3.3.4 Slovenia

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Introduction

The Republic of Slovenia is a small country with an area of just 20.271 square kilometres and one of the few on the Continent with a growing population (2.066.880 inhabitants, of which 15.0% under 15, and 19.4% over 65, on 1st January 2018). It lies at the heart of Europe, at the crossroad of four major European geographic regions, the Alps, the Dinarides, the Pannonian Plain, and the Mediterranean. Its immediate neighbours are Austria to the north is, Hungary to the east Hungary, Croatia to the south, and Italy to the west. The coastline is only 46.6 kilometres long, but there are 26,000 kilometres of rivers and streams, and around 7,500 fresh water springs, several hundred of them being first class therapeutic mineral springs. While the territory is relatively poor of mineral and energy resources (with some lignite, lead, zinc, building stone, and hydropower), forests cover half the territory which makes Slovenia the third most forested country in Europe, right after Finland and Sweden. This mostly hilly and mountainous country, with some 90% of the surface 200 metres or more above sea level, is rather unsuitable for agriculture, but an excellent place for tourism.

The country has a fairly evenly distributed population. The rate of urbanisation (54.27%) is rather low by European standards. The capital city, Ljubljana, has got 280.000 inhabitants (2015). The next most populous city is Maribor (95.000), but the following ones, Celje and Krajn (each with 38.000 inhabitants), are much less important.

The main economic and political process in the country after 1990 was Slovenia's threefold transition: "from socialism to a market economy, from a regional to a national economy, and from a part of SFR Yugoslavia to an independent state and member of the European Union" (Mrak *et al.* 2004: ix). This process, together with the three waves of privatisation which have been its essential element, fundamentally influenced business environment, macroeconomic performance, as well as the quality of institutions and living conditions in the country.

1. Political context and quality of institutions

At the very beginning of transition, because of the inherited macroeconomic situation (of former Yugoslavia), characterized with a huge debt, hyperinflation and high level of imbalances in the economy, the tasks of macroeconomic stabilisation (and further internal and external liberalisation) mixed with the tasks of structural and institutional reforms (also the establishment of the missing institutions, such as a central bank and a national currency, customs systems, and a worldwide diplomatic network), privatisation of state-owned assets, reform of the enterprise and the financial sector, the public utilities, the pension and tax system, the social welfare system, and the public administration.

The introduction of the new currency (tolár) in October 1991, happened at a time when the new central bank (Bank of Slovenia) faced a double-digit monthly inflation, a highly indexed economy, with no international reserves, and a huge legacy of nonperforming loans in large commercial banks. The central bank's primary concern could not be but price stability. As annual inflation was reduced to single-digit levels by mid-1995, and foreign reserves increased from almost zero to the equivalent of 7.1 months of imports by the end of August 2003, the Slovenian central bank established itself as a credible institution. International respect for the country's economic governance was further strengthened by a roughly balanced general budget and a fiscal environment conducive to foster growth.

Ljubljana declared independence on 25th June 1991. Following a war against the Yugoslav army which lasted 10 days, the European Community acknowledged Slovenia as a sovereign state on 15th January 1992. Once the independence had been achieved, and following a two-year long transitional recession (aggravated by the rapid disintegration of Yugoslavia), Slovenia experienced an unprecedented period of unbroken economic growth that ran from 1993 until the outbreak of the 2008 crisis. These 16 years were marked by a gradual transformation from socialism to a market economy, also integration into western structures through gaining membership in all important international institutions (World Bank, IMF, UN, GATT, WTO, and OECD). Here, it is to be noted that the apportionment of the former Yugoslavia's external debt served as a precondition for Slovenia's full integration into the international financial system. The country entered both the EU and NATO in 2004.

What were the fundamental causes behind these achievements? First, the legacy of the former SFR Yugoslavia. Slovenia inherited a strong tradition of a quasi-market system with relatively independent enterprise management structures running their firms which, in contrast to those in other planned economies, were directly exposed to some degree of competition. Second, Slovenia was by far the most developed and industrialised part of the SFR Yugoslavia. In 1990, its share in population, GDP and exports accounted for 8, 20 and 29% of the federation respectively. Its contribution to the federal budget amounted to 16.8%. Following independence, in terms of GDP, its deliveries to the federal budget declined from 7.2 in 1990 to 0.9 in 1991 (and then to zero) which meant an even greater relief than when the Czechs separated themselves from the less developed Slovakia in 1993 (Žídek 2016: 164).

Finally and surely, what was the main driver behind the success story is gradualism. Just like the Yugoslav self-management system had been a sort of moderate version of socialist planned economy, with the business sector enjoying ample freedom in their investment, production and pricing decisions, similarly the independent Slovenia adopted the mildest possible version of capitalism, a Nordic-type market economy, with high degree of social cohesion and low levels of income inequality (the Gini coefficients, both before and after social transfers, are amongst the lowest in EU28.). The success of this socio-economic model, built on gradualism has largely contributed for this small country to become the fastest growing economy and the first new EU member to introduce the euro in the former Eastern Bloc. This strategy, which enabled it to build up the region's most stable and efficient state institutions, made Slovenia the most Westernised post-socialist country. In the early years of transition, it exhibited all the attributes of Western European small states mirrored in its economic openness, capitalist accumulation (of which high level outward FDI), "protective and efficiency-enhancing compensatory policies, macroeconomic stability, and governance by established democratic and neocorporatist institutions" (Böhle and Greskovits 2012: 182).

The success story is well reflected in Slovenia's Human Development Index (HDI) value which, for 2017, was 0.896 placing the country 25th out of 189 countries and territories, following France, but ahead of Spain, Czechia or Italy. In the period of 1990-2017, Slovenia's HDI value increased by 16.8%. Life expectancy at birth increased by 7.9 years, mean years of schooling by 1.3 years, and expected years of schooling by 5.2 years. The country's GNI per capita improved by about 61.8% between 1990 and 2017. Since 2010, an approved indicator (IHDI) takes into account inequality in all three dimensions of the HDI by "discounting" each dimension's average value according to its level of inequality. For this improved indicator (IHDI) Slovenia ranks even better than for HDI, and stood at 14th position (out of 151) in 2017, ahead of countries like Belgium, the UK, Austria, but also Singapore, Hong Kong, France, and the USA.

