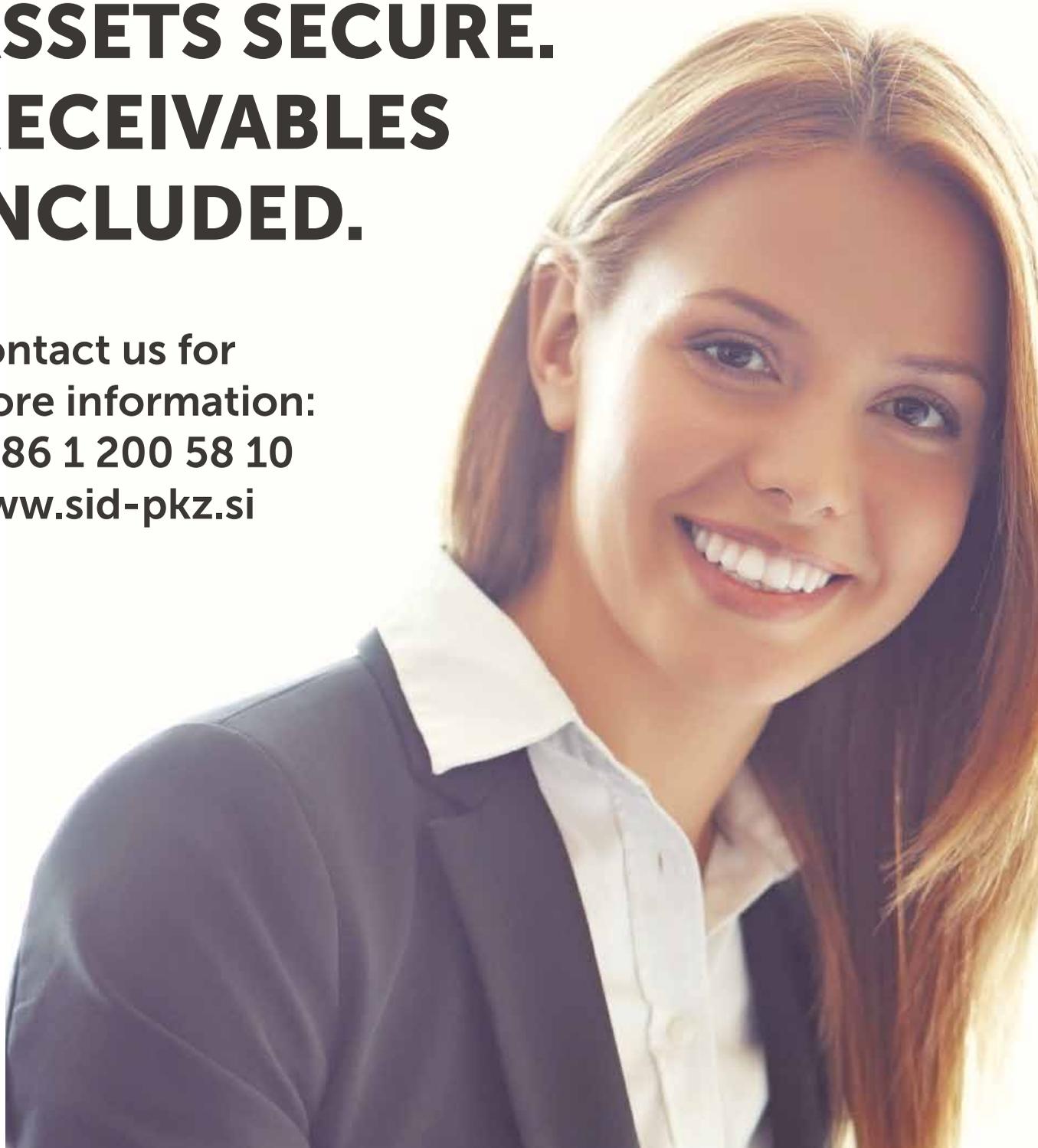
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Raising awareness of interdependence so we can all move forward



Saša Mrak

Executive Director of the Managers' Association

The 30th anniversary of the Managers' Association is coming up. We are approaching it in a situation where populism is more and more evident, and narrow interests lacking consideration for the broader context are too frequently represented. Therefore, on the verge of great global uncertainty and the cooling down of the economy, and faced with the question of how to ensure social welfare in the future, we wish to provide management and society with Outlook.

History teaches us that certain great shifts in economic and social development in the direction of social welfare are made when the main decision-makers understand the social situation and play an active role as a sophisticated opinion leaders with vision, and as competent partners both in the political arena and in relation to other stakeholders in society.

The manager's main job is to secure the viability of a company with high added value, productivity and

profitability, and to create jobs, but the role of the manager does not end there. Decision-makers have a broader responsibility towards society: ensuring the functioning of a social system that will bring social welfare in the long term.

If we want to become an innovation society and a state climbing the ladder of competitiveness, we need more openness, cooperation and connection. As an Association, we have pointed this out many times in recent years, and put cooperation at the forefront of our work. We want to progress in that direction with Outlook, building on three starting points.

Firstly, we provide an in-depth, independent and unaffected insight into enlightened management "from the outside", to better understand the concept of the welfare state from the perspective of our role in the here and now.

The second point is related to understanding economic policy and trends so that we can support the evaluation of the role of science, education, first-rate staff, human capital and demographic trends in productivity growth and social progress with strong arguments.

The third point brings an advantage to countries higher up the ladder of competitiveness than Slovenia: it is about the rule of law, which is also a reflection of a social situation in which respect for prescribed and moral rules is both a value and a responsibility.

We have not yet managed to achieve the level of cooperation and connection that would enable us to become an innovation society. An innovation society is one that promotes creativity, connects the business sector, science, education and culture, and is focused on humans. With Outlook, we wish to cultivate a responsible social dialogue and raise awareness of co-dependence so that we can all move forward.

Components of the same vision facing the test of time



Jurij Giacomelli

Editor-in-Chief of Outlook 2019

Jurij Giacomelli is the founder and director of Giacomelli media (Gm), a member of the Honorary Tribunal of the Managers' Association, and President of the Italian-Slovenian Forum. He has previously run several media and publishing companies, as well as companies involved in design. He also worked as a manager in insurance and banking. He holds a Master's degree in Economics.

Time

Time is the fourth dimension: one that people perceive, and can manage to a certain extent, but cannot really control. Time is ruthless, particularly in terms of issues related to society or civilisation, which face, over and over again about every 25 years, the test of generational renewal and related inter-generational connection, responsibility and solidarity.

In the twentieth century, over a span of one-and-a-half generations, Europe and much of the rest of the world became embroiled in two massively destructive wars. The price of twenty years of nationalist rage in the 1980s and 1990s in certain areas of the former Socialist Federal Republic of Yugoslavia is still being paid today by the generation born at that time. During that period, China became an indisputable global force, and the geopolitical balance of the world has changed completely. The 'American century' is being followed by the 'Asian century', globalisation is being replaced by the phenomenon of global migrations, while technological progress has been changing the rules of the game in politics, business, international trade and everyday relationships. Additionally, the fact that humans' excessive consumption and depletion of the Earth's resources is among the reasons for climate change and its potentially destructive consequences is beyond reasonable doubt. The recent global economic crisis, which in Slovenia lasted statistically from the final quarter of 2008 to the end of 2013, amplified the differences between EU Member States to the point where the Maastricht convergence roadmap agreed in

1992 became too tight for many to even remain in the Union. Meanwhile, Europe grew older, and Slovenia along with it. A fifth of the total population of the European Union is aged 65 or older, and this equally applies to Slovenia. In the largest member states, the ratio is even higher. The Old World has never been as old as it is today.

Looking back leads to a sense of recognition. The power of time itself is the strongest historical force. And yet, if we want to control ourselves as a society or even as a civilisation, we need the collective abilities addressed in this publication.

It is almost 30 years since the fall of the Berlin Wall and the creation of the Slovenian state. With 2019 on the horizon, it seems that such a period may be long enough for the recent bitter European experience of war's destruction and ideological and political divisions to fade away into collective oblivion. Slovenia will mark the 15th anniversary of its EU membership in 2019, and the 12th anniversary of the nation becoming part of the Eurozone is also coming up. This means that Slovenia has been living in a relatively stable political and economic institutional framework for a long time. However, the most severe global economic crisis in modern history resulted in a total of five years of economic contraction and stagnation, before, finally, a return to economic growth, recovery and a strong collective experience.

In 2011, in the middle of the economic crisis, the Managers' Association undertook, through its operations, to contribute to Slovenia making a developmental breakthrough, aiming to be ranked among the 15 most developed EU member states by 2020 and to be one of the countries with the best quality of life. However, it was not possible at that time to deliver the final assessment, i.e. that mistakes in the economic management of the state before the crisis and while it was being tackled slowed down Slovenia's developmental momentum for almost a decade. We

If you add the years needed to catch up, Slovenia lost 20. It is a whole generation. Think about your children.

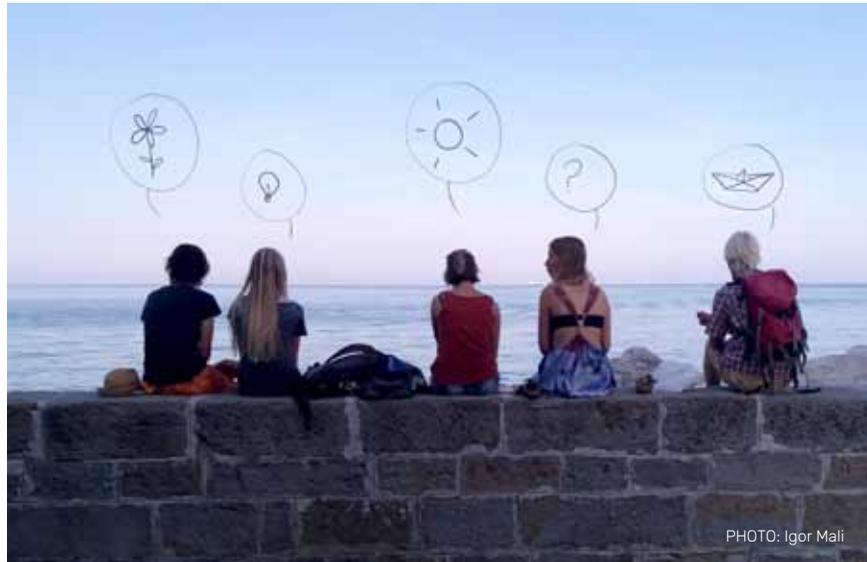


PHOTO: Igor Mali

needed that much time for the state to return to the pre-crisis level of gross domestic product. However, for the consequences of the crisis to be fully measured in terms of time, we must also add the years required to catch up in development, as during that period higher economic growth will be needed to replace the lost share of GDP.

“If you add the years needed to catch up, Slovenia lost 20. It is a whole generation. Think about your children!” a European Commission senior official stated dramatically in the spring of 2014, at a seminar on the broader management of the recently recapitalised NLB Financial Services Group. He explained the roots of the Slovenian crisis, whose negative financial impact finally gathered in the banking system, in comparison with other Central European states.

In 2017 Slovenia ranked 15th, with the Czech Republic, Greece and Portugal, among EU member states by

GDP per capita, but it has not made any progress in terms of the real convergence. The country achieved a percentage of the average GDP per capita in 28 member states measured in purchasing power, which is lower than at the time when it joined the Union.

Challenges of the economic policy in Slovenia

If a look back makes us realise the unstoppable power of time, here is the **Outlook**.



PHOTO: Igor Mali

First and foremost, the creators of Outlook dedicate it to the members of the Managers' Association. At the same time, we use it to address all decision makers in Slovenia and related economic and social spaces. Last but not least, it is offered to all critical members of the public in Slovenia and Europe, with the aim of heightening their awareness of co-dependence in social progress, and of pointing out the need for a broader concept of responsibility for all stakeholders in society. Such concepts should trigger frequent cooperation between stakeholders, along with an in-depth understanding of the common challenges and levers to co-dependence to be found along the way. This will be enabled by a dialogue which builds confidence and fosters coordination for joint action.

This summary of a positive spiral of social relationships requires two factors explicitly addressed in Outlook 2019: the competence of managers, and the culture of all involved in the social dialogue, which reflects a strong awareness of the co-dependence of all participants for living in a better way. In the commitment to both of these comes the basic purpose for which this publication is issued.

The mission of the Managers' Association is to train its members to do their jobs as managers as well as possible and to tend to their professional development. But even before that, the Association's mission is focused

on its ethical operation. This Association is one of the few professional groups in Slovenia that managed to thoroughly study and evaluate the poor practices of its own members during the economic crisis and to face the consequences. Today, the Association is pursuing its legitimate ambition to co-create the economic environment in Slovenia, and is focused on a common goal – the improvement of our nation's economic competitiveness. For the purposes of the Outlook project, the Managers' Association is supported by the **Observatory**, a group of external experts and academics, together with experienced managers from among its own members, which is chaired by Dušan Mramor and acts as the editorial board of this publication.

The Outlook project runs in cooperation with various partners – the main one being the **Delo** publishing house – and supporters of the project. Our desire is to set up even more partnerships so that the Association can further expand its mission in the broader economic space, and to use Outlook to make Slovenian management part of a responsible social dialogue.

We have to start somewhere. Three basic challenges are highlighted in the first issue of Outlook. In articles written by members of the Observatory of the Managers' Association, scenarios of future economic development are defined, with the authors Dušan Mramor and Jože Sambt focusing particularly on **demographic** projections. Vera Trstenjak

links the meaning of the rule of law as the basis of competitiveness and the development of prosperity. Ali Žerdin points out the **role of enlightened management** in the strengthening and long-term preservation of social welfare as a distinctive advantage of societies that use the time most successfully during their most productive periods. In his article, Velimir Bole provides his view of the economy in 2019, and confronts readers with the imminent economic situation at the time the publication is issued.

Another part of the Slovenian development challenge is the **good practices of Slovenian management** as systematically monitored by the Managers' Association, which also transfers knowledge and experience based on these practices and raises public awareness of them. This **enables us to reinforce the mission of the Managers' Association to provide national competitiveness and, for this purpose, supply the basis for all members and interested parties to connect as much as possible on the way to this common goal.**

Various challenges on the way to a transparent and innovative society

The challenges of the economic policy are diverse.

For this reason, the Observatory and the Outlook project, in cooperation with their partners, will strive to constantly monitor numerous indicators keeping an eye on economic developments, and to use various scenarios to understand alternatives. We are aware of the fact that measures of economic policy at different times are substantiated by various indicators of economic and social development. However, our starting point is the premise of a development challenge that takes into account the international geopolitical and economic context, and which is based on the demographic projections that the population of Slovenia will not increase and will continue to age. As a result, the average age and the numbers of dependent people will continue to grow.

In this situation, the development challenge is how to ensure the further welfare of residents so that they are able to care adequately for the growing number of

We need a focus on an economic policy leading to increased productivity of all factors, and the creation of a favourable business environment and critical abilities for a successful transition to an innovation society.

elderly people, improve opportunities for young people, and provide demographic and social stability and the mobility and distribution of the population, as well as competitive advantages consolidated in institutions and the abilities of the population. This will preserve the political stability that enables a society to focus on long-term development and sustainability.

In order to achieve this we need a focus on an economic policy leading to increased productivity of all factors, and the creation of a favourable business environment and critical abilities for a successful **transition to an innovation society**. In its broadest sense, the economic policy may foster increased productivity under the above conditions, determined by the basis of projections concerning the population, the global economic situation, and the initial sectoral structure and productivity level. In addition, it must take into account external influences such as the geopolitical situation and restrictions determined by the absolute limitations of the planet's resources.

Good economic results combined with favourable conditions for further development are often deemed **the competitiveness of the state**. In this context, we can say that Outlook is **a contribution to the intelligent management of the state**; the kind of management that instils confidence in the participants on the positive spiral of social relationships with more transparency and without deception, and which, focused on the same vision, can stand the test of time.

ENLIGHTENED LEADERSHIP

A half a step back, two steps forward



Ali Žerdin

Editor of the Saturday supplement at Delo

Ali Žerdin was already involved as a journalist and editor while still a sociology student at the Faculty of Social Sciences, collaborating with the Tribuna newspaper, Radio Študent, the Mladina weekly magazine and other media. He worked at Dnevnik for several years, including as its Editor-in-Chief. He has a PhD in Sociology and is the author of a book entitled Ujetniki omrežij (Prisoners of Networks), among other literary work.