It has to be noted, however, there are traditionally sharp dividing lines in this small country's society between left and right, religious and irreligious, urban and rural, public and private (Szilágyiné 2019). Ever since the beginning of the transformation there has been a struggle between the new and the old elites. As long as the latter held their position firmly, the transition was gradual. From 2004 on, however, political power relations changed, and gradualism was halted. The result: severe banking crisis and double-dip recession in the economy. Although the country could avoid to be bailed out, but, under extreme pressure from both international markets and the EU institutions, it had to accept a growing interference by the latter in Slovenian post-crisis bank restructuring and economic governance, which resulted in decreasing democratic oversight of national banking policy: by "the hollowing out of democratic institutions, and strengthening of the executive, rule-based policy-making" the process narrowed fiscal democracy in Slovenian banking policy formation (Piroska and Podvršič 2018: 32).

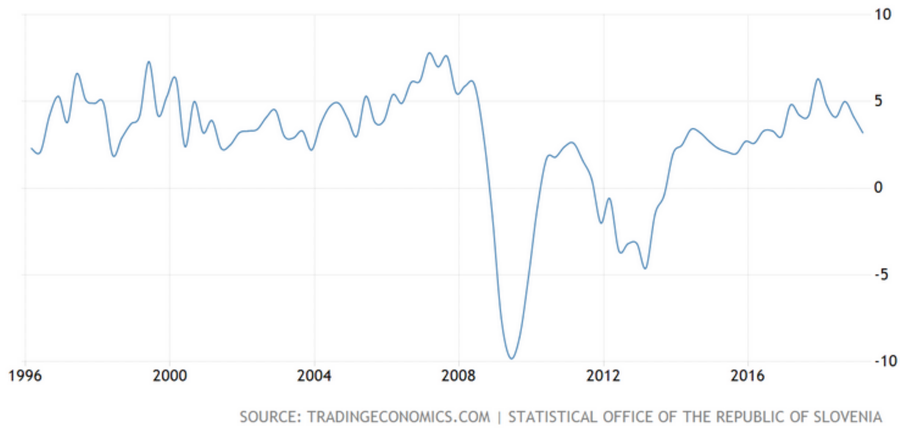
The impact of the above processes has also been reflected in the quality of the institutions, which has not been very flattering for Slovenia. The Worldwide Governance Indicators (WGI) project constructs aggregate indicators of six broad dimensions of governance, based on over 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. Indicators for Slovenia tend to show a rather disappointing picture. Three out of the six aggregate indicators have, throughout the whole period 1996-2017, been continuously deteriorating: in 1996, 2004 and 2017 Slovenia ranked 26th, 33rd and 44th for "Voice and Accountability", 15th, 35th and 49th for "Political Stability and Absence of Violence/Terrorism", and 31st, 47th and 59th for "Regulatory Quality". In the case of "Control of Corruption", the country's position (35th, 35th and 44th) declined following the EU accession. It is to be added that, since 2013/2014, there was some recovery in ranking, save for "Regulatory Quality". The picture is different for both "Government Effectiveness" (39th, 42nd and 33rd position) and "Rule of Law" (31st, 43rd, 37th), as following a declining period until 2004, indicators improved afterwards. These improvements were probably due to the external pressure coming from both financial markets and the European Commission, especially from the early 2010s on, when Slovenia went through a very difficult period, and was almost in a position of having to ask for being bailed out by international institutions like some other Mediterranean countries did beforehand.

2. General economic outlook

After a two-year recession in 1991/1992 caused by the rapid disintegration of Yugoslavia, the independent Slovenia enjoyed a remarkably long era of uninterrupted economic growth between 1993 and 2008. In spite of having been one of the most advanced countries of Central East Europe at the beginning of the transition, Slovenia did better than any other fast-growing country of the region in catching up with the old EU member states. In the period of 1988-1990/2006-2008, it reduced its development gap vis-à-vis the EU15 by 13.9% in terms of real GDP per capita, more than Estonia (10.0 pp.), Poland (7.5 pp.) or Slovakia (4.8 pp.) did, all of them starting from much lower levels of development than Slovenia (ERS 2015). In the following period, the economy suffered a double-dip recession: in 2009, real GDP fell by 7.8%, which means that within the eurozone, Slovenia was the country most severely hit by the first wave of the global crisis. After a small recovery in 2010 and 2011, negative growth returned in 2012

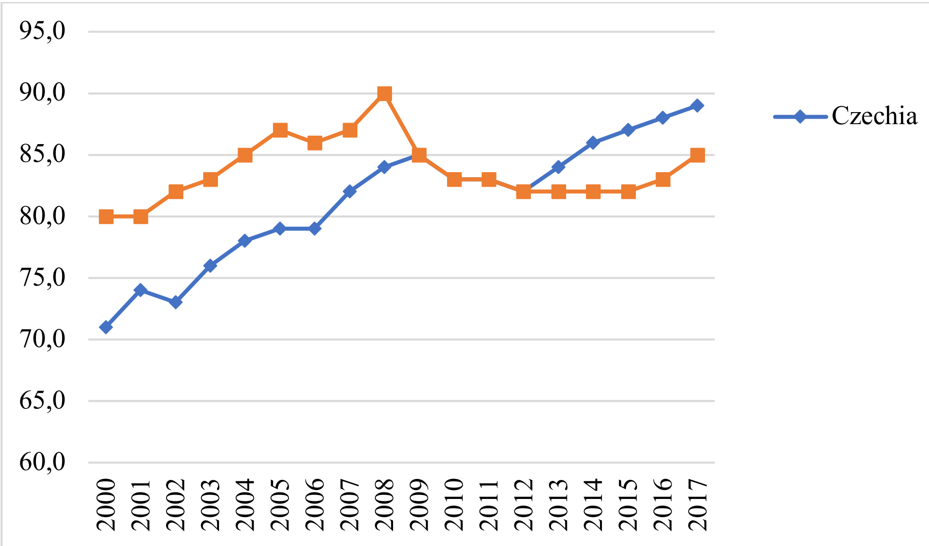
(-2.5%) and 2013 (-1.0%). From 2014 on, however, the country has returned to steady growth. It took until early 2017 before GDP reached its pre-crisis level.