In English, the definition of the word ‘gambit’ has come to mean any ploy or strategy, but in Slovenian the word stays closer to its origins. According to a Slovenian dictionary, a gambit is an opening in chess in which the player sacrifices a piece, usually a pawn, to gain an advantage. Can this definition of gambit be applied to business? Can making a relatively minor sacrifice, such as the dominant financial position of a company or its owner, create a positional advantage in business? Let’s consider this for a moment.

If a company is defined as a legal entity established to generate profits, and its management has the responsibility of overseeing the company’s business and facilitating its corporate mission, this tends to suggest that matters in the business sector are more or less clear. Managers may choose to fulfil their responsibilities by implementing such measures as more efficient organisation, clever and innovative sales methods, lower costs, lower wages or other cost saving exercises.

A company's purpose and its broader social integration

More ambitious managers realise that companies are broadly socially integrated. In many ways, the implementation of the company’s purpose of generating profits depends on the business environment. If an ambitious manager wants to do everything possible to implement the basic corporate mission, they will also try to find a way to influence their business environment. Perhaps they will brood about excessive taxes, unrealistic rules on environmental protection, the public sector that sits like a parasite on the back



PHOTO: Voranc Vogel

of the business sector, an inefficient state, corrupt politicians and parties that are indifferent to the business sector, or spendthrift municipal officials. Maybe they will complain about excessive trade union freedoms, or they will try to find a way to transfer some political campaign funds to a political party that is sympathetic to the interests of the business sector. They might buy lobbyist services, or attempt to influence changes in the macroeconomic environment through economic associations.

Throughout the history of capitalism, we can find examples that seem – if the generation of profits is the sole purpose of economic activity – paradoxical. At the end of the 19th century, certain sections of the corporate elite behaved in a manner that seems, at first glance, illogical. However, the initiative for this seemingly illogical behaviour came from an unexpected source.

The National Civic Federation: a historical case of social dialogue in the USA

Ralph Easley started off as a teacher, before moving on to become a post office manager, a journalist and an editor. In 1891, he returned from Kansas to Chicago and became one of the leading Republicans in the state of Illinois, while still being involved with the editorial business. In 1893, he established the Chicago Civic Federation, an organisation that enables dialogue between industrialists and trade unions.

Chicago has a prominent position in the history of the labour movement. In 1886, a mere seven years before the Chicago Civic Federation was established, the city was shaken by labour demonstrations that ended with a bomb blast and a bloody confrontation between the protesters and the police. It is not insignificant that the key initiators

of the labour demonstrations were journalists and publishers of newspapers intended for the working classes.

The establishment of the Chicago Civic Federation may be understood as the first attempt to calm mounting

Jane Addams, the founder of the social work concept and a campaigner for women's right to vote, while the first president of the NCF was the Republican Senator **Mark Hanna**, a member of a prominent family of merchants and one of the initiators of the construction of the Panama Canal.



Ralph Montgomery Easley (1856-1939) was an American journalist and a political activist. He was the founder and director of the American economic organisation NCF (The National Civic Federation). Source: Wikipedia.

tensions between industrialists and workers, while also facilitating the mechanisms of social dialogue. In 1900, Ralph Easley moved from Chicago to New York, where he continued to pursue his mission as mediator between trade unions and corporate representatives. The National Civic Federation, a nationwide dialogue forum, was thus composed of prominent trade union leaders, high-profile investors, industrialists, financiers whose career path took them to leading functions in the state administration, and academics. Among the founders of the NCF, we should particularly mention

Regardless of the fact that the NCF members came from various poles of the class struggle, to use a somewhat archaic term, the organisation changed the nature of American capitalism. **Businessmen who were part of more than one corporation and who functioned on several boards sat down at the same table.** On the one hand, the NCF cooperated with businessmen with exceptional social power. On the other hand, they were members of the corporate elite, who had a broader view due to their functions on numerous boards. They understood not only the interests of one company or one industry, but could see the bigger picture from a more in-depth historical perspective.

An enlightened corporate elite

An American economic sociologist and researcher, **Mark Mizruchi**, sees the establishment of the NCF as the **beginning of an enlightened corporate elite.** During a discussion at a forum that connected representatives of the corporate elite, the organised working class and academics who were trying to understand society, the corporate elite still pursued its own interests – but it did so in an enlightened way. To put this in chess terms, the most thoughtful contingent of the American corporate elite had become willing to sacrifice a pawn to gain a positional advantage on the chessboard.

What is enlightened self-interest about? If the manager's task is to administer a company to generate the maximum possible profit, a manager with a broader view will also understand that the company will not survive in the long term if there are no people to buy

its manufactured goods. This means that workers must earn enough not only to survive, but also to have enough discretionary income to spend on various manufactured goods. The enlightened corporate elite understand that great social differences lead to an escalation in social conflicts, which will sooner or later affect the vital interests of capital.

However, this is not just a matter of modern production needing a consumer. Modern production needs high-quality public sector services and healthy, well-educated and sophisticated employees. It needs security and a political class that is able to balance the complexity of society; one that is able to regulate social conflicts and open the door to previously unexploited markets.

Enlightened members of the corporate elite have not only given humanity powerful banks, industrial corporations, oil empires and railways, but also spiritual shelter and cultural wealth. The House of **Medici** provided people with Renaissance art as well as currency exchange offices and banks. The **Rockefeller** dynasty sponsored not only oil corporations and modern banks, but also the Museum of Modern Art, a global centre of modern art. Besides being a banker and a member of 22 boards in the financial, steel and transport industries, **George F. Baker** also provided the initial funding for the establishment of the Harvard Business School, and donated funds to Cornell University to set up a chemical laboratory. He was a member of the boards of corporations and served on the board of the Metropolitan Museum of Art.

Development of a welfare state brings stability to the social system

The entire managerial community will not adopt an enlightened position, of course, but it is good for society as a whole if there is a core of managers with an enlightened corporate philosophy which takes into account the broadest possible picture and understands the historical aspects. The short-term interests of a company are not necessarily in line with the long-term interests of the business sector as a whole. If a gambit is used to gain a positional advantage, the question arises

Can making a relatively minor sacrifice, such as the dominant financial position of a company or its owner, create a positional advantage in business?

of what a positional advantage actually is. During an economic crisis, a positional advantage is the mere fact that the core of the capitalist system remains intact.

Mizruchi states that the American New Deal was well established because there were cores of the American corporate elite who understood the long-term interests of this political and economic programme and its distinct social elements. Important sections of the business world rejected the New Deal, but at the same time, President **Franklin D. Roosevelt** attracted the enlightened to his side by establishing the Business Advisory Council, an advisory body of the state administration, whose members were prominent in the business community.

At first sight, the introduction of the welfare state concept harmed the interests of the business sector, as it led to higher taxes. However, in the long term, this concept brought three decades of unanticipated development to the whole of Western civilisation.

Mizruchi states that in 1983, when the budget deficit brought on by the **Reagan** administration was at a record high, the Business Roundtable, a firm advocate of the interests of capital, adopted a recommendation for the government to raise taxes to reduce the budget deficit. But the ability of the business sector to look beyond short-term interests is far from being self-evident. Two decades later, the same organisation again found that the record budget deficit since September 11, 2001, was a real threat. At the same time, there were no enlightened leaders in the business community at the beginning of the 21st century who could translate the



established threat of a budget deficit into an initiative to raise taxes. To put it into chess language once again: the game was attempted by people who did not want to make a small sacrifice to gain a positional advantage.

A test for the corporate elite in Slovenia: it's about good manners

Can we take any morals from this that would be useful for the places between the Alps and the Kolpa River, the Pannonian Plains and the Adriatic Sea? Are there any occasions when it is worth making a small sacrifice to ensure a greater advantage? Let's try a short thought experiment. In 1983, due to a budget deficit, the American business community called on the president to raise taxes. Could the Slovenian business community perceive any circumstances in which it would act in a similar way? Or, to be more specific, are there any circumstances in which the Slovenian business community would agree to taxes remaining the same?

The question is hypothetical, but the answer depends on the individual's personal preferences. This is not a call for today's rich Slovenians to act like **Žiga Zois**, an industrialist in the iron industry and a patron of the Slovenian Enlightenment, or the steel magnate **Andrew Carnegie**, who spent his fortune on establishing over 2,500 libraries in the USA, Great Britain, Ireland, Canada and elsewhere, and also gave part of his fortune to the Belgrade University Library. It is about what positional advantage Slovenia must gain on the chessboard of the global economy. Or, to put the question less ambitiously, what positional deficit must Slovenia overcome for its development to be sustainable in the long term and, along with sustainable development, for it not to lag behind the most developed EU Member States?

Let me repeat – the answer to the hypothetical question depends on an individual's personal preferences. But if I were to run for the title of enlightened manager – and I am neither a manager nor an owner – **I would think about manners**. The amount of barbarism in the world is on the rise. Barbarism kills civilisation in the medium term, while good manners make civilisation

possible. The type of civilisation we have in the Western world arises from the means of production we call, for want of a better term, capitalism. **At a time of general barbarism, the culture of a nation is its comparative advantage.**

Culture is a value in itself. But it also stimulates creativity and makes social dialogue easier. A higher level of culture changes the context, part of which is the business sector. This affects both employees and employers; a higher level of employee culture brings increased creativity and innovation, while a higher level of employer culture brings a broader and more strategic contemplation of the future, a contemplation that is not bound by quarterly results but by the long-term prospects of society as a whole, not merely of one company.

If enhancing culture turns out to be too ambitious a goal, the goal should be defined in a more focused way. The Slovenian educational structure in the context of the OECD Member States is not bad. However, certain data sources indicate that Slovenia lags behind when it comes to the proportion of GDP allocated to higher education and science. The fields of science and higher education may contribute to a breakthrough in development in two ways. Firstly, the organisation of these sectors is not optimal, so ambitions should be higher. Secondly, a breakthrough in development would be more substantial with greater investment in science and higher education.

A gambit – an opening in which a minor piece is sacrificed – only makes sense if three major pieces, the enlightened part of the business sector, science and education, and culture, are synchronised, and if these three pieces recognise that they are actually allies.

Their common denominator is more deeply seated than it initially appears. The excellence of all three is not recognised solely on the basis of their hard work, but is only possible through creativity and innovation. The task of enlightened management is to participate in the shaping of a coalition of the creative and the innovative. In this way, a small, short-term sacrifice leads to an important positional advantage.



SLOVENIA'S ECONOMIC POLICY 2000-2018

Lessons of the lost decade we must pass on to future generations



Dušan Mramor

President of the Observatory of the Managers' Association, and full Professor of Finance at the Faculty of Economics of the University of Ljubljana

Dušan Mramor was Minister of Finance of two governments of the Republic of Slovenia; in the government of Anton Rop (2002-2004), during which Slovenia joined the EU and the ERM2, and that of Miro Cerar (2014-2016). The Banker magazine of the Financial Times Group named him Finance Minister of the Year 2016 for his contribution to Slovenia's finding a way out of the great economic crisis. He was the first President of the Council of the Securities Market Agency and has been a member of the council of the National Bank of Slovenia, a Vice-president of the Strategic Economic Council of the Slovenian government, and an adviser to the President of the Republic and to other expert academic and advisory panels.

He also served as a World Bank consultant and in the supervisory bodies of several companies and banks.

Mramor was the Dean of the Faculty of Economics (2007-2013) and Chair of the Board of the University of Ljubljana, as well as a visiting professor and member of staff at several universities in the EU and the USA (for example, at Indiana University). He has been an accredited senior appraiser with the American Society of Appraisers since 1995. Mramor was also a Vice-president of the European Finance Association and the European Institute for Advanced Studies in Management.

In his article, Ali Žerdin used examples of countries with the most developed market economies to show how decisive the definition of a manager's mission and their pursuit of that mission can be. The greatest shift in economic and social development towards a welfare society was achieved when the core management came to understand the social situation and played an active role as highly sophisticated visionary, opinion leader and competent partner in the political arena, while placing an emphasis on economic policy and being responsible to other stakeholders in society.

In addition to the primary responsibility of managers to be highly-qualified leaders of companies and institutions, the goal of all this is to increase value. In short, the core management participates actively in society in an "enlightened" way.

In the article below, Jože Sambt and I find that Slovenia urgently needs a dramatic shift in development if it wants to retain favourable living conditions and social relationships that are sustainable in the long term. The



Managers' Association has been expanding its activity in society towards "enlightened management" in order to contribute to a breakthrough in this development. This is a complex project that on the one hand is based on the position management has in society and the resources available to it, while on the other hand it struggles with a lack of the experience and knowledge necessary to tackle the task successfully. This publication and related activities are part of the initiative intended to address the issue.

A prerequisite for enlightened management to carry out its responsibilities in society effectively is a good knowledge of economic analysis, enabling both an understanding of past economic developments and the ability to forecast those of the future. To this end, in the next article I analyse the challenges in the economic situation faced by individual governments in Slovenia between 2000 and 2018, the logic of the defined economic policies during certain periods, and the implementation and outcomes of the measures envisaged. I used the latest available annual data, presented in diagrammatic form in a special section of this publication.

In comparison with the other economies in transition that joined the EU in 2004, Slovenia has achieved by far the worst results in the entire period, since its real GDP per capita has grown by a mere 40%, while in Slovakia it increased by almost 100%. At certain times within these 18 years, however, Slovenia's performance far surpassed that of other countries. For this reason, it is an excellent case study (natural scientists would call it a 'laboratory') for obtaining crucial knowledge of the economy in a swift, interesting, relevant and effortless way.

The period between 2000 and 2018 may be divided into sub-periods related to the terms of individual governments; those of of Janez Drnovšek and Tone Rop (2000-2004), Janez Janša (2004-2008), Borut Pahor (2008-2012), the second government of Janez Janša (2012-2013), and the governments of Alenka Bratušek (2013-2014) and Miro Cerar (2014-2018).

What can we learn from past successes and failures? Effective macroeconomic policy must account for the economic situation both at home and around the world. Current and potential challenges must be defined in detail; their causes must be analysed and measures to



A prerequisite for enlightened management to carry out its responsibilities in society effectively is a good knowledge of economic analysis, enabling both an understanding of past economic developments and the ability to forecast those of the future.

address them must be proposed. To this end, a great deal of expertise is required, as every period brings its own challenges and calls for appropriate measures. However, the implementation of these measures poses a special problem, which has often been the most serious weakness of Slovenian macroeconomic policy and also a consequence of a non-optimal socio-economic system. This is addressed in more detail in the article by Jože Sambt and me on the economic challenges ahead, especially with an ageing population.

Between 2004 and 2013, Slovenia followed a completely inadequate economic policy, which resulted in fewer options for emergency government borrowing (greatly reducing the ‘fiscal space’) than we had at the beginning of the crisis, and a significantly lower GDP than might have been the case had things been handled differently. The crucial consequence of these mistakes for development was less budgetary funding available to cover a rapidly increasing expenditure related to the ageing population.

Our society will be more stable and advanced only if economic policy measures and the modernisation of the economic system actively address these serious development challenges. However, managers should play a more important role. Along with the harmonious development of society, this is the only way for the Slovenian economy and all stakeholders, including owners, to achieve the desired goals. Understanding the broader social framework, an ability to take part in social dialogue and raise awareness of long-term, systemic sustainability are an inevitable part of social responsibility for decision-makers, whose goal should be the long-term sustainability of the social system. For this reason, these two factors are inherent in the primary mission of managers.