GDP growth rates.



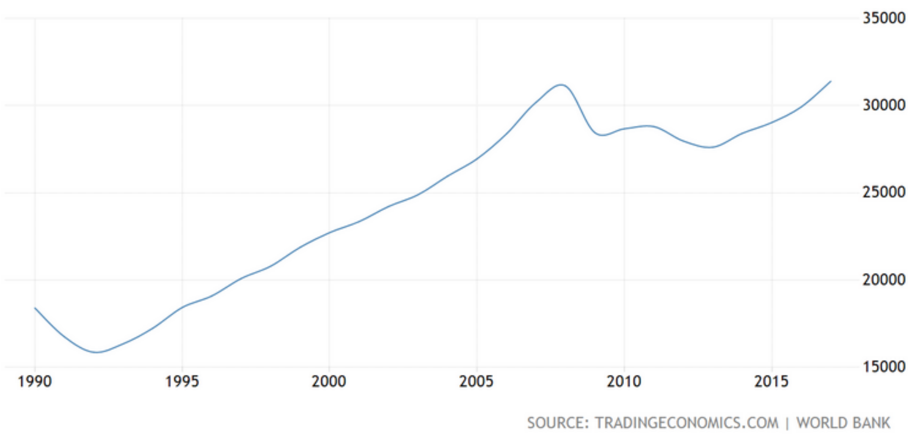
Purchasing power adjusted GDP per capita in Slovenia stood at 79.8% of the EU28 average in 2000. In the year of the EU accession (2004) it was up to 85.8%, and the year of Slovenia's entry into the eurozone (2007) 87.0%. Things started to go wrong afterwards. At the height of the crisis (2013), the indicator deteriorated to 81.7%. Even if, by 2017, it climbed up to 85%, it was not only well below the level the country introduced the euro, but also below the level Slovenia entered the EU. Using Czechia, a country which have not introduced the euro yet, as a control panel, we can find the following data: 71.7% (2000), 78.2% (2004), 82.4% (2007), 83.6 (2013), and 89.3% (2017).

Purchasing power adjusted GDP per capita (EU28 = 100).



Source: Eurostat

GDP/capita, (USD, PPP)



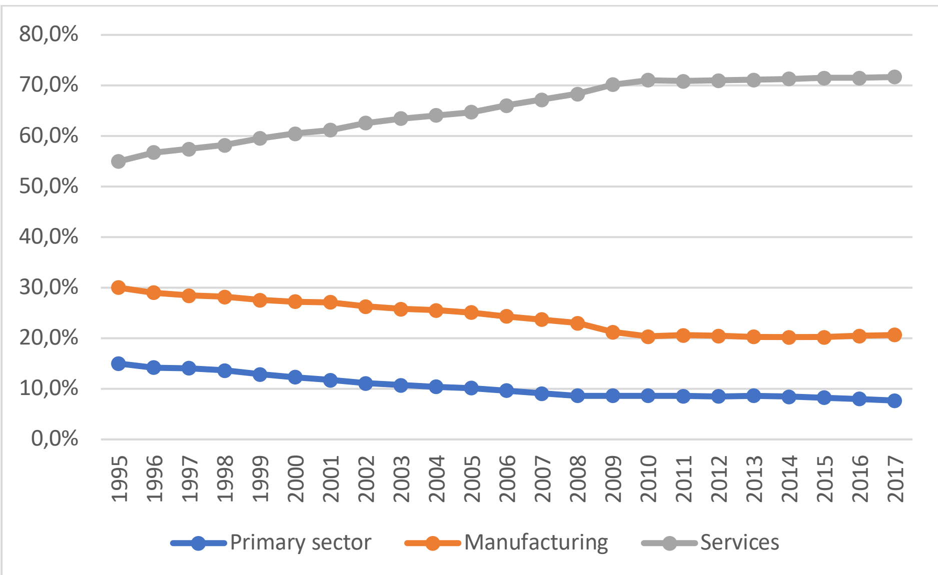
As already mentioned, the economic situation has been improving since 2014. The main driver behind this recovery was foreign demand, coupled with improved competitiveness of Slovenian exporters and their favourable sectoral structure which facilitated rapid growth in exports. Domestically, due to the restructuring of the banking system and the gradual fulfilment of fiscal commitments, which improved the country's standing on financial markets, economic growth has become more broad-based. So, apart exports, remaining the most dynamic component of economic growth, domestic consumption has increased as well. Household consumption has been growing since the last quarter of 2013, stimulated by favourable labour market trends and high consumer confidence. Since 2017, gross fixed capital formation has also increased at a steadier pace, becoming the third main driving force of GDP growth. Investments in equipment and machinery have been growing since 2014, while from 2016 on, housing investments started to speed up as well, after having seriously (by circa 60%) declined during the crisis.

As a consequence, and as for the basic structure of GDP, Slovenia performs a relatively low share of public consumption (17.8 % in 2018, the EU28 average being 20.0 %). This indicator started from comparatively low level before crisis, went up a bit over 20 % during the first years of the crisis, and is declining since 2012. The same holds true for private consumption, with a share of 50.8 % of GDP in 2018 (EU28 average being 55.5%), 51.1% in 2007, over 55% from 2010 to 2013, and declining since then. Investments topped just before the global crisis (29.6% in 2008), fell sharply during the next two years, slightly decreased/stagnated until 2016, and gained momentum since then. In 2018, GFCF stood at 19.7%, not much below the European average (20.5%). The ratio of both exports and imports (of goods and services) to GDP has traditionally been very high, one of the highest in the EU. Leaving out 2009, a year when international trade dropped worldwide, both indicators have continuously been increasing throughout the whole period of 2007-2018. In 2018, imports stood at 75.7, while exports at 82.5% of GDP.