Strike of the public sector: employees in education, health and other branches gathered in Prešernova street in front of the Government building. 23rd January 2013 Ljubljana, Slovenia

Overview of economic policy 2000–2018 by the terms of six Slovenian governments

Dušan Mramor

2000 to 2004: Janez Drnovšek and Tone Rop

Between 2000 and 2004, Slovenia was preparing to join the EU and the monetary union. The main challenges in achieving the Maastricht criteria for adopting the euro were the high inflation rate, high interest rates and the general government deficit. Factors that affect an increase in aggregate demand, such as better credit rating and easier access to the global financial markets, among other things, additionally hindered the achievement of the required criteria. The main principle of the economic policy was “macroeconomic stability for sustainable economic growth”. Slovenia was the first of the new member states to meet the conditions for joining the “waiting room for the euro” (ERM2) with its harmonised monetary and fiscal counter-cyclical policies, meaning a restrained and innovative economic policy which successfully tackled the problem of the high inflation rate. The government and the Bank of Slovenia insisted that partial balance could not be achieved at the expense of the partial imbalance elsewhere, despite fierce opposition from international institutions, certain experts and part of the business sector. For this reason the exchange rate was not fixed. The results were extraordinary. For example, Slovenia’s economic growth in 2004 was double that of the Eurozone and amounted to 4.4%, and unemployment was a third lower. Consequently, the state met the Maastricht criteria with a general government deficit and public debt at approximately half that of the EU.

2004 to 2008: Janez Janša

During this period, the economies of western countries were strongly overheated, and the Slovenian economy even more so, as the housing scheme was in its final stage and Slovenia was further opened to the global financial market. This was the result of the successful accession of Slovenia to the EU, which brought about the harmonisation of the legal system and the privatisation process, and the successful adoption of the euro. Because of this situation, the government dropped the stability principle and conducted a completely inappropriate and distinctly pro-cyclical economic policy, additionally overheating the economy with popular measures such as an increase in public expenditure on costs such as wages, which grew in the public sector by 17% in two years, and reducing taxes by 2.5% of GDP.

The government’s direction caused high corporate borrowing abroad. Slovenia’s gross debt to foreign countries as a share of GDP almost doubled in this four-year period, from 55% to 105%. In 2005 there was a large increase in the structural general government deficit. The nominal growth of labour costs per unit in Slovenia was up to four times higher than in the EU, and inflation skyrocketed. As a result, the competitiveness and financial solvency of Slovenia speedily began to decline. High economic growth, low unemployment and low government debt as a share of GDP were stimulated by “fiscal incentives”, meaning excessive public expenditure and low income, and high

corporate borrowing, which had to be taken over by the state during the crisis.

The GDP growth assessment without major “fiscal incentives” is shown in Figure 1, where the impact of excessive corporate borrowing on growth has not been excluded and is shown in Figure 1 as an additional fall in GDP in 2009 and beyond. If it had been excluded, this period would not have been even moderately successful. Financial weakness resulting from high borrowing abroad and reduced competitiveness substantially contributed to the disastrous economic results in the full year of crisis in Slovenia in 2009 and later.

2008 to 2012: Borut Pahor

When the Pahor administration took office in 2008, the fall of Lehman Brothers in the USA triggered the global financial crisis. Export demand drastically declined, over-indebted companies became illiquid, and the banks’ non-performing loans grew. Foreign loans which fell due in this period with maturity shorter than the maturity provided to the business sector, cast doubt on the solvency of the banking system, increasing the threat of deposit outflow. A swift, strong and correct counter-cyclical response by the operational government and coalition was required, including suitable structural reforms.

However, the government did not follow through with certain crucial unpopular measures, since the coalition and the government were unable to agree due to differences of opinion. On the other hand, agreements on popular measures, for example against tycoons, were reached, making the situation in the economy worse. The options for companies to obtain loans were further impaired. By targeting individuals in tycoon takeovers, the measures led to the destruction of whole companies.

Disagreements between key institutions, such as the Ministry of Finance and the Bank of Slovenia, resulted in, for example, bank recapitalisation being initially too little and then too late; while most European countries finally bailed out their banks in 2009 and 2010, Slovenia did not do so until another four years had passed.

Prompt, appropriate recapitalisation would have freed up the credit market for it to begin functioning again, which would have provided companies with incomparably better business conditions. Swifter recapitalisation would also have required lower amounts, and we would have avoided the new European bail-in rules, which brought on the deletion of shares and subordinated bonds so that the state had to undertake to sell banks.

Convergence or Maastricht criteria

In order for an EU member state to become part of the Eurozone and adopt the euro, it must meet the convergence criteria. The criteria used to assess the achievement of economic and legal harmonisation between member states were laid down by the Maastricht Treaty in 1992, and are therefore often called the Maastricht Criteria:

- **Low inflation rate:** this must not exceed the average inflation rate of the three Member States that achieved the best results regarding price stability by more than 1.5 percentage points;
- **Low long-term interest rates:** these must not exceed the average interest rates of the three Member States with the lowest inflation rate by more than 2 percentage points;
- **Exchange-rate stability:** observation of normal fluctuation margins (+/- 15%) foreseen by the exchange rate mechanism ERM2 for at least two years without currency devaluation;
- **Sustainability of public finances:**
 - The general government deficit must not exceed 3% of GDP, except in temporary and exceptional cases near the reference value;
 - The public debt must not exceed 60% of GDP, unless the ratio is sufficiently decreasing and achieving the reference value at a satisfactory speed;
- **Compatibility of the national legislation of a Member State** with the Treaty establishing the European Community (TEC) and the Statute of the European Central Bank (ECB) and of the European System of Central Banks (ESCB).

In addition, the opposition used referendums to prevent pension and labour market reforms adopted by the National Assembly from being implemented. This was assisted by the Constitutional Court, which allowed a pension reform referendum.

The results were catastrophic: a huge fall in GDP; the doubling of unemployment, including youth unemployment increasing to 20.6%; a decrease in wages; an enormous increase in the long-term risks of sovereign insolvency due to an ageing population, and so on.

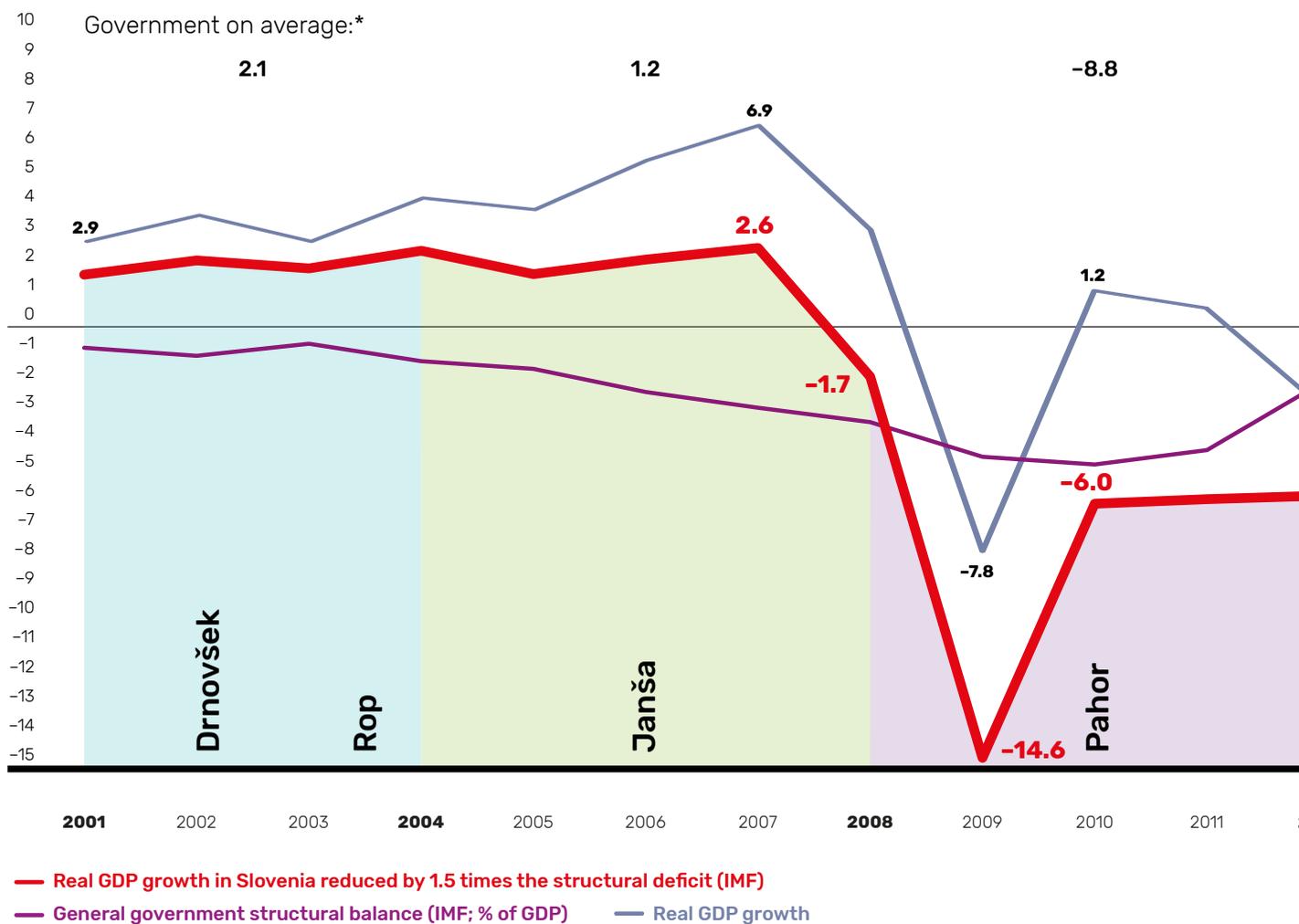
Due to the narrow interests of parties and populism, the inability of Slovenia as a state to suitably, decisively and uniformly respond to the challenge

of the global crisis resulted in the assessment by the financial markets that Slovenia's solvency was questionable. In the year following the resignation of this government, this concern almost prevented access to financial markets and fuelled belief that special funding by the European Commission (EC) and the IMF with the assistance of the ECB, i.e. the entry of the infamous "troika", was required.

2012 to 2013: Janez Janša

During this period, our export sector was dominated by a mild recession, or at least a very low level of growth, while Slovenia continued in a severe crisis because of

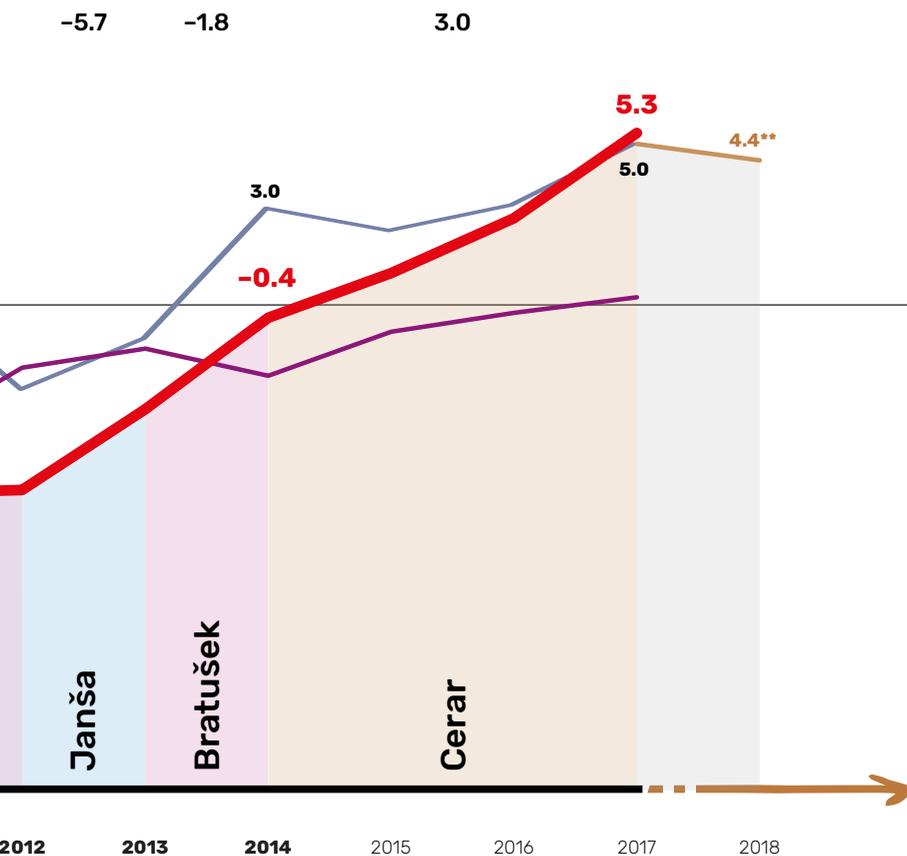
Figure 1: **Real GDP growth in Slovenia reduced by excessive fiscal incentives (in %)**



the doubts with regard to the soundness of the banks and the diminished trust of the financial markets, which prevented companies from accessing funding. Weak domestic demand compounded the problem. Only the export sector grew faster, on account of good conditions in the labour market in Slovenia and sources of corporate funding abroad.

Both the first and second Janša administrations acted in exactly the opposite way than they should have. In the first term, the government turned up the temperature on the already overheated economy, and in the second, it continued to hold back the crisis-beset economy with a completely inappropriate and distinctly pro-cyclical economic policy, strict austerity measures, lower

wages in the public sector and restricted employment, the freezing of pensions, and numerous other moves brought by the Fiscal Balance Act. Confidence in industry during this period was lower than the EU average, and statements by the Prime Minister and the Finance Minister concerning the urgency of the troika contributed further to a loss of trust among investors, an increase in interest rates and more expensive borrowing, and especially to the loss of opportunities for the normal financing of the state, key financial institutions and the economy. This period also saw the largest decline in consumer trust and, consequently, in consumption. Although the debt of Slovenian citizens is low, they respond swiftly to bad news and reduce their consumption. This further lowered much-needed domestic demand and GDP.



* Average growth in an individual term

** Forecast of economic trends 2018 (IMAD)

For all these reasons, economic activity decreased by an additional 3.8% (following a 7.8% reduction in 2009), and the number of unemployed people grew in one year by 28% to a record high of 10.1%. Youth unemployment also rose to a record 21.6%. The interest rate for government bonds went through the roof. The situation could not be improved even by the establishment of the Slovenian Sovereign Holding and the Bank Asset Management Company or by the final adoption of slightly curtailed pension and labour market reforms, which were during the term of the previous government blocked by the ruling coalition.

2013 to 2014: Alenka Bratušek

This government and the coalition took the reins at a very difficult time. Tough situations persisted in the countries with which our economic cooperation is strongest, so Slovenia was in a grave condition and at risk of the involvement of the troika. The export sector, which continued to grow rapidly with the same

advantages as in the previous period, was a silver lining. If we had accepted international assistance, the export sector would also have been affected.

It was crucial to regain the trust of the financial markets and the EC with serious structural reforms, and prevent the need for international assistance, as the conditions imposed would also be an instrument for the fulfilment of various interests to takeover at low prices the struggling strategic state-owned companies. In addition, the crisis required that domestic demand be increased in a counter-cyclical manner, or at least that it should not decline any further.

The government managed to implement the required structural reforms. They amended the Constitution with regard to referendums and the fiscal rule, recapitalised two largest banks, NLB and Nova KBM, established the Bank Asset Management Company (BAMC), and accelerated the restructuring of companies on the basis of amended insolvency legislation. By borrowing in US dollars, the government managed to ensure access to funding, which allowed Slovenia to steer clear of the troika and almost certainly avoided the need for extensive austerity measures. Such measures were planned by the government, but not implemented. We avoided an excessive general government deficit by raising VAT, which was the correct way to proceed. Empirical research shows that, in times of crisis, damage incurred by reducing public expenditure is greater than damage incurred by raising taxes. In addition, the government managed to accelerate the drawing of European funds, which boosted domestic demand without having a significant impact on the general government balance.

This provoked an economic upturn in the third quarter of 2013, with GDP growth of 1.8% (annually), which continued into 2014.

2014 to 2018: Miro Cerar

The global economic situation and that of Slovenia's most important trading partners was similar to the situation faced by the previous government at the beginning of the term of the new government, but began to improve as the

term drew to a close. Despite the previous government's programme, the economic climate in Slovenia was still very negative, and the level of political uncertainty was considerable. The general government deficit was enormous, amounting to 5.5% of GDP, and indebtedness neared 80% of GDP. It reached 82.6% at its peak in 2015 and is expected to be 70.3% of GDP at the end of 2018. Domestic demand and bank lending continued to decrease, with companies fighting to stay afloat, while the confidence of the financial markets in Slovenia was fragile, and the same was true of economic growth.

The pressure applied by the European Commission and investors to introduce austerity measures and reduce the general government expenditure and deficit continued. However, the government assessed that such an economic policy would be pro-cyclical, since domestic demand was too low for the non-export sector to grow. By saving, we would have achieved the exact opposite of what was required, as the deficit-to-GDP ratio would have increased due to lower GDP growth.

To that end, the Government decided on a counter-cyclical economic policy with the "growth for stability" principle, and implemented it despite the opposite requirements. Fiscal consolidation rapidly continued in this way without any expenditure reduction but with high economic growth.

The economic policy of this government was defined in four points. The first point referred to fiscal incentives, which stimulated the drawing of all remaining EU funds from the previous financial perspective, and fostered the principle of increasing general government expenditure, though at a slower pace than revenue. The second point foresaw an increase in domestic private demand, particularly by building the confidence of consumers and the business sector in the nation's ability to overcome the crisis. Measures towards this end included a social agreement concluded with trade unions and employers in 2015, wage agreements that secured higher wages before the festive season, and pension adjustment that contributed to boosting the trust of consumers. To gain the trust of the business sector, a complex set of changes in the business environment, which is outlined below, was carried out.



PHOTO: Matej Družnik

The third point foresaw greater efficiency of public investments, but was only partially implemented. The fourth point referred to an extensive set of structural measures. The Government managed to successfully complete the bank recapitalisation, restructure numerous companies in difficulty, improve the efficiency of state-owned companies, reduce administrative burdens (with, for example, the adopted Construction Act and the Tax Procedure Act), enhance the legal system, carry out tax restructuring to a limited extent, and implement initiatives for foreign and domestic investments, among other things.

Contrary to the claims of the European Commission, some international financial institutions and investors, and certain domestic experts, this economic policy

delivered positive results very swiftly. In 2015, Slovenia managed to reduce the general government deficit to 2.9% of GDP. In 2017, GDP growth was far above average, reaching 5%, irrespective of the poor drawing of EU funds in the new financial perspective; general and youth unemployment came close to the 2007 level, when the economy was overheated; consumer confidence at the end of 2017 was higher than in 2008; interest rates on state bonds fell below the average of the Eurozone last year; Slovenia's gross debt to foreign countries dropped from 124% to 100% of GDP between 2014 and the end of 2017; and corporate borrowing stood at two thirds of the EU average. Slovenia's budget is balanced, while other EU Member States are still running a deficit. The European GDP per capita rebounded to 85%, after hitting bottom in 2013 with 81%.

SLOVENIA SAILING INTO “BLUE OCEAN”

Resolving the aging problem in a sustainable way



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In this year's Outlook, in pursuit of the aim for managers to significantly expand their mission in the spirit of enlightened management, we examine two of Slovenia's most important challenges: the rapidly ageing population and the legal system. In this article, we attempt to show an example of the challenges posed by an ageing population relating to pensions (leaving healthcare and long-term care aside), and how a well-organised



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Jože Sambt's research areas include relations between generations, the impacts of demographic changes on the long-term sustainability of public finance, and labour economics. One of his many articles was published in the world's top scientific journal, "Science". He is the leader of the Slovenian team of an NTA international research project (www.ntaccounts.org).

management with a clear mission could prompt a highly professional/scientific analysis that would define future challenges and, on this basis, determine strategic goals and ways to attain them in association with society's most important stakeholders (politicians, social partners, higher education professionals and scientific researchers, cultural workers, and so on). The challenges of the legal system are addressed in the next article.



PHOTO: Tadej Regent

It is a well-known fact that the population of Slovenia is rapidly ageing, and that pensioners constitute an increasingly large share of the population – currently almost a third. At the same time, it is expected that the current pension funding system will not be sustainable in the future and it will be difficult to avoid a decrease in state pensions. We believe that such a development would give rise to great social dissatisfaction and instability, which would further aggravate the situation.

Long-term projections of pension spending (for example, as a percentage of GDP) are prepared on the basis of certain assumptions believed to be more or less given, or exogenous. Based on these calculations, we can estimate how unsustainable the future situation in Slovenia is likely to be. In contrast, we believe that only demographic projections as such may be taken as given, while we can actively influence other assumptions by specific measures and by a systemic mix of policies at the national and local

levels, to establish a sustainable pension system and a harmonious development. This naturally means that we understand “structural reforms” not as reducing the level and range of pensions, as is usually understood, but as all the required changes that will initially utilise our unexploited resources to increase GDP, and then generate higher growth levels by increasing the efficiency of the exploitation of these resources. Only at the end would we resort to pension adjustment measures, if still required.

We further illustrate the problem the ageing population poses for the pension system, and the latest assumptions and calculations of the European Commission (EC) with regard to the unsustainability of the system. Then we turn our deductions around. On the assumption that the 10.9% share of GDP for pension spending from 2016 is unsustainable, we calculate the productivity growth required to maintain that share, offer measures that could reduce the required

productivity growth, calculate by how much such growth could be reduced, and define other qualitative measures that could be applied to achieve the required reduced productivity growth. Finally, we demonstrate the necessary scope of individual measures to maintain the 10.9% pension spending in relation to GDP.

1 Demographic trends as a pension-related challenge

Demographic trends constitute the foundation of pressures put on the sustainability of the pension system. Developed countries have been witnessing rapid population ageing, which means a higher share of elderly people in the total population. The “old age dependency ratio” i.e. the number of people aged 65 or over for each 100 people of working age (20-64), is the basic indicator that signals demographic pressures on the sustainability of the public finance system. It has been rapidly growing in Slovenia and will continue to increase significantly, meaning that by around 2050 it will be twice the ratio (approximately 60) of 2016. In

the current system, this will largely be reflected in a gap between general government expenditure and revenue. People over 65 are retired and receive state pensions, while also making use of many healthcare and long-term care services. By contrast, the working population is the major source of public finance. A more detailed analysis requires model tools.

2 Projections of general government expenditure

For the present analysis, we use a model based on Eurostat’s demographic projections and a set of macroeconomic assumptions of the EC (see Table 1), with which we reproduce the latest projections of general government expenditure related to the ageing population published by the EC in the 2018 Ageing Report (European Commission, 2018).

The model takes into account current pension legislation and existing data. We used this model to make projections of general government expenditure

Table 1: **Demographic and macroeconomic assumptions for the 2016-2060 projection period**

		2016	2020	2030	2040	2050	2060
Total fertility rate (number of children per woman)	SLO	1.58	1.62	1.66	1.70	1.74	1.78
	EU28	1.58	1.63	1.69	1.73	1.76	1.78
Net migration as % of population	SLO	0.01	0.20	0.20	0.21	0.18	0.14
	EU28	0.29	0.22	0.22	0.22	0.20	0.17
Potential real GDP (annual growth rate in %)	SLO	1.0	2.1	1.6	1.3	1.2	1.6
	EU28	1.3	1.4	1.3	1.3	1.5	1.5
Employment rate (15-74) (annual growth rate in %)	SLO	0.5	0.5	-0.5	-0.7	-0.5	0.0
	EU28	0.7	0.3	-0.1	-0.2	-0.1	-0.1
Labour productivity (annual growth rate in %)	SLO	0.3	1.6	2.1	1.9	1.8	1.7
	EU28	0.6	1.1	1.4	1.6	1.6	1.6
Total factor productivity (annual growth rate in %)	SLO	0.9	1.3	1.4	1.2	1.1	1.1
	EU28	0.5	0.7	0.9	1.0	1.0	1.0
Capital deepening (contribution to labour productivity growth in %)	SLO	-0.6	0.3	0.8	0.7	0.6	0.6
	EU28	0.1	0.4	0.5	0.6	0.6	0.6
Employment rate (20-74) (in %)	SLO	61.1	62.1	62.1	61.2	60.7	62.9
	EU28	62.2	63.0	63.4	63.8	64.9	65.5

Source: European Commission (2018)

trends and simulations of changes in the pension scheme, and macroeconomic assumptions. In our analysis, we were particularly interested in labour productivity growth. This concerns boosting labour productivity, and shows how much GDP would increase if the number of employed people remained the same.

The annual productivity growth rate is one of the input data or assumptions in the calculations made by the EC. In projections, GDP growth is calculated as a sum of (see also Table 1):

- the growth in **the number of employed people**, which depends on demographic trends and employment rates;
- the growth in **labour productivity**, which is the sum of total factor productivity and capital deepening.

Our approach in the present analysis was turned upside-down. We built on projections of pension spending, and asked ourselves what the annual productivity growth rate should be for pension spending to amount to the same percentage of GDP as in the base year of 2016 (i.e.10.9%).

Taking into account only the EC assumptions, it turns out that labour productivity should grow extremely fast in the future – see Figure 1. Growth should be over 6% annually by around 2030, reaching its peak around 2045, when it should amount to approximately 10% annually. Such high values are unreachable, particularly given the fact that growth should be achieved over a long period.

3 Changes in the European Commission scenario

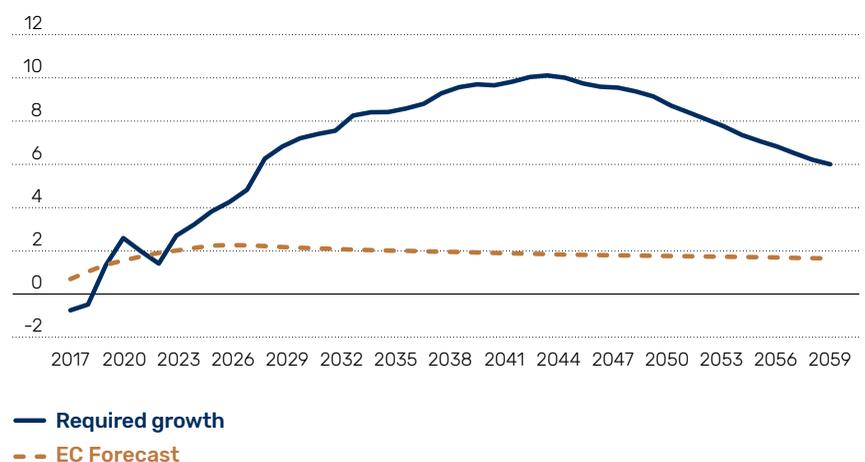
A change in approach means that the challenge can be solved actively. We asked ourselves what we could do to make the required productivity growth rates attainable. We defined the EC projections of labour productivity

growth (dotted curved line in Figure 1) as “basic projections” which contain only part of the potential structural changes, and therefore low long-term labour productivity growth (around 2% followed by a gradual decline to 1.5% in 2060). At this point, we can suggest a few potential ways to achieve higher productivity and/or for Slovenia to reduce the need for otherwise unattainable productivity growth to preserve healthy public finances. Let us begin with “reserves” in the extent and intensity of employment.

3.1 The labour market

One of the most obvious goals recommended by experts to enhance the sustainability of the pension system as life expectancy lengthens is to **boost employment rates in older age groups** and increase their income from employment. In comparison with developed EU member states, Slovenia stands out for its “narrow” age span with regard to income from employment (see Figure 2). In addition to stricter retirement conditions, and less abuse of sick leave and of the status of unemployment before retirement, the freeing up of work done by pensioners without taking away their pensions would also be relevant, as the need for their work is rapidly growing (for example, highly professional work, care of the elderly). People who receive pensions because they meet all the retirement conditions should be allowed as much adaptability

Figure 1: **Required labour productivity growth and European Commission forecast**



Source: Numerous sources (SURS, EUROSTAT, ZPIZ etc.) and own calculations

to the needs of the labour market and their abilities or desires as possible, and the same opportunities to pursue economic activity as people who are not retired (regular employment with optional percentage, full-time or part-time sole proprietorship, and so on). A rise in the very low level of activity of people aged between 55 and 64 should be supported by a more suitable active employment policy and stimulated by a social transfer policy that would not provoke inactivity (this also applies to sick leave, which “exploded” after 2014). The regulation of the labour market towards “flexicurity” would also bring positive effects.

Another obvious aim lies at the other end of the age scale, in the form of an **increase in the youth employment rate**. Young people enter the labour market at a very late stage. There are a whole range of possible initiatives: in relation to studies, for example, increasing the efficiency of studies by abolishing the additional graduation year and diploma theses at first degree level; introducing full scholarships for studies that last beyond the study programme years; establishing equality between old undergraduate programmes and the first Bologna cycle; and stimulating early employment after completed education (for example, with additional months of pensionable service for each year of employment up to a certain age). Additionally, in view of demographic projections, Slovenia will have to strive for **higher net migration** if it wants to grow.

Similarly to the collective agreement on wages settled in Slovenia at the start of this millennium, we could reinstate the **“anchor” for wage growth to be slower than productivity growth** for a limited period. As well as reducing pressure on the pension fund, there are many reasons for Slovenia to reintroduce such a rule, since the nation lags seriously behind in infrastructure related to research, development and higher education, transport, energy, telecommunications, culture, and so on. With well-managed use of such “savings”, we could achieve a higher growth rate of total factor productivity brought on by a higher GDP multiplier for such expenditure, as well as wages and pensions. The introduction would have to be thoroughly analysed and well timed; the measure could not last for the full projection period, since the

share of income from employment in GDP would drop, and any errors in the implementation of the measure could result in negative effects.

As mentioned before, the labour productivity rate is comprised of the total factor productivity (TFP) growth and capital deepening (which contributes to labour productivity growth).

3.2 Labour productivity

Strengthened national competitiveness fosters investment in the business sector, which in turn affects labour productivity through capital deepening. Here we give a few crucial competitiveness factors where Slovenia lags behind comparable states, therefore providing the first opportunities for improvement.

Solidity and good state management are the first competitive advantages that, above all, call for a **stable and effective political environment**. There is considerable room for improvement, and modernisation of the political system is imperative, as it has become extremely ineffective (unprofessional and populist, and crucial changes are often blocked). Without modernisation, it will be impossible to implement the measures necessitated by the ageing population, as specified in this article. Also required is the **rule of law** (a professional, impartial and apolitical legal system), which is analysed with conclusions drawn in the article by Vera Trstenjak below. **“Healthy” public finance** including relatively low public expenditure, constant improvements in the efficiency of the public sector, a balanced budget, low indebtedness of the public sector, a competitive income structure and efficiency of expenditure (including a higher GDP multiplier), and the explicit counter-cyclical character are the next warrants of soundness and good management. Challenges in this field are significant, too, owing to the high indebtedness of the public sector and political populism, an insufficiently competitive tax structure (for example, real estate taxation), excessively high expenditure on financed activities in comparison with implemented activities, and frequently conducted pro-cyclical fiscal policies, which exacerbates problems instead of alleviating them. We should also mention **economic diversification** and increasing the share of



end products with high added value, which provides a more stable economy than does focusing on only a few industries. The state should help substantially with this orientation.

The second competitive advantage is top-level staff with knowledge, experience and character, who do not want to leave Slovenia. This is the most frequently mentioned competitive advantage of Slovenia in relation to foreign investments. Nevertheless, we must be aware that the time gap between generations is extremely wide and global progress is unimaginably fast (with China taking the leading position). Focusing on higher education and research, it is our belief that, on average, Slovenia lags very far behind, and needs urgent, rapid changes to raise quality (improved knowledge, other competences and international character); a complete shift from a negligible to a normal success rate of study completion

within a deadline (it is over 90% in other countries); the elimination of all incomparable “special” features of the higher education system (the number of times an exam may be taken, the electoral system for chancellors and deans, students who repeat a year, graduation candidates, diploma theses for a first degree, the degradation of Bologna programmes in comparison with the previous system, the use of a foreign language, among others); and a significant increase in resources. Chinese faculties which are comparable, for example, with the Faculty of Economics at the University of Ljubljana, have half as many students and a 100% higher annual budget.

The third set refers to **reduced administrative burdens**, where Slovenia has considerable room for improvement. Constantly improving the clarity of regulations and reducing the risk of inconsistency, in addition to well-thought-out and extensive

simplifications of procedures, could result in a significant increase in labour productivity (the Netherlands assessment: 0.5 percentage points of additional GDP growth annually).

Another factor is an accelerated **investment rate in critical infrastructure**, whose poor condition causes non-competitiveness (railways, regional roads, electricity distribution, scientific equipment and premises, 5G, and so on)

Also important are the **financial system and markets**, which favour Slovenian real investments and high-tech start-ups which are almost completely lacking in access to funding. In this context, the state is the crucial factor and almost all instruments are available to it, while the crisis revealed all its weaknesses.