The robust economic growth of recent years has also boosted the labour market. Despite positive developments (e.g. growing employment, falling unemployment, increasing activity rate), structural challenges remain. The working-age population is shrinking as a result of demographic change. This could hamper economic growth in the future. It also poses challenges to the sustainability and adequacy of the pension, health care and long-term care systems. In addition, labour-market participation remains low for older workers, in particular those with lower levels of education. The tightening labour market is putting some upward pressure on wages, although wage growth remains somewhat lower than expected. In short, Slovenia faces some structural labour market weaknesses, notably a weak employment situation of low-skilled and older workers, as well as a mismatch of labour market needs and skills.

In 2017, 7.7% of the Slovenian workforce was employed in the primary sector (agriculture, fishing, mining, forestry), 20.6 % in manufacturing, and the remaining 71.7 % in services. In 1995, the distribution of workforce displayed a different pattern: the above data were at a level of 15, 30 and 55 % respectively. The decline in the share of both the primary and secondary sector, as well as the increase in the share of the tertiary sector have been gradual. But, it should be noted that the major part of this move was completed by the outbreak of the global financial crisis, and there has been very few changes since then.

National accounts employment data by industry.



Source: Eurostat

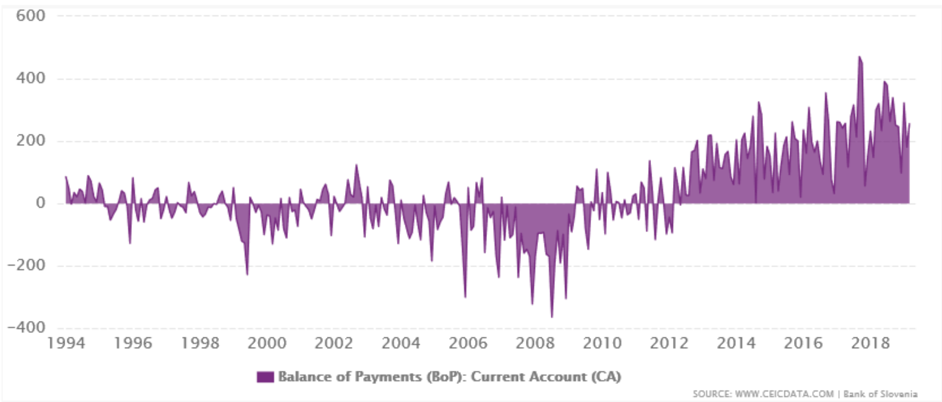
Two other notable changes can also be observed in the structure of employment. First, both young and older workers saw their employment shares decline, especially in the early years of transition. The young ones faced more difficult access to jobs because of the tightened labour market, so making schooling at the college level became more attractive for them; while the old ones escaped unemployment through government-sponsored early retirement programs. Second, the educational structure of the employed improved greatly: the share of those unable to complete elementary school fell sharply, while the share of those with a high school education increased considerably.

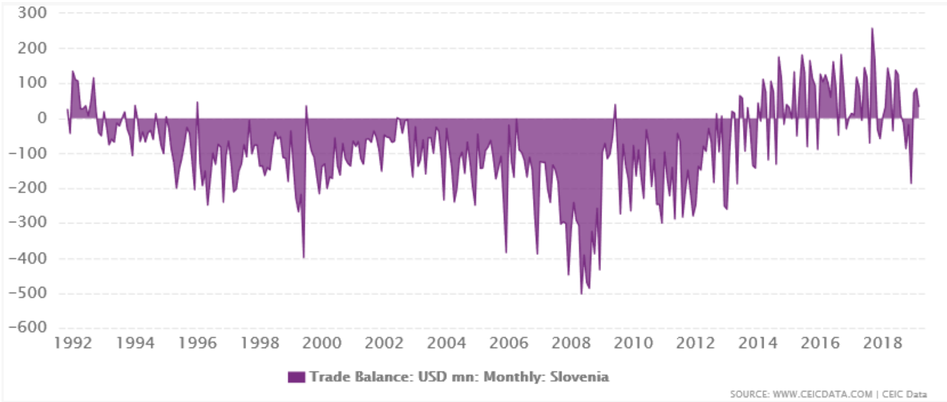
In 2017, the share of wages stood at 41.9% of GDP. Although it was a net (2.6%) decline vis-à-vis 1997, Slovenia ranked third (together with Germany) in the EU28, behind Denmark, and Luxembourg, but well above the European average. Trade union density tended to decrease throughout the 2013-2016 period, but remained relatively high in Slovenia, somewhere between 25 and 30 %. The union structure is fragmented, with seven separate union confederations, although one of them, ZSSS (Zveza svobodnih sindikatov Slovenije, Association of Free Trade Unions of Slovenia), being clearly dominant. In Slovenia, the activity rate has traditionally been higher than in Italy or Croatia, but lower than in Austria. In 2017, it was 74.2%, the best data since 2008, higher than both the EU28 and EU15 average.

Following a 5-year declining trend, Slovenia's total unemployment rate decreased to 4.4% by March 2019, i.e. back to before crisis level, after having climbed to over 10% in 2013. In Slovenia, collective bargaining takes place at industry-level negotiations, setting pay and conditions for the vast majority of employees covered by bargaining. The ending of compulsory membership of the Chamber of Commerce and Industry for employers, and the 2006 Collective Agreements Act, which stated that only employers or employers' associations with voluntary membership could sign collective agreements resulted in that many employers have chosen to withdraw from collective bargaining. The proportion of employees covered by collective bargaining has fallen from 96% in 2005 to an estimated 65% by ten years later. Temporary contracts have always been very common in Slovenia, due to high share of students combining study and work.