Many factors affect labour productivity growth, individually and in interaction, and their selection and an evaluation of their significance is an arduous task. We can further state some other factors that, in our opinion and in view of the situation of Slovenia, have good potential to boost labour productivity. Since the evaluation of these changes would be tackled last in relation to their effect on labour productivity, here we will just enumerate them:

1. Measures to promote artificial intelligence and robots for the simplest tasks;
2. Formation of a core of the most forward-thinking individuals to focus support on the most advanced and promising technologies and services;
3. Significant improvements in research and development:
 - a. Merging institutions and universities;
 - b. Reducing pedagogic tasks and duties to the international level of research-focused universities;
 - c. Preferential formation and financing of strong research and development groups;
 - d. Stepping up the demand for strong cooperation with the business sector supported by results.
4. Constant improvements in the corporate management of state-owned companies and greater competitiveness of the entire business sector (inexpensive and high-quality key inputs).

Before we show the results of our calculations, we would like to point out that a measure which would have a profound impact on the sustainability of the pension system would also be to reduce the indexation of pension growth to wage growth. Reducing indexation would magnify the positive effect of higher productivity on the sustainability of the pension system, i.e. growth in pension spending would follow higher GDP at a lower percentage.

4 Estimated selected changes in the European Commission scenario

Impact assessments of each of the presented changes and all the changes together on the required labour productivity go beyond the scope of this article. Assessments are possible, but the impact of the presented changes varies significantly, the complexity of the assessments differs, and their reliability is diverse and extremely poor, which is normal for long-term projections. Consequently, we have focused on those changes whose assessment is the most reliable and whose significance is the greatest, and which may be carried out by suitably adjusting the already complex model.

First, we should look for unexploited resources that, in the short term, will facilitate higher GDP growth and/or lower necessary expenditure over a certain transitional period, achieving the desired proportion of pension spending with lower labour productivity growth. With the other remaining assumptions used by the EC, we:

- 1) Assume higher employment rates:
 - a. By 2035, facilitation of a gradual increase in the employment rate of older workers, measured by sufficient income from their employment up until the age Sweden had in the base year of 2016;
 - b. An increase in the youth employment rate by bringing sufficient income from employment two years earlier;
- 2) Assume wage growth will fall behind productivity growth by one percentage point by 2030.

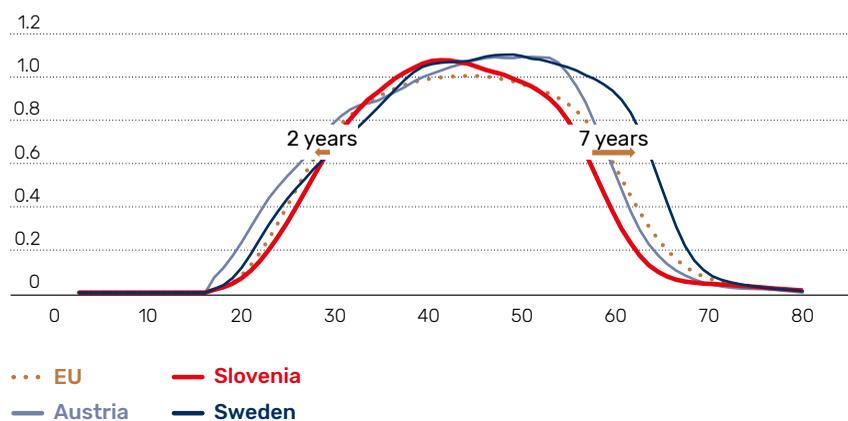
4.1 Boosting employment rates in older age groups

As stated in section 3, people in Slovenia enter the labour market at a relatively late age and leave it very early (Figure 2). The time span in which we can support ourselves with income from employment without additional social transfers is relatively short.

The difference between income from employment in Slovenia and Sweden is particularly conspicuous. People in Sweden work for approximately seven years longer (the horizontal line between the two age profiles – average income from employment by age). The life expectancy of women in Sweden was 82.4 years in 2016, compared to 81.2 years in Slovenia (Eurostat, 2018), i.e. people in Sweden remain in the labour market seven years longer, although they live just slightly over a year longer than in Slovenia. According to Eurostat projections, Slovenia is expected to reach the life expectancy Sweden enjoyed in 2016 by 2022. For this reason, we find it realistic that our calculations assume that Slovenia could reach Sweden's 2016 activity rate by 2035. In the period up to 2035, life expectancy in Slovenia will be around 84 years, that is 86.3 years for women and 81.2 years for men (Eurostat, 2016), which is significantly higher than Sweden's current rate.

On this basis, we assume that Slovenia will gradually, by 2035, assume the curve shape illustrating income from employment which Sweden had in 2016. We also believe that the activity levels of people aged between 40 and 60 will rise to the levels currently recorded in Sweden. This can be achieved with the suitable measures stated in section 3, reducing the required annual labour productivity growth rate which maintains general government expenditure at the given level (Figure 3 – red curve).

Figure 2: **Income from labour by age**
(Portion of average labour income of the cohort 30–49 in year 2010)



Source: Agenta project

4.2 Boosting employment rates in lower age groups

In parallel, we devised a scenario of earlier entry of young people into the labour market, where the analysis follows the logic referred to in section 4.1. Such an increase in youth employment rates is not measured only by the age at which young people enter the labour market (for example, two years earlier) but also by their average income from employment. The assumption of two years earlier than in the base situation assumes that a prerequisite of a two-year earlier entry into the labour market at a personal income which is above the cost of living is sufficiently effective a measure (see Figure 2). This assumption takes into account the difference between Austria and Slovenia; the results obtained are shown in Figure 3.

As we can see, the effect of increased employment rates in older age groups is stronger than in younger age groups. The effect in older age groups is doubled: individuals do not retire, so pension spending declines and GDP is higher (including collected contributions), making pension spending expressed as a percentage of GDP lower. If, up until 2035, people remained in the labour market for the same time as people do in Sweden now, this would maintain pension spending at the GDP percentage from 2016, and the productivity assumed by the EC for this period (slightly more than 2% on average) would suffice. After that, additional measures and

significantly higher productivity would be necessary – up to approximately 7% in 2045, when the demographic pressure on pension spending will be substantial.

On the other hand, the effect of early entry is positive but significantly lower – the required annual productivity growth is slightly less than one percentage point lower than in the reference scenario. That being the case, annual labour productivity growth would still have to be extremely high.

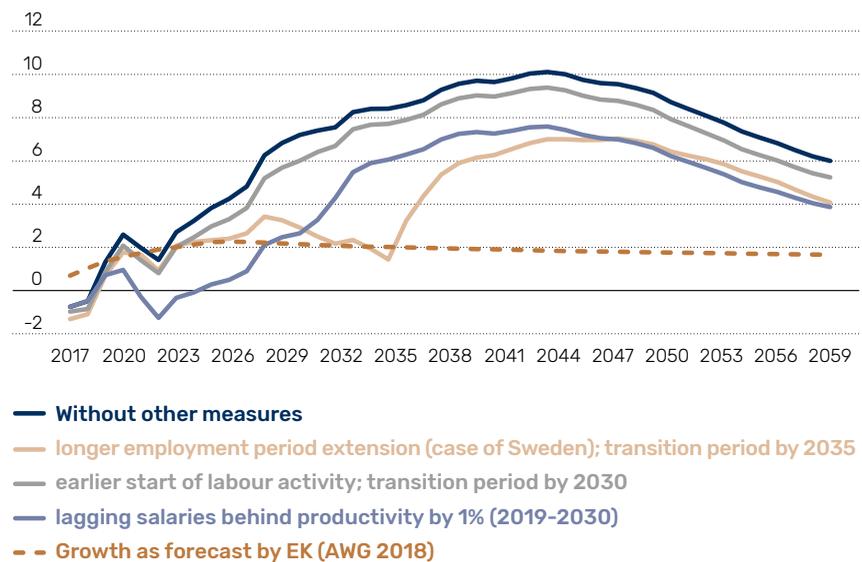
4.3 Wage growth lagging behind productivity growth by 2030

In this way, GDP grows faster than wages and wages-related pensions. In our projections, we assume that the measure would last until 2030. Figure 3 shows that this would considerably improve sustainability in this initial period, up to 2030. Then the positive effect (GDP would be higher in comparison with pension spending) in the light of the wage and pension bill would be maintained, which means that the required annual productivity growth would be lower by slightly more than 2 percentage points (see Figure 3).

5 Changes in indexation due to wage growth

On the basis of quantified effects of changes we believe are urgent and achievable, we found the reduced productivity growth sufficient for the pension system to be sustainable in the long term. However, there is still a gap between the required growth and the growth achievable according to the European Commission scenario. Increased productivity resulting from changes we have not evaluated in this article could contribute to this difference in growth. At this point, we evaluate another measure – a change in the indexation of

Figure 3: **Required labour productivity growth (in %) at individual scenarios**



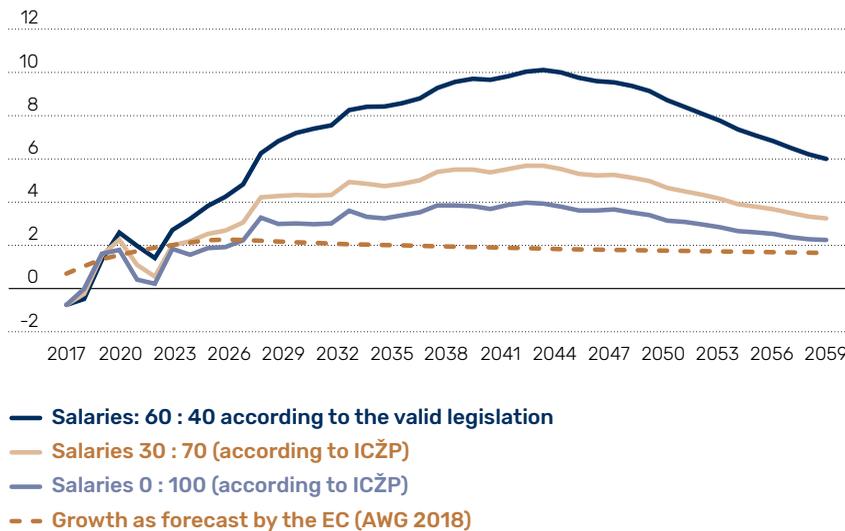
Source: Numerous sources (SURS, EUROSTAT, ZPIZ etc.) and own calculations

pensions to wage growth – which would eliminate the remaining difference between the required and EC estimated productivity growth.

Currently, the pension growth amounts to 60% of the nominal growth in average gross wages and 40% of the growth in consumer prices (inflation). This equals 60% of real growth in average gross wages (the share of the growth in consumer prices only supports the real growth). In comparison with other EU member states, such indexation is high; many states have even shifted to pension growth adjustment only by growth in consumer prices (this means 0:100 or 0% of real pension growth).

Figure 4 shows the productivity growth required to maintain the percentage of pension spending in GDP if the pension growth adjustment was a) 30:70, which means 30% of real pension adjustment to real wage growth, and b) 0:100, which means that, after retirement, pensions are only adjusted to increases of consumer prices – this would maintain the financial position of pensioners so that they could buy the same amount of goods and services as before retirement. As we can see, this extreme case would require labour

Figure 4: **Pension indexation effects on required labour productivity growth (in %) according to individual scenarios**



Source: Numerous sources (SURS, EUROSTAT, ZPIZ etc.) and own calculations

productivity growth that is significantly lower than in the AWG reference scenario, which assumes 60:40 indexation or the existing pension scheme.

In conclusion, let us point out that higher productivity has a powerful positive effect on the **absolute level of wages and pensions**, which has not been emphasised so far. As an example, let us note that, on the EC assumptions, cumulative labour productivity growth (and consequently pension and wage growth) in the 2016-2060 period would be 123%, but if labour productivity was one percentage point higher each year than EC assumptions, cumulative growth in the 2016-2060 period would be 243% – twice as high.

Conclusion

This article demonstrates that even the toughest challenges may be addressed with an appropriate but complex analysis and a set of measures. This must be followed by implementation, which is complex in its own way, and where the knowledge, resources and experiences of a sophisticated and esteemed core management could play an important role.

The rule of law, property and competitiveness



Verica Trstenjak

Doctor of Law and Professor of the European Union and Civil Law

Verica Trstenjak is a former advocate general of the Court of Justice of the European Union (2006-2012) and a former judge of the General Court of the European Union (2004-2006).

As advocate general she significantly contributed to European law, particularly in the fields of consumer protection, intellectual property, public procurement, state aid, asylum, and fundamental rights and freedoms in the EU, among other things.

She is a lecturer in European Law in Vienna, Ljubljana and Maribor. She was a visiting professor at several universities in the EU and worldwide (for example, in Hamburg, Ferrara, Zürich, The Hague, Amsterdam, Montreal, Sydney, Los Angeles, San Francisco, New York, and Kyoto), and gives lectures at various international conferences. She has published several books and over 250 articles, most of them abroad. She is a member of the Executive and Management Board of the European Union Agency for Fundamental Rights in Vienna.

“The rule of law is like our daily bread, like water and air,” said Gustav Radbruch, a German jurist and a principled man who was removed from his post at Heidelberg University by the Nazi regime, but maintained his focus on justice and the rule of law. Such an understanding of the law remains crucial today for society; for its very existence, development and survival in the future.

Why do we still talk about fundamental values, such as diligence, fairness and responsibility, now that technology has almost overtaken humans, or at least competes with and is almost independent of us? Why do we still need values like the rule of law, democracy, human rights and an independent judiciary? Because wherever the rule of law is observed, the level of corruption is low, the state administration is productive, and the judiciary is independent, impartial and effective. And because, in such a culture, the economy thrives, society is developed and competitive, and the citizens are generally satisfied.

Rule of law

Modern society cannot exist unless the **rule of law** works and its regulations are followed. The rule of law means that the functioning of society is legally regulated (with good laws) and the operation of the authorities is legally binding and conforms to legal rules. It also means that regulations are not put in place merely for their own sake, but to be observed. Finally, it means that society distances itself from the “figure it out” principle and does things by the book; where respecting rules is a virtue not a foolishness. A good rule of law protects both citizens and the economy from



PHOTO: Matej Družnik

abuse of power by the authorities, discrimination and the violation of human rights. The rule of law is one of the fundamental values of the EU which is particularly protected by its treaties.

The judiciary as a constituent of the rule of law

Among the core constituents of the rule of law is an independent, impartial and effective judiciary. Why does Denmark emphasise the importance of the rule of law, insist on zero corruption, have an effective judiciary, and remain among the most prosperous world economies? According to the Transparency International 2018 report, Denmark has the lowest level of corruption in the EU and is a runner-up on a global scale, while Slovenia ranks 34th. We can draw certain parallels comparing the level of trust the citizens of the two nations have in the judiciary. Research conducted in Denmark a few years ago showed that as much as 85% of the population had confidence in the judiciary, as opposed to a mere 24% who do so in Slovenia, which ranked last in the EU. But only the judiciary can restore

faith in itself. I should also mention that the number of judges per capita in Denmark is much lower than in Slovenia, which is the EU Member State with the highest number of judges per capita (there are six judges per 100,000 residents in Denmark, and 43 in Slovenia). We also put a relatively high amount of funds into the judiciary in comparison with other countries (the average is EUR 63 per capita – the amount in Slovenia is EUR 89.7 and in Finland EUR 76; unfortunately, there are no data for Denmark).

It must also be emphasised that many funds in the Slovenian judiciary are lost on account of organisational shortcomings, since judges' wages are not at an enviable level. Proceedings must be short for the judiciary to be effective. However, Slovenia is still one of the countries with lengthy proceedings. *Tarda iustitia non est iustitia* (Justice delayed is justice denied) is a legal maxim of which the judiciary, which needs to effect swift decisions, is especially aware. The European Court of Human Rights, and recently the European Court of Justice, have been awarding compensation for violations of the duration of proceedings. I want to particularly emphasise the importance of the judiciary, as an

ineffective judicial system, along with unnecessary administrative burdens, is the most acute problem for society and especially for the economy.