Temporary employees' rate for people aged 15 to 64 was 14.6% in 2017, of which young people aged 15 to 24 accounted for 71.6% of the contracts. Labour productivity progressed by 9% from 2010 to 2018, somewhat slower than in the V4 countries (except Hungary) or the Baltics, but much faster than most of the EU15, let along Italy. A comparison of global overall productivity in 2014 presented Slovenia as, by far, the most productive of the EU13 new countries. The share of Slovenian citizens of working age (20-64) living in another Member State increased from 2.4 to 3%, in the period of 2007-2017. While Slovenians are amongst the less mobile nations in the EU28, they rank first when it comes to the rate of employed of those living abroad (more than 80%).

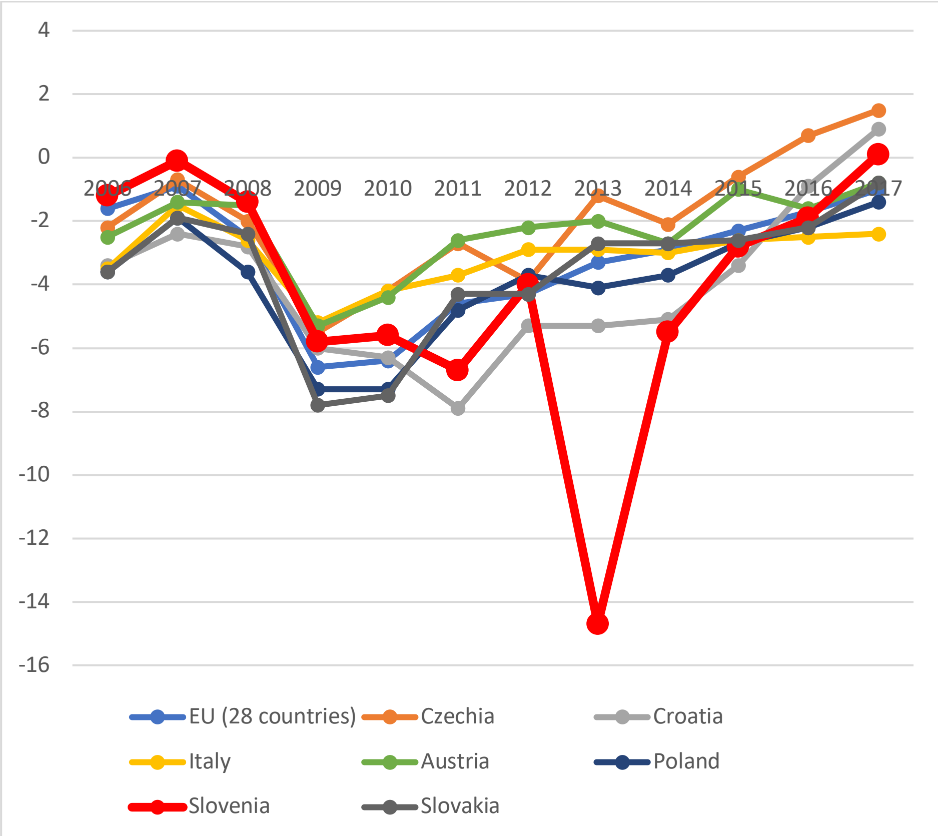
As far as the macro equilibria are concerned, both trade and current account balances are mostly positive since 2013/2014. A turning point in trend can, however, be observed lately, as a 300 million euro wage increase for the public sector, decided upon in December 2018, started to have an impact on the economy.





The general government balance has improved spectacularly in recent years. Deficit declined steadily after peaking in 2013 (at -14.7% of GDP). In 2017, Slovenia reached a slightly positive fiscal position (+0.1) due to improved macroeconomic circumstances following the stabilisation of the banking sector, the recovery of domestic and foreign confidence, and the measures implemented to increase revenue and restrain spending. Except for 2013, and to a lesser extent 2014, the years of bailing out banks, general deficit has always been in harmony with that of its neighbours (as well as Poland and Czechia).

General government deficit (-) and surplus (+).



Source: Eurostat

Following brisk growth until 2015, general government debt as a share of GDP did not start declining until 2016 and remains at a high level. General government debt surged from 2008 to 2015 (from 21.8 to 82.6% of GDP), but dropped since then to reach 73.6% in 2017. Factors behind this improvement include sustained economic growth, as well as an active debt management in favourable borrowing conditions. Nevertheless, debt remains high and restricts the fiscal space to cope with possible shocks, or ease austerity measures. General government expenditure has been declining since 2014, and in 2017 reached a level (43.2% of GDP) which was clearly lower than that of any of its neighbours. Inflation was gaining momentum, but remained low. After a two-year period of deflation in 2015

(-0.5%) and 2016 (-0.1), it rose to 1.4% in 2017, and reached close to 2 % in 2018, especially due to higher oil prices.

Despite the reforms of 2010-2014, stemming from austerity type crisis management, and the need for rescaling of Slovenian state regulations in line with the EU single market and eurozone constraints, social protection system remained complex, and consists of rights and services derived from various compulsory social insurance systems (old-age, disability, health, unemployment, professional disease) and a system of rights (benefits and services) which are tax-financed and categorical or mostly means-tested (protection of persons with disabilities, social assistance, child and family care). Reforms, starting in 2010, introduced means tested social transfers and subsidies, whereby allowances are attributed on the basis of income and wealth, in line with new welfare principles, meaning that benefits moved from being universal to targeted and conditional.

3. Quality of entrepreneurship

In former Yugoslavia, under the system of workers' self-management, companies were operating in a quasi-market environment in relatively independent managerial structure, and had, to a certain degree, been exposed to competition. After the 1965 reform, which further liberalised the system, managers could feel themselves like quasi owners of the companies they managed. Despite inherent inefficiencies of the system (in the form of forced equalisation at both micro and macro level), the country progressed towards becoming a market economy: by the end of the 1980s, all prices and imports were liberalised.