Right to property

Everything I have already mentioned is equally important for individuals and their private and business lives, and for the business sector (and also the public sector). The business sector, on which more and more restrictions are imposed, has certain fundamental rights written in the highest legal acts. The **right to property** is something that cannot be restricted by the interests of everyday politics, but is a right enshrined in Article 17 of the Charter of Fundamental Rights of the European Union, other international acts, and the Slovenian Constitution. Society should accept infringements of the right to property, similarly to infringements of other rights, only in exceptional situations.

Perhaps in this Age of Information infringements of the right to the protection of personal data or of the right to privacy seem more questionable. But the right to property and the prohibition on any restrictive measures to this right are equally protected, and infringements are allowed only in exceptional circumstances and under strict conditions, including the provision that such a potential infringement must be proportional.

Freedom of economic incentive

A prosperous society needs a successful and competitive economy. In addition to the right to property, Article 16 of the Charter of Fundamental Rights of the European Union added another right important for the economy, and that is the **right to conduct business**. As pointed out by the European Court of Justice in Luxembourg, this right includes the right to conduct a business or engage in commercial activity, contractual freedom and free competition. Only a society that respects these fundamental rights will prosper economically. This principle, which has long been demanded by the

Proceedings must be short for the judiciary to be effective. However, Slovenia is still one of the countries with lengthy proceedings. *Tarda iustitia non est iustitia* (Justice delayed is justice denied).

economy, is one of the basic propositions underlying modern, rapid trends in the economy.

Information technology supports the development of new products, practices and models. The legislator's job is not to hinder this development in advance, but to direct and stimulate it. Do we prevent self-driving cars from being developed because they are not covered by current legislation? Do we incapacitate platforms like Uber, Airbnb and others just because the laws currently in place are not adequate for dealing with them? Or just because something is dangerous? You can cut off your finger with a saw, but saws are still for sale. The state must intervene when a matter is urgent, and it must do so in a way that does not hinder development, while still facilitating the legal protection of consumers, workers and others.

Europe should be one step ahead in sustainable development

The USA often teaches us that freedom to conduct business fosters development. But Europe should be one step ahead, taking into account the elements of social and environmental protection.

The domestic business sector and **foreign investors** need a well-organised business and legal environment. If the rule of law does not work well, if the judiciary is not independent, impartial and effective, the level of legal security is low and confidence in the legal system even lower. Foreign investors want a well-organised and functional legal order, and an effective state administration in which public officials want to deal with a problem by solving it, not by referring it to other offices. Foreign investors wish for a judiciary that will make decisions on disputes swiftly and impartially. All

this needs a domestic business environment. Only a successful economy secures new jobs and enables taxes to be paid and a welfare state to work.

A functioning welfare state means that we can draw EU funds for development and other projects. It also means that applications do not get lost in the files of public officials and that money is not allocated on the basis of friendly and other connections, but on that of high-quality and objective procedures and evaluations.

Competitiveness, education and labour legislation

Competitiveness must be promoted at all levels and in all areas, and it must start at school. To this end, the **education** system must, from the beginning, also teach children about respecting moral norms and provide the knowledge they will need as adults. Such an educational stance must be upgraded by the knowledge required in practice.

Austria has just allocated additional millions to higher education institutions because the business sector needs them. Universities must also be connected with the business sector. Diligence and hard work must be encouraged from school onwards. If all pupils (or students) received the same grades, no one would be inspired to achieve more. This approach should also be maintained in the workplace, including that of the public sector. Systems that include levelling, meaning that all receive the same rewards regardless of effort or results, cannot compete with systems that stimulate diligence and hard work. This applies not only to the private but also the public sector.

For example, although the University of Vienna is a public institution, the chancellor allows professors to be paid in line with their reputation, and their contribution to the quality and reputation of the university. As a result, the wages of full professors vary by over 100%, ensuring that the university recruits the best available talent. This is not the case in Slovenia, where there are no such motivational levers. According to the latest evaluation tables, none of the Slovenian universities

are in the top 500. I sometimes feel that the greatest competition between Slovenian universities is about which of them will be the best of the two or three domestic universities, and not about being the best in Europe or globally. The business sector is well aware of the necessity of “cross-border” operation, since the domestic market is too small.

The USA often teaches us that freedom to conduct business fosters development. But Europe should be one step ahead, taking into account the elements of social and environmental protection.

Flexible labour legislation providing options for part-time and fixed-term employment also contributes to greater competitiveness. Permanent employment should no longer be the main goal. Flexible labour legislation allows workers to grow, and encourages them to be more flexible, to develop personally and to seek better opportunities. Irrespective of legislation, companies should retain the best with suitable contracts and payments.

Respect for the law and ethics as a value

The respect for legal and moral rules and for good business customs in society must be a value.

Liability for violations should be a value, too. I recently visited Japan, a prosperous, developed society in which rules are written for entities to observe. Trains in Japan run on time. The average delay of a high-speed train in 2016 was 24 seconds, and engine drivers are ‘ashamed’ and feel like failures if they are late by more than five seconds. Social rules in Japan are complied with even where they are not written. For example, Japanese people queue, even though this has not been prescribed by the state. You are not a hero if you break an unwritten rule. You are a hero if you respect the rules. Since efficient transport is a prerequisite for a society to prosper, everybody wants it. I don’t want to cite Japan as the highest example, but we should learn from the



Social welfare will not be achieved if people who succeed and own a thing or two must defend their diligence, frugality and success.

successful. In general, the mindset that everything works perfectly in neighbouring countries, particularly in Austria, and that nothing works in Slovenia, will take us nowhere. It merely brings general dissatisfaction, which is not necessary.

Switzerland is a similar example. Failure to pay taxes is not only punishable but a morally reprehensible act. It is a place where citizens despise those who do not pay their fair share of taxation, and where people who drive at over 50 km per hour in areas with a speed restriction are not heroes but fools. It is a place where fines are paid. It is not like Slovenia, where rules are laid down but then everyone brags about bending them, or where our greatest means of protest against such events is to post comments under online articles or not to vote.

Anyone who does not vote leaves others to decide. Brexit was one such example where young people did not vote, leaving the elderly to decide for them.

Social welfare will not be achieved if people who succeed and own a thing or two must defend their diligence, frugality and success. It will be achieved when people who succeed and have property are motivated by the values of society to help those who have less; by paying higher taxes, as well as by solidarity.

Moreover, wellbeing in society will not be achieved by restricting business sectors by monopolies and state property, the nationalisation of private property and new burdens, but by a well-organised society that respects the freedom to conduct business and a competitive market economy, that is, a strong economy. A successful economy needs successful managers who are well-paid in a way that is comparable with their situation in society. Only such an economy can finance the rule of law and the

welfare state. This is also important for social security and to encourage young people to remain in Slovenia or to be glad to return after gaining experience abroad.

Social responsibility and the co-dependence of individuals' actions

We all have to take **responsibility.** We could redirect our general personal tendency to criticise everything on the domestic front and be unhappy and envious, and change it to something positive by praising everything that is successful and suggesting solutions for things that are bad. We as a society should strive to compare ourselves to the best and want to be the best, like an athlete who is not pleased with coming in second. If we want to be like Switzerland, we all have to work at it.

Since I have pointed out various shortcomings, I should also highlight the things that are good. I have been living abroad for over 15 years and can observe my homeland objectively. We have a very social state, a relatively good health system and first-class doctors, a relatively good education system and a competitive economy, but also dissatisfied citizens and, unfortunately, too many politicians and too few statesmen. We need statesmen who are concerned with the long-term interests of the state, and not simply those of the party and the period leading up to the next election.

I wish for the economy everything I wish for my homeland. A high level of the rule of law including an independent, impartial and effective judiciary; a market economy including respect for property and the freedom to conduct business; adequate remuneration for all, workers and managers alike; a socially and environmentally responsible business sector that also has future generations in mind; a social state with zero tolerance for corruption in all areas; independent, responsible and first-rate media; more statesmen and fewer politicians.

From the economy's point of view, I can say in conclusion that this is precisely the area to which the rule of law brings the most benefits, and the economy benefits us all. For that reason, the rule of law should be like water and air to each and every one of us.



Good management practices to reach the “Blue Ocean”



PHOTO: Matej Družnik

What does the requirement for a long-term process of increasing factor productivity, which would ensure the necessary economic growth to maintain social welfare, mean for management?

The Managers' Association focuses its operations on the recognition and promotion of the best practices achieved by managers in their work. The results are clearly demonstrated by innovative, competitive, growing companies. If we understand these practices well and know how to learn from them, we can progress much more rapidly. This directly applies to managers.

Stakeholders responsible for providing as many good experiences as possible may contribute to creating more favourable conditions for them. By stakeholders, we

mean the state in its broadest sense, especially those who create conditions for companies and those who work in education, science and culture, in the courts and as regulators. Last but not least, we also mean social partners who take part in a complex dialogue to find a social balance in relation to allocation, saving and consumption.

All this enables Slovenia to sail into the “Blue Ocean” and embark on a journey to an innovative society that is the only viable destination, while taking the necessary measures to maintain social welfare, inclusion and progress.

To this end, Outlook would like to highlight three best practices by portraying the Managers' Association prize winners of the past three years.

Development of a learning organisation

Boštjan Gorjup, Director of BSH Hišni aparati Nazarje, is a manager with international experience. As a manager, he sets his aim to be the best in excellence rather than in size at the forefront of his work, and for many years has been making exceptional contributions to the development of a local community in the Savinja region and to establishing Slovenia as an excellent environment for research and development, supported by highly educated personnel.

BSH Nazarje is today the largest manufacturer of small home appliances for food processing and technologically demanding thermal appliances for beverage preparation in Europe, and is one of the ten largest export-oriented companies in Slovenia. It has been part of the BSH Group since 1993 and constitutes more than a third of its total production of all small home appliances, is the leading manufacturer of small kitchenware, and contributes 70% of the profits of this BSH division.

The company’s reputation within the Group, built up by Gorjup, contributed significantly to Slovenia becoming the headquarters of a competence development centre, and the centre of the BSH Department for Research and Development into home appliances for food processing. This means that the plant in Nazarje is responsible for the development of all the products in this category at the Group level. Nazarje is also home to the centre of the BSH Adriatic East sales region, meaning that the company has operational responsibility to attain sales targets in the region.

Gorjup introduced to the company an organisational culture that is based on trust, open communication, cooperation and honesty. His employees greatly



PHOTO: Leon Vidic

Manager of the Year 2018: **Boštjan Gorjup**,
Director of BSH Hišni aparati Nazarje

Gorjup’s management method is aimed at developing a learning organisation, empowerment, and the diversity of working groups and teams.

appreciate his creativeness, work management, guidance and support.

In recent years, Gorjup has placed the most emphasis on developing a learning organisation, and decentralising the power to make crucial decisions and passing it over to lower levels of decision-making. He also points out the advantages of diversity when composing working groups. Gorjup teaches his employees to seek solutions jointly if they have problems, rather than to place blame.

An original business model based on cooperation and the pooling of key competences

Janez Škrabec made Riko the leading Slovenian company in project engineering in the energy sector, environmental protection, technology development, logistics and warehousing systems, and construction, and an organisation that places the practice of connecting companies to create high-profile projects with high added value at the centre of its business model. Their investments in socially responsible projects are above average, making their mode of operation absolutely unique.

Riko is most successful in the markets of the Russian Federation, Belarus, Ukraine and Macedonia. They are also active in the German market, where they made a major breakthrough in logistics and warehousing systems set up for prominent multinationals like Ikea and the Müller dairy. Riko's solutions are adapted to each individual client. To come up with solutions, they work together with scientific and educational institutions such as the Jožef Stefan Institute and the Faculty of Mechanical Engineering, and are involved in the SRIP – Factories of the Future partnership.

Škrabec nurtures the recognition and reputation of the company with investments in local traditions and socially responsible projects. The most notable of these projects include the Škrabec Homestead in Hrovača, which was nominated for the European Museum of the Year Award in 2004; supporting art with over 300 works in a modern Slovenian art collection; and patronage of the Friar Stanislav Škrabec Foundation. The company also supports the operation of the most



PHOTO: Jože Suhadolnik

Manager of the Year 2017: **Janez Škrabec**,
Founder and Director of Riko

The company places the practice of connecting companies to create high-profile projects with high added value at the centre of its business model, and their investments in socially responsible projects are above average.

important cultural institutions in Slovenia, acts as a sponsor to athletes and sports clubs, and supports humanitarian projects.

Škrabec is among the most charismatic leaders, and Riko is among the 20 most respected companies in Slovenia. He points out to his colleagues how important it is to be satisfied with a job done responsibly. In turn, his colleagues appreciate his engagement and persistence, and his determination and dedication to the company's goals.

People central to the makeover of Steklarna Hrastnik

Andrej Božič took over the management of Steklarna Hrastnik in 2010, when it had accumulated losses of EUR 4.4 million and was about to file for bankruptcy. He saved the export-oriented glassworks, which has over 150 years of tradition, from further losses by initiating a successful makeover in his first year as manager, and transformed it into a thriving and technologically modernised company in just a few years. He received the European Business Award (EBA) for the original restructuring model.

When Božič came on board, he faced more than 750 demotivated employees. He introduced radical changes in organisation, processes and the employees’ mindset. Their dedication to the company and the glassworking profession, a high level of glassworking knowledge, and their solidarity enabled them to preserve all three production programmes.

The solution was heavily supported by the employees’ desire for the survival of the company, which is an important employer in the Zasavje region. This commitment to preserving jobs was a strong element connecting the management and the workforce. Božič was well aware that integration into the local environment made this a social project, although that meant a longer path to recovery. Providing for the future by putting people first turned out to be the best business decision for Steklarna Hrastnik.



PHOTO: Leon Vidic

Manager of the Year 2016: **Andrej Božič**, former President of the Management Board of Steklarna Hrastnik.

The success of a sustainable makeover of Steklarna Hrastnik was based on valuing the employees and a consensus of all stakeholders.

The strategy of the recovered company was based on innovation. Sixty-six new products were developed in the last three years of Božič’s management. Many of them received various awards, including the Red Dot Design Award, 30 awards of the Chamber of Commerce and Industry of Slovenia for innovators and innovation in the Zasavje Region, a national award for the best energy project, and the 2015/2016 EBA award for sustainable development. At the international SIP AWARDS competition in the USA, three of the company’s bottles received accolades – two taking the highest, Platinum, award for packaging, and another being assessed as the best in its category.

THE ECONOMY IN 2019

The end of an incomplete recovery?



Velimir Bole

Slovenian economist, mathematician and statistician

Velimir Bole's macroeconomic analyses and projections have been deemed leading reference resources for decision-makers in relation to the Slovenian economy for three decades. He was a member of the Governing Board of the Bank of Slovenia (1992-2002), then a member of the Economic and Social Council of the Republic of Slovenia and a member of the Council of the National Bank of the Republic of Macedonia, as well as serving on numerous other expert advisory panels. He publishes and edits Slovenia's longest-running macroeconomic magazine, *Gospodarska gibanja* (Economic Trends). After his graduation from the Faculty of Natural Sciences and Technology and the Faculty of Economics of the University of Ljubljana, Bole received his Master's degree at the Faculty of Science of the University of Zagreb. Since then, he has been working at the Economic Institute of the Law School (EIPF).

Following its meeting on 25th of October, the Governing Council of the ECB informed the public that, despite some recent data on poorer economic performance, recovery in the Eurozone was increasingly sustainable and broadly anchored¹. It was also estimated that while inflation was still too low, it was gradually increasing towards the target level, and that the risks which the Eurozone economy was exposed to, especially those due to increasing protectionism, uncertainty in developing markets and fluctuations in the financial markets, continued to be balanced. Because of these estimates of economic performance, the Governing Council of the ECB left the Central Bank's key interest rates unchanged, and announced that they would most likely not be changed until at least mid-2019². They also confirmed their intention to stop the intervention programme of the purchase of securities with their December meeting, or more specifically, to stop the programme of net purchases of securities. From then on, the purchase volume will be limited to the extent of replacement of matured securities.