The process of privatisation of the corporate sector – at least at the level of principle – started already in the Yugoslav era. Amendments to the federal constitution, as well as some laws on economic and labour relations at the end of the 1980s (the Enterprise Act, the Law on the Circulation and Disposal of Social Capital, the Law on Social Property) (Mencinger 2006: 5) – while limiting workers' self-management rights and allowing socially owned firms to transform into mixed companies – tried to find a solution to the problem of insolvency: bankruptcy rules were put in place, and companies in distress were allowed to include private capital to carry out the necessary restructuring (Pleskovič and Sachs 1994:210).

The first wave of privatisation still bore the imprint of the socio-economic heritage of the preceding communist regime, the old elite having taken prominent part in it. This ensured a degree of continuity and resulted in balanced macroeconomic development. It was a mixture of free distribution, internal buyouts with discount and the possibility of deferred payment to employees, and commercial privatisation. In profitable small and medium-sized labour intensive firms (i.e. in more than 60% of the cases), workers and managers obtained majority ownership. The second most popular method for privatisation (in over 10% of the cases) was applied in profitable large firms – in fact too large for insiders to acquire a majority stake – where managers tried to maintain their influence by combining internal distribution of shares with public auction, thus opting for dispersed shareholder structure rather than strategic and/or institutional owners. At the end of the first wave of privatisation, which was followed by a non-transparent domestic consolidation of ownership, managers, domestic companies, and state and private funds were the key economic players. This model enabled the state to maintain significant ownership in privatised firms through state-controlled (pension and restitution) funds. Foreign and/or strategic investors played a much smaller (also less than desirable) role.

Things began to go wrong during the second wave of privatisation. Due to political inexperience and internal division, the new elite lost the 1992 election and the old elite governed the country for the following 12 years. When the new elite came back into power in 2004, the centre-right forces tried to take control of the economy and even large parts of the national media. In less than a year, they managed to put their faithful men into the managerial and supervisory boards in both government-related companies and state-owned banks, and, by forcing the latter to finance MBOs in the former, they exposed both banks and companies to extreme risks. By doing so, they also overheated the economy, especially in cyclically sensitive sectors like construction, real estate and financial mediation.

Credit expansion was bolstered, first, by the country entering the European Exchange Rate Mechanism (ERM-II) at the end of June 2004, whereby the Bank of Slovenia practically lost control of the amount of money in circulation; second, by the introduction of the International Financial

Reporting Standards (IFRS) in early 2005, replacing the previous conservative regulations with much more permissive ones; third, by growing competition among the banks, pushed especially by foreign banks who proved to be very aggressive in their efforts to expand their market share. Among factors on the supply side, undoubtedly the most important was the fourth one, i.e. the large supply of assets available on the international financial markets. In the period of 2004 to 2008, Slovenian banks borrowed massively from the interbank markets, and provided domestic companies with cheap loans.

It was at the intersection of supply side (more financing) and demand side (more investment) that the problems leading all but to sovereign crisis concentrated:

- the Slovenian banks faced increasing exposure to risks arising from a maturity mismatch (i.e. short-term liabilities outweighing short-term assets), as interbank credit had historically been short-term, whereas loans issued to the private sector were typically long-term;

- a substantial part of the above mentioned loans financed the corrupt insider privatisations (i.e. consisted of soft funding for buyouts by politically connected managers);

- the most dangerous was the very way in which the banks provided loans for this "conquest" (i.e. totally inconsistently with the principle of risk minimisation). On the one side, companies actively invested beyond their core business, and whereby created a real estate boom. On the other side, the banks, by letting an exceptionally high proportion of loans be tied to the value of properties which were pledged as collateral, exposed themselves to excessive risks. Also, they committed similar errors by financing companies carrying out leveraged buy-outs (LBOs) (Bank of Slovenia 2015: 20).

This "conquest" attempted by the new elite came in the worst moment and played a crucial role in Slovenian economy having, since the outbreak of the global crisis, to suffer the Eurozone's deepest slump. It was only after years of hesitation over the seriousness of the crisis, and several changes in governing power, under the pressure coming from both financial markets, in the form of encouraging speculation over a possible bailout, and the European institutions to introduce austerity policy, and comprehensive bank recovery measures, that the Slovenian economy came back from the brink.

Here two remarks need to be made. First, although the economy has been put back on track in terms of growth, the recovery is still fragile, mostly driven by exports which in turn are fuelled by internal devaluation. This means that important strata of the population are far from enjoying any of the blessings of this recovery. Poverty is gaining ground especially in the countryside. The gradual weakening of labour bargaining power and its institutional capacities to impact on policy-making over major macroeconomic decisions accelerated in the post-2008 period. Second, although the country could avoid a direct intervention of the troika, the price to be paid was huge: the Slovenes were forced to give up their traditionally cautious attitude about privatisation and agreed to start a new program involving the sale of several of their nationally important entities.

The third wave of privatisation included fifteen corporation from various sectors (of which some strategic such as banks, the national airways and airport). The process can be followed and checked on at the Slovenian Sovereign Holding (SSH) website. What immediately strikes the observer is that all closed transactions involved companies that passed into foreign hands. As far as the financial sector is concerned, in exchange for the ECB's approval to recapitalise the banks, the Slovenian government was forced to promise to privatise them: to fully privatise the second and third biggest banks (NKBM and Abanka), and partially privatise the first one (NLB). NKBM has already been sold to the US equity funds Apollo Management (80%) and EBRD (20%). Abanka has to be privatised by the end of 2019. As for NLB, 65% of its shares were sold at the end of 2018, in an initial public offering (IPO) process on Ljubljana and London Stock Exchange; the rest of the shares of up to 75% minus one share were to be sold by the end of 2019. The flip side of this process is that, apart from its already mentioned contribution to democracy deficit, the growing influence of the EU institutions on Slovenian banking policy "prolonged and deepened the banking crisis in Slovenia, contributed to a costly state rescue that boosted state debt and led to the privatisation of the key systemic bank which will have a negative long-term effect on Slovenian fiscal balance" (Piroska and Podvršič 2018: 30).

The Global Entrepreneurship Monitor (GEM) was established in order to measure the differences regarding the relationship towards entrepreneurship, uncover factors that encourage or hinder entrepreneurial activities, provide a platform for assessing the extent to which entrepreneurial activity influences economic growth, and reveal policy measures for the purpose of enhancing entrepreneurial capacity in an economy. In 2017, 34.6% of Slovenian adult population saw the possibility of future business opportunity, which ranked the country 40th globally and 12th in Europe. The percentage has been on the rise during the last couple of years: in 2015 it only amounted to 20.5%. As for the self-perception potential, 53.3% of the population believed they had the required skills and knowledge for entrepreneurship, which ranked Slovenia 18th globally and 1st among the European countries that participated in the survey. Successful entrepreneurs were also of great respect by Slovenian society, an opinion is shared by 73.4% of adults, which ranks Slovenia 5th in Europe. But, the percentage of people believing that entrepreneurship represents a good career choice (55.1%) ranked Slovenia in the middle of the European scale. Total early-stage entrepreneurial indicator (TEA) is one of the basic measures of GEM research, which measures the percentage of the adult population aged between 18 and 64 that are in the process of starting or who have just started a business venture. In 2017, Slovenian TEA reached 6.85%, which was below the European average (8.07%). The next phase in the development of enterprises is the so-called established entrepreneurship, consisting of entrepreneurs who own businesses and have paid salaries for more than 42 months. In European context, Slovenia ranked 10th among 20 countries in 2017. Business discontinuation is the final stage of entrepreneurial process. In Slovenia, 17.2% of entrepreneurs discontinued a business, mostly due to lack of profitability, but also due to government/taxation policies or bureaucracy. Reflecting all the above, Slovenia's 2017 GEM spider chart shows that expert ratings of the national entrepreneurial framework were in line with the European average, the level of physical infrastructure ranking highest, while entrepreneurial education at school stage and government policies/taxes and bureaucracy the lowest. The latter indicator, together with cultural and social norms were below European average.

On the list of WEF's Global Competitiveness Index (GCI) Slovenia scored 35th out of 140 countries in 2018. This means a clear improvement from the 42nd position in 2008, mainly because of improved macroeconomic indicators (of which inflation and debt dynamics). The other main pillars of the GCI did not change spectacularly, and most of them were close to the level of the high income group average or the Europe-North-America average. Exceptions were the "market size" and the "financial system" indicators for which Slovenia ranked well below the control groups, and macroeconomic stability for which the opposite was true. Slovenia ranked among the best for the "cost of starting a business", "macroeconomic stability", "internal security" ("terrorism" and "homicide"), "railroad density", "electrification rate", "R&D expenditure", "competition in services", and some aspects of Pillar 6 ("skills").

4. Modernisation based on FDI

In 2017/2018, according to statistics derived from the OECD database comparing inward foreign direct investment (IFDI) to GDP, there has been a clear difference between Slovenia (31%) and the other new member states of the EU, like the Visegrad (Poland 45%, Slovakia 54%, Hungary 57%, Czechia 64%) or the Baltic countries (Lithuania 37%, Latvia 50%, Estonia 80%). It is, however, to be noted that Slovenia's performance in this field is far from being unique either in the region – take e.g. Italy (21%) – or within the group of small European OECD countries, like Finland (35%), Iceland (34%) and Greece (16%)[39]. Nevertheless, the relatively low stock of IFDI indicates that the country could, at least until very recently, avoid to become a dependent market economy in the sense of TNCs controlling sectors of strategic importance. At the beginning of transition, the Slovenian economy was both more market-oriented and more internationally competitive – i.e. less in need of foreign capital to develop – than the V4 or the Baltics. Add to that the fresh new independence of a nation after centuries of subjection within ancient (Roman, Holly Roman, and Habsburg) empires or in Yugoslavia, and small wonder that the main

[39] https://data.oecd.org/fdi/fdi-stocks.htm#indicator-chart

methods chosen for the first two waves of the privatisation process clearly benefited local managers and investment funds rather than foreign ones. For the latter, it was quasi a signal they were non-welcome in Slovenia (Vaupot 2018:9).

Foreign direct investment (FDI), although traditionally low, has been increasing at a faster pace since 2014. FDI inflow as a percentage of GDP was 2.2 in 2017, fluctuating between 2 and 4% of GDP since 2014, up from between 0 and 1.7% for the previous 4 years. The favourable economic conditions in the international environment were not the only driver of this improvement. There were multiple domestic factors as well: the acceleration of privatisation; the improvement of the economic situation and business expectations; friendlier government attitude towards FDI; favourable labour market and cost trends compared to some competitors facing with labour shortage and rapidly growing labour costs. However, Slovenia is yet to improve certain key elements of the business environment, such as taxes and tax legislation, the length of administrative procedures, and labour legislation.

At the end of 2017, there were twelve commercial banks, three savings banks and three branches of foreign banks (two from Austria, and one from France) operating in the Slovenian banking sector. Three out of five largest banks were partially state-owned: NLB with 25.6%, Abanka with 10.5%, and SID (a development bank) with 7.1% market share as measured by total assets. NLB and Abanka are under the state aid restructuring programme, and the government was committed to privatising them by the end of 2019.

In 2016, on the list of Deloitte's Central Europe (CE) Top 500 companies, there were 17 operating in Slovenia, so two more vis-à-vis 2015. As for their ownership situation, 6 out of them were in foreign hands, 2 belonged to the Slovenian state, while 9 were local companies.