The Governing Council of the ECB therefore suggested that this year's weakening of economic activity in the Eurozone was likely to be only a one-off, and not a cyclical turnaround after more than five years of growth. Such an assessment is certainly not self-evident, as current economic growth in the third quarter fell to its lowest level in the last four years, while activity declined; for example, that of the German economy. This similarly applies to inflation, which the Council

1 See "ECB holds fast on stimulus withdrawal plans despite weak data", 2018, Financial Times, 22 November, <https://www.ft.com/content/8f6ac65a-ee52-11e8-b9c8-d36339d835c0>
 2 See "Monetary policy decisions", 2018, ECB, October, <https://www.ecb.europa.eu/press/pr/date/2018/html/ecb.mp181025.sl.html>.

assessed as documenting a satisfactory warming of the economy, although the price acceleration in 2018 is for practical purposes limited to the effects of the prices of raw materials, as documented by core inflation. After the acceleration at the end of 2017, core inflation, namely, fluctuated by around 1% per annum without noticeable further trend changes.

If the assumptions made by the Central Bank were taken as reasonable, Slovenia could peacefully welcome 2019. Sustainable growth on the part of the international environment, which directly absorbs almost 60%, and both directly and indirectly almost 80%, of Slovenia's exports, means that the current decline in the global economy would not reduce the annual growth of the Slovenian economy noticeably below 3%. Of course, such a conclusion takes into account quite a few assumptions, even without mentioning the accuracy of the ECB estimates. For example, the amount of the reduction in the export demand of the rest of the world is very important, if there is any, and also the estimate of the growth of exports to the Eurozone (or to the EU), i.e. the estimate of sustainable growth expected by the ECB. Domestic consumption is also very important, especially with the planned spending of the state, which is the only one allowing economic policy interventions in the uncertainty of events in the following year.

But regardless of these assumptions, great risks are not to be looked for among them. The alternatives that are dealt with in these assumptions (for example, by the OECD or the IMF) could only affect the usual normal cyclical calming, causing it to be more or less swift.

Greater risks could be connected to the collateral damage of the (wrong) moves of key players in the global economy, especially those who (can) change the rules. These are moves that could lead to the sudden blocking of Slovenia's access to its export markets, and thus the collapse of its export demand, or a standstill in the financing on the wholesale market that supplies the banks and the state. Dealing with high risks seems to be particularly interesting because, at the moment, there are a large number of forecasts by stockbrokers, academics and other experts concerning the crisis that

is just about to occur. Interestingly, in 2008 it was just the opposite. We had great difficulty finding those who dared to detract from the boundless confidence in the sustained growth supposedly enabled by the Washington Consensus. Four months before the collapse, the forecasts of even the most skilful institutions, published regularly by the Economist, did not indicate a decline in economic activity in the Eurozone in 2009.

In spite of the very popular questions about the materialisation of major risks, this paper will deal only with the first part of the statement of the Governing Council of the ECB, the one dealing with the sustainability of the recovery; the issue of the balance of risks will be set aside for another occasion. We will try to answer three questions: first, has the economy already crossed the cyclical peak in the current recovery, and is the decline in activity we are witnessing in 2018 really just a one-off deviation from otherwise sustainable growth; second, what caused the decline in economic growth this year and, in particular, how important is the actual final demand structure; and third, what are the national and economic opportunity costs of the current decline in economic activity, and what could economic policy do about these costs?

Dynamics of demand. Economic activity in the Eurozone noticeably accelerated at the beginning of 2013, and this dynamic continued until the end of 2017, before slowly starting to decline this year (2018). Nevertheless, the third quarter of this year was still within the limits of the dynamics that prevailed during the recovery period, which confirms that the aforementioned conclusion, made in October by the Governing Council of the ECB, could be reasonable. Economic activity in Slovenia had a similar dynamic, with the difference that it accelerated further in the middle of 2016 and so was growing three times faster compared to the rest of the Eurozone in 2017, before slowing down more noticeably than in the Eurozone at the beginning of 2018. However, despite all this, in the middle of this year it still remained within the limits of the dynamics that prevailed during the recovery period. It is unreasonable to assume that the recovery has started to decline on the basis of this slowing down of activity.

While the dynamics of recovery in the Eurozone and in Slovenia are similar, the demand structure that drives growth is noticeably different. The key differences are: significantly faster growth in export and investment demand (by around 6 percentage points per year), which has persisted for almost three years in export and under two years in investments, and in both cases the advance has further increased in 2018; noticeably faster growth in the country's spending on goods and services this year (by 4 percentage points at an annual level); and slightly faster growth of household spending this year (by 1 percentage point), but generally faster growth than in the Eurozone during the whole recovery period.

The only component of demand to have significantly deteriorated in its dynamics this year, given both the average of 2017 and the overall recovery period, was export demand. Its growth has reduced in both Slovenia and the Eurozone, but in spite of this, its growth in Slovenia still exceeded 10%, while it was only 3% in the Eurozone. This means that this year the growth in export demand in Slovenia has still noticeably exceeded the average of the recovery period, while in the Eurozone it has markedly lagged behind the corresponding average.

In the event of a decline in export demand, strong domestic spending on durable goods would be very

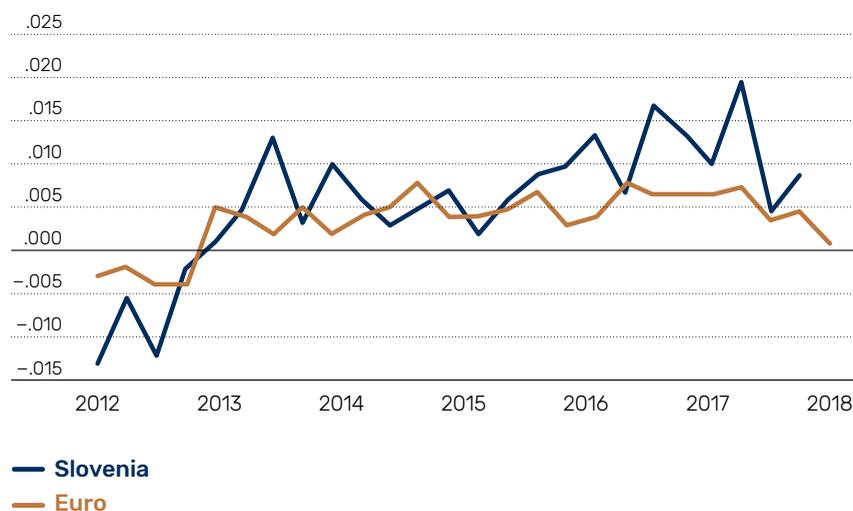
important for the sustainability of economic growth. These are mainly investments in fixed assets and household spending on durable goods.

In Slovenia and the Eurozone household spending on durable goods has been systematically, but very slowly, strengthening throughout the entire recovery period; in five years it has grown from around 8% to 11% of total household consumption (from 8.5% to 10.5% in the Eurozone) – so significantly less than this year's fluctuations in the growth of exports.

With regard to the potential effects on the sustainability of economic growth, Slovenia deviates significantly more from the Eurozone in its structure of investments than in household consumption. A much larger proportion of investments, which in Slovenia are intended for equipment and machinery and the construction of non-residential buildings (the actual share in Slovenia is 35% or 28% higher than in the Eurozone), is very important for the size of the cyclical fluctuation in activities. On the other hand, the share of investments intended for residential construction is very important for the average activity in the cycle and in Slovenia it is smaller by more than one half compared to the Eurozone. This shortage represents not only a potential space in domestic demand to replace, for example, the decline in export demand,

but also reveals the current nature of the warming of the real estate market, i.e. relatively high pressures on the prices of new flats. It shows that the offer of new flats is very limited, and the same is also documented by the volume (number) of transactions in new real estate, which is relatively smaller than the total transactions; it achieves less than one sixth of the volume from the pre-crisis peak in 2007, while the number of total transactions in the real estate market, including this summer, has already exceeded the pre-crisis peak.

Figure 1: **Dynamics of economic activity**



Source: Eurostat; own calculations

Note: Growth in GDP; intra-annual levels of growth; seasonally adjusted values.

Business restrictions. In the previous point, it was documented that this year's change – decline – in current economic growth could have been mainly the result of the decline in the dynamics of export. In order to verify such a conclusion, which is based on aggregate demand, it is necessary to at least examine activity at the micro level, i.e. the company level, particularly on the supply side. More precisely, it is necessary to look at the factors that impede the business activity of production units this year. Since the demand structure is strongly biased in favour of export, it is necessary to deal separately with the segments of production units which vary the most in terms of export demand, i.e. the production units of the trading and non-trading segment.

Table 1 shows the factors limiting the business activity of mentioned production units; comparison between the second half of 2017 and the second half of 2018 is made. Constraints in demand, available fixed capital (equipment and machinery), and available workers (work) are documented. The percentages of the production units of industry, construction and market services, which are seriously constrained in their business activity by demand, available fixed capital and available workers, are shown. Values are shown separately for the Eurozone and for Slovenia. The maximum constraints for each individual segment of production units are in bold, and shown separately for the Eurozone and for Slovenia.

It is evident that in Slovenia the business activity of industrial and construction companies is by far the most limited by shortages of workers (over 40% of companies in these segments are seriously constrained in business activity due to a shortage of workers). In the service sectors, insufficient demand is the main reason why companies cannot develop their business activity (this applies to almost 37% of enterprises). Demand constraints are felt by almost twice as many companies as constraints in availability of workers. Even a year ago, insufficiency of demand was similar in amount. Only in construction it was noticeably higher. Industrial enterprises are obviously ahead in the cycle, since last year they already had practically the same (very small) demand as this year. They are followed by construction companies, where last year demand constraints dropped significantly, while service companies, where demand constraints are still high and decreasing slowly, are far behind both of them.

In the Eurozone, also in the middle of this year, the greatest constraint on the business activity of companies was insufficient demand, but the demand structure (sectoral) was significantly more balanced than in Slovenia, since the intensity with which demand constraints the companies in industry, the service sectors and construction is significantly more uniform than in Slovenia.

Table 1: **Constraints in business**

	2018/III-IV			2017/III-IV		
	Industry	Services	Construction	Industry	Services	Construction
	Demand			Demand		
Euro	20.0	25.0	24.1	20.5	28.5	27.7
Slovenia	25.6	36.8	13.7	25.5	37.9	19.6
	Equipment and machines			Equipment and machines		
Euro	15.2	3.0	4.2	7.7	2.0	2.6
Slovenia	14.6	6.6	4.5	14.6	5.9	3.2
	Workers			Workers		
Euro	16.7	18.5	21.1	13.1	17.0	13.7
Slovenia	40.5	21.9	45.0	36.8	13.8	30.8

Source: Eurostat; EU Commission; own calculations

Note: Constraints in the operation of production units of industry, market service sectors and construction: percentage of companies; 2017/III-IV and 2018/III-IV.

The values in the table do not indicate that noticeable consequences of crossing the cyclical peak, such as the decline of (export) demand, could occur in the Eurozone this year, as the share of companies hampered by insufficient demand continued to decline in the middle of this year, or at least stagnated in all three segments. It is also evident that in the second half of this year, industry had most likely already crossed the cyclical peak both in the Eurozone and in Slovenia, as demand constraints have stagnated in the past year (from 2017/III-IV to 2018/III-IV).

The big difference between Slovenia and the Eurozone is in the room for growth that Slovenia has, due to its uneven increase in demand so far (considerable lag in demand for service sector products) and due to the significantly greater exposure to acceleration of the labour costs if activity (demand in its current structure) does not begin to slow down more noticeably in the near future. The values in the table also show that the times of investment demand are yet to come!

Expectations and prospects. Economic performance in the next few months (in the case of the usual cyclical movement of the economy) is generally well-enough documented already by the short-term expectations of economic units, especially production units and households. The former may draw conclusions about their own production in the next few months based on the dynamics of the orders obtained, while the latter, with their decisions on the purchase of more durable goods and investments, reveal the most uncertain part of the demand of private economic units.

Table 2 shows the latest trending changes in the short-term expectations of households spending on durable goods and investment in housing. Furthermore, changes in the volume of work (in months) of construction companies as indicated by their order books are shown; changes in the book of total orders follow, and the ones in the book of only export orders of industrial enterprises, and, finally, changes to the expected orders of companies from the service sectors.

Short-term expectations also confirm that industry most likely already crossed the cyclical peak in the period from

2017/III-IV to 2018/III-IV, both in Slovenia and in the Eurozone, since the state of the book of total orders of production units in the industry decreased in the period mentioned. Slovenia follows the Eurozone in the cycle of industry, as the reduction in the Eurozone is double that of Slovenia. Moreover, the level of export orders has been noticeably decreasing in the Eurozone, while the level of export orders in Slovenia was still increasing during the analysed period, so exports could not have triggered the calming down of the economic activity.

Even in the construction cycle, the Eurozone is ahead of Slovenia, but in both cases it is before the cyclical peak; the guaranteed work provided by the book of orders has increased in Slovenia in the period 2017/III-IV to 2018/III-IV by a month and a half, and in the Eurozone by (only another) half month.

The demonstrated changes in expectations indicate that households intend to increase spending on durable goods and the renovation of housing, although the increase is rather modest, especially when it comes to investing in housing. In contrast to Slovenia, households in the Eurozone show no major intent to increase their total spending on durable goods and housing renovations in the foreseeable (one year) future.

Only spending on services is still lagging behind the cyclical peak, both in Slovenia and in the Eurozone, as both experienced an increase in expected spending on services during the period analysed. However, in both cases the increase is minor in relation to the actual demand situation, which (as shown in Table 1) continues to be by far the greatest constraint on an increase in service company production.

Corrections and changes in the forecasts that are made when newer data become available are also good indicators of a turnaround in economic activity timing. Consider, for example, the forecasts published in Focus Economics³, which publishes the median of the forecasts of most institutions which prepare the forecasts for Slovenia; it is evident that the turnaround in the corrections to the forecasts for 2019 and 2020 occurred in June 2018 (up to June the forecasts had been rising every month, and after

³ "Focus Economics", December 2018.

Table 2: **Changes in expectations**

		Euro	SLO
Households	Major purchases (1y)	0.9	1.8
Households	Housing repair (1y)	-0.5	0.5
Construction	Guaranteed orders (m)	0.5	1.5
Industry	New orders	-10.6	-5.0
Industry	New export orders	-4.6	0.7
Services	Expected orders (3m)	1.6	0.6

Source: Eurostat; EU Commission – survey; own calculations

Note: Changes in expectations; expected household consumption; orders for industrial production units; orders for construction production units; expected orders for production units of market services; expected major purchases in the next year; expected housing repair in the next year; guaranteed orders – months of work; new orders in the last month; new export orders in the last month; expected orders over the next three months; the difference between the average of 2018/III-IV and the average of 2017/III-IV; change in the percentage of net (balance of positive and negative) answers.

June the forecasts for 2019 stagnated, while the forecasts for 2020 slowly declined), when data for the first quarter of 2018 became available. The same publication also reports the median of forecasts for the Eurozone of most of the institutions that also participate in the ECB's SPF survey⁴. For these forecasts there was a turnaround in the corrections to the forecasts in April 2018, when data for the last quarter of 2017 became available. Based on the above, we can conclude that the cyclical peak should have occurred in the last quarter of 2017 in Slovenia and in the third quarter of 2017 in the Eurozone. Otherwise, the latest forecast of Focus Economics for 2019 is 3.4% for Slovenia and 1.8% for the Eurozone.

Conclusion. After the cyclical peak at the end of 2017, the economy is cooling off. The shrinking of economic activity in the Eurozone is more intense, and is surpassing that of Slovenia by about one quarter. It is being primarily driven by a decline in exports, although the shortage of required workers has also been increasing rapidly.

The recovery, which is approaching its end, has not enabled the utilisation of the entire production potential of the economy either in Slovenia or in the Eurozone. The cyclical turnaround in economic growth is appearing at a time when, in the market service sectors, as many as 25% of companies in the Eurozone and over 35% of companies in Slovenia have insufficient demand, and when in Slovenia



PHOTO: Uros Hočevar

at high (non-credit-financed) demand, the supply of new flats has almost completely stopped, although their prices have been rising by almost 30% a year. Also, otherwise, spending on durable goods (by both businesses and households) is still quite modest. Given its limited room for manoeuvre, the economic policy options to neutralise at least some of these opportunity costs of a premature turnaround are very small. These options are significantly smaller than in the period of growing economic activity when the economic policy was successfully taking advantage of the room for maneuver made by targeted structural balance. Significant drawbacks of the structural balance (production gap) methodology of the European Commission, namely, come to their full expression close to the top (or bottom) of the cycle.

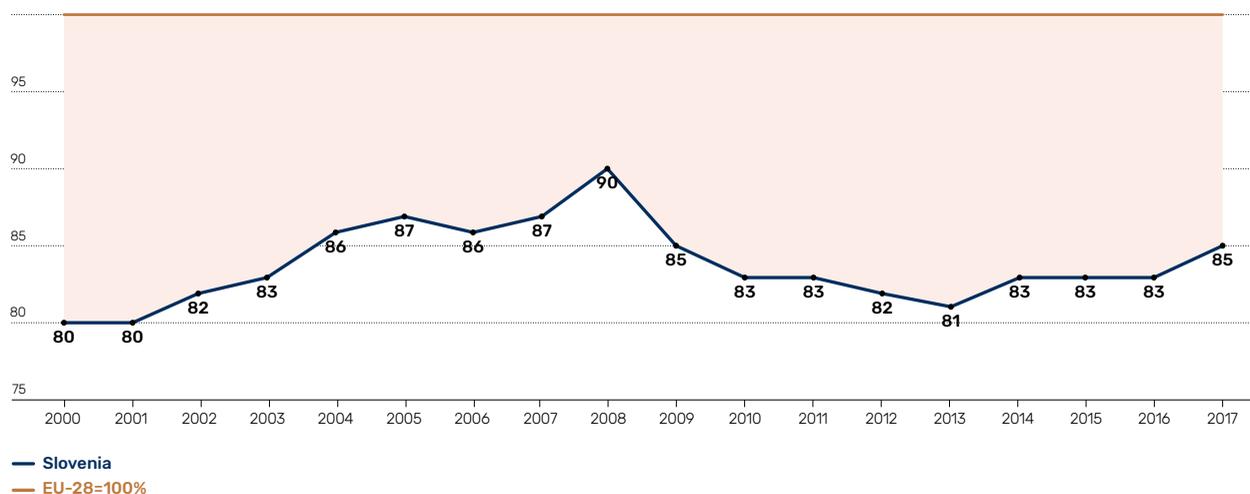
Moreover, the opportunity costs of the premature turnaround are only part of the opportunity costs borne by the Slovenian economy, due to the orientation of the economic policy towards static improvement in the key balance sheets in the economy. This policy was dictated by the European Commission after the outbreak of the crisis, and further elaborated by domestic economic policy makers. Such a policy is streamlined towards increasing competitiveness through internal devaluation, and, furthermore, towards blocking banks' balances and a pro-cyclical decrease in expenditures of the general government, and, finally, towards the economic and political promotion of exclusively export demand.

⁴ ECB "Survey of Professional Forecasters"

Review of the Slovenian economic policy in numbers

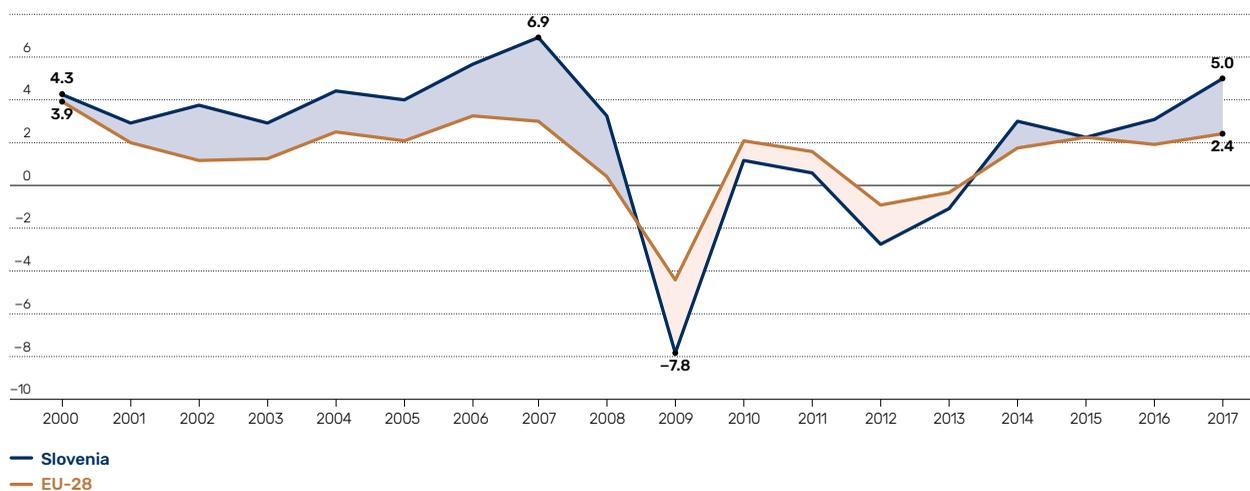
GDP per capita in PPP

in percent of EU-28



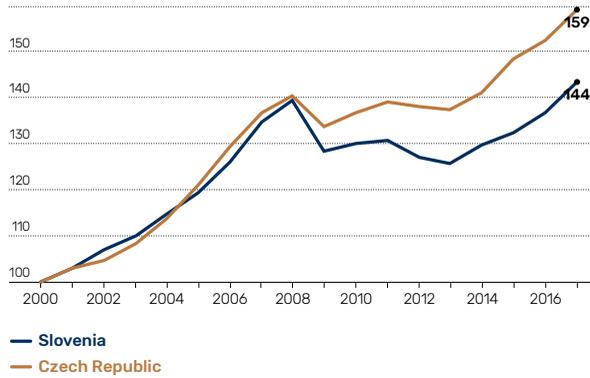
Real GDP growth

in percent



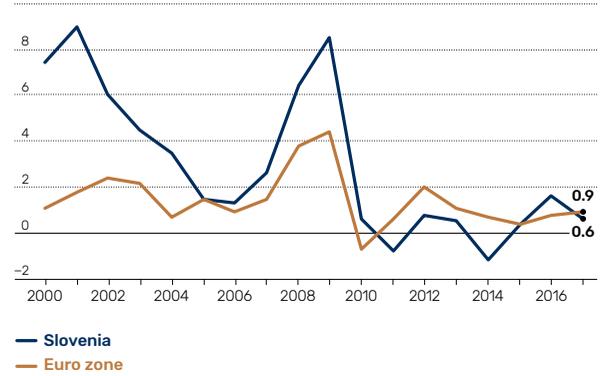
Real GDP growth of Slovenia and the Czech Republic

index, 2000=100



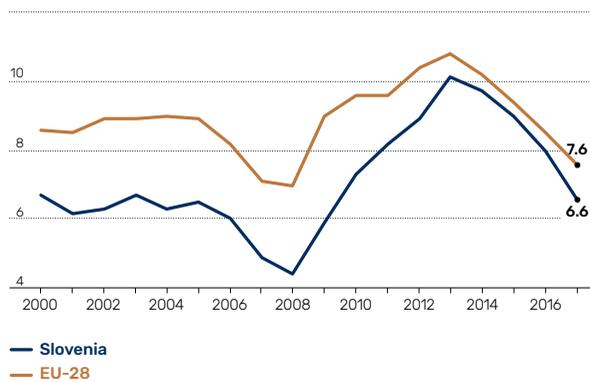
Nominal unit labor cost growth

in percent



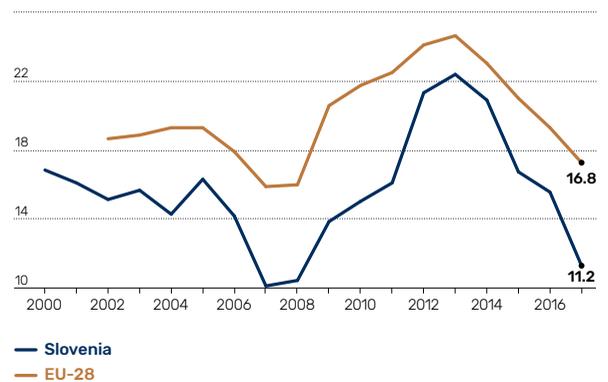
Unemployment rate

in percent of labor force



Youth 15-24 unemployment rate

in percent of labor force 15 to 24



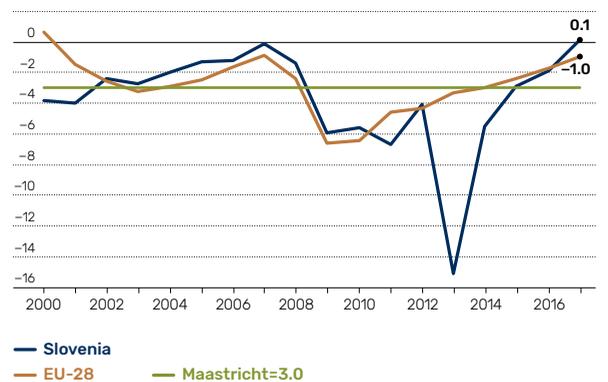
General government debt

in percent of GDP

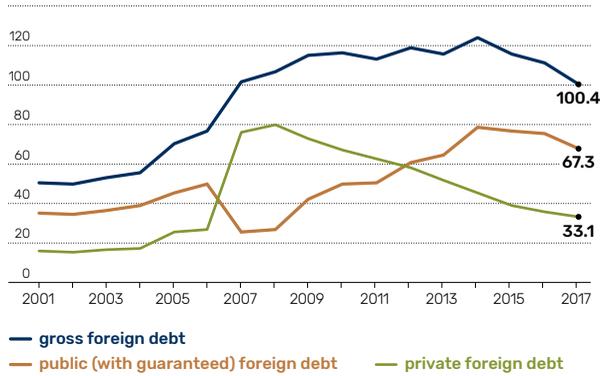


Public finance balance

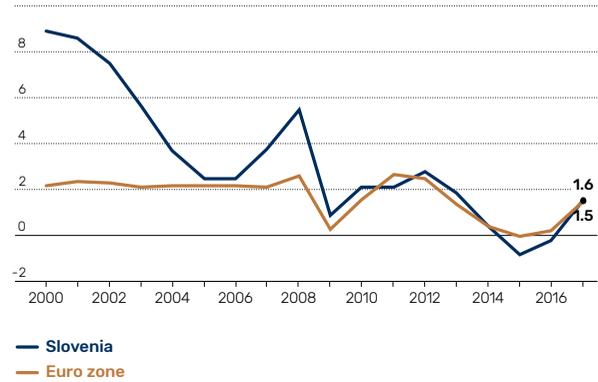
in percent of GDP



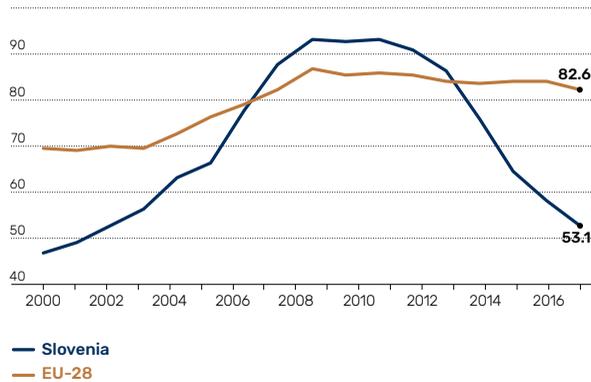
Gross foreign debt of Slovenia
in percent of GDP



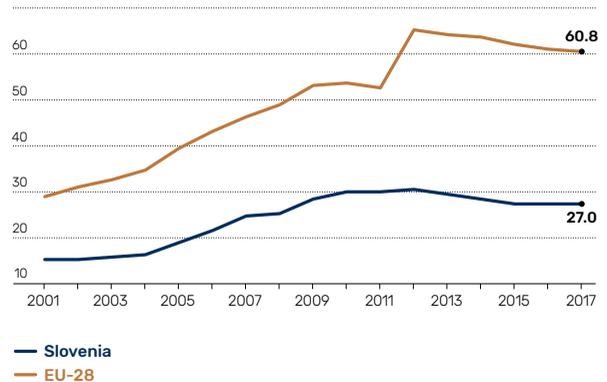
Inflation
HICP average yearly percent change



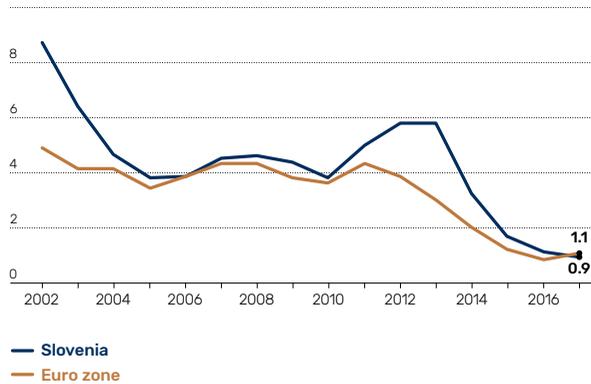
Loans to non-financial corporations
in percent of GDP



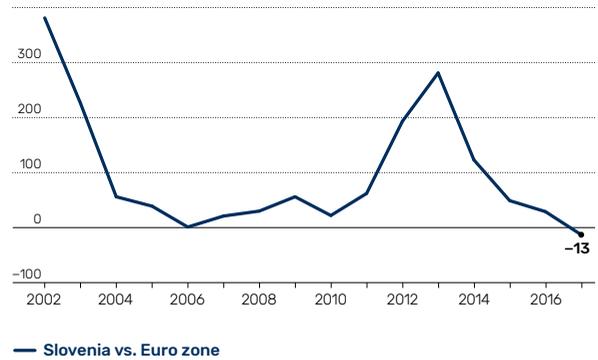
Loans to households
in percent of GDP



Interest rates
average 10 year government bond yield in percent

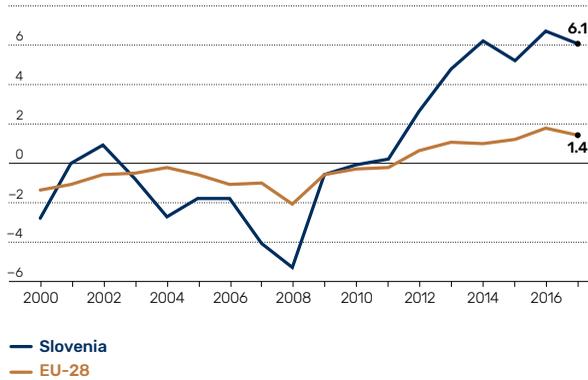


Interest rate spread
average 10 year government bond yield in basis points

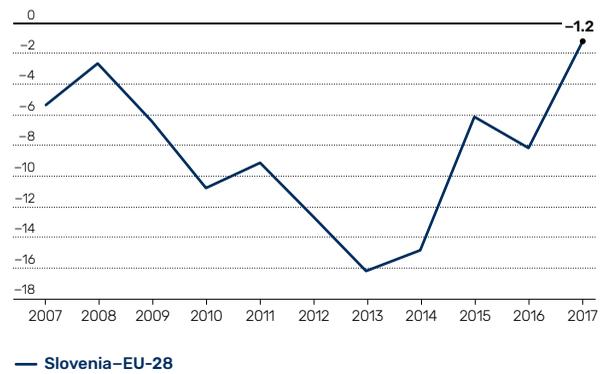


Current account balance

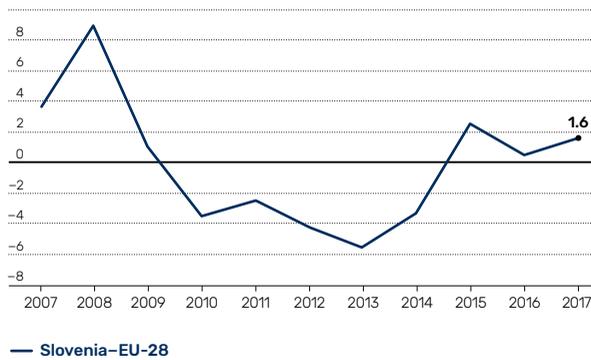
in percent of GDP

**Consumer confidence indicator**

deviation from index, (EU28=100)

**Economic sentiment indicator**

deviation from index, (EU28=100)



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Moj
življenjski
kasko