Measured by development indicators, the financial system still falls far short of the EU average. Banks' total assets (as a percentage of GDP) are well below the EU average. The gap is narrowest in insurance, least affected by the financial crisis. The capital market remains poorly developed: treasury bonds account for the bulk of the market capitalisation of issues traded on the Ljubljana Stock Exchange, with the number of listed stocks and their market capitalisation modest and lower than before the crisis. Stock market capitalisation amounted to 12.0% of GDP in 2017, on a stagnating/declining trend since 2009, very far away from the peak year of 2008 (39.1%). The level of domestic savings in relations to GDP started to increase after having reached the bottom at 22.9% of GDP in 2012. Their level of 28.9% (in 2017) was above those of its neighbours (except for Hungary).

The situation in the banking system has improved significantly for the last few years, largely due to a sizeable bank recapitalisation at the end of 2013, and the transfer of a large share of non-performing loans from banks to the bad bank (BAMC). The quality of bank assets has improved strongly relative to 2013, and the favourable economic circumstances have contributed to an improvement in creditors' ratings. Lending activity, however, is beginning to grow very slowly. Only in 2017 could it increase for the first time since 2010. Although loans to households grew for the third year in a row, but corporate loans increased for the first time in six years. Domestic credit to private sector was at 44.8% of GDP in 2017 (cp. 85.3 in 2010), a much lower level than any of the V4 or its neighbours, except for Hungary (33.4), whose indicator performed a parallel path to that of Slovenia. Gross fixed capital formation, in terms of percentage of GDP, having felt from 27.3 (in 2000) or 24.3 (in 2009), then fluctuated significantly due to the dynamics of the drawing on the EU funds, started to increase in 2017 (18.5%). This level is very low compared to Slovenia's neighbours or the V4 partners, with only Poland and Italy performing poorer. Bank concentration, measured in percentage of bank assets held by top 3 commercial banks, stood at 59.7%, with a minimum of 51.4% in 2013 and a maximum of 65.2% in 2003 during the period of 1996-2016, and climbing again since 2013.

5. Knowledge sector

Education has always been high priority in Slovenia. Already in 1921, the rate of illiteracy was below 10% when no other region of the Kingdom of Serbs, Croats and Slovenes had it below 20, and the country average was above 50% (Gulyás 2009a: 6). Despite intense redistribution efforts, differences in development have not decreased in Tito's Yugoslavia; in

1971, tiny Slovenia, with a mere 8% (but the highest-skilled and best-educated people) of the population of Yugoslavia, produced 20% of the Federation's GDP and accounted for 18.4% of its exports (Gulyás 2009b: 163).

Independent Slovenia started, in the 1990s, to establish a host of new institutions to promote innovation in the business sector: national agencies (TIA, ARRS, JAPTI)[40], regional development agencies, new technology parks, and university incubators in Ljubljana, Maribor and Primorska (Breitfuss-Stanovnik 2007:6). Slovenia's still highly diversified manufacturing sector accounted for more than 88% of BERD (Business Expenditures for Research and Development) in 2007. Best performer was the pharma industry (37%), whose much-appreciated brands (LEK, Krka) have got strong links with the universities of Ljubljana and Maribor, as well as the National Institute of Chemistry. Pharmaceutical and chemistry, car and car components, electrical industry and electronics, ICT, metal and machinery – which together with transport and logistics make the competitive backbone of the Slovenian industry – may all attribute their success to their close cooperation with the relevant faculties of universities, and other public research organisations of the country (OECD 2012: 110,111).

The annual European Innovation Scoreboard (EIS) provides a comparative assessment of member states' research and innovation performance, highlighting their relative strengths and weaknesses, and helping them to concentrate their efforts to boost innovation performance. In 2017, Slovenia, together with Austria, Belgium, France, Germany, Ireland, belonged to the group of the so-called "strong innovators" with performance above or close to the EU average. The country stood 12th in the EU28, the same position as in 2010. Its performance relative to the EU28 average was 92.2%, a slight deterioration vis-à-vis 2010 (96.2%). Human resources and firm investments were the strongest innovation dimensions, finance and support, sales and employment impacts being the weakest.

[40] Slovenian Technology Agency, Slovenian Research Agency, and Public Agency for Entrepreneurship and Foreign Investment

Slovenia ranked 15th out of the EU28 Member States in the European Commission's Digital Economy and Society Index (DESI) in 2018. Since 2015, it gained three places, leaving behind countries like Czechia, France and Portugal. Slovenia now belongs to the medium-performing cluster of countries consisting of, apart those mentioned, Spain, Austria, Malta, Lithuania, Germany, and Latvia. Although digital content is included in the formal education from elementary school to university level, and lifelong learning programs target parts of the population not covered by the formal education process (45+ years old, low-skilled and rural population), companies cannot find enough digitally skilled labour. Slovenes increasingly engage in online banking (50%), online shopping (57%), and read news online (77%). Slovenian SMEs are increasingly taking advantage of the possibilities offered by online commerce, 17.7% of them selling online, and 11.6% cross-border. Slovenia has considerably improved its performance in "Digital Public Services", especially due to improvements in the re-use of public sector data, and in e-Health services. Digitisation contributes to transparency, as almost all documents for meetings of the government and parliament are available online, and several applications make it possible to monitor public procurement expenses, as well as the use of public funds. The high ranking in e-Health is explained by a generalised roll-out of e-prescriptions, enabling physicians to prescribe medicines to patients electronically.

It is not for nothing that the country belongs to the group of strong innovator countries. People of research/innovation and education have always been highly appreciated members of Slovenian society. First scientific organisation (Academia Operosorum Labacensium) was founded in 1693 in Ljubljana. R&D expenditure as a percentage of GDP was 1.85% in 2017, following stagnation from the late 1990s to 2007 (approximately 1.3-1.5%), a steep growth from 2008 to 2013 (2.58%), and a decline since then. Since 1995, Slovenia's R&D to GDP ratio has always been higher than that of its main regional partners (except for Austria), higher than the EU28 average in 2010-2016, and higher than the OECD average in 2011-2014. In 2015, most of the R&D budget was spent on natural research (29.1%), engineering and technology (48.3), medical and health sciences (14.0), while much smaller part of them was devoted to social sciences

(3.7), or humanities and the arts (2.8). In 2017, and by sector of performance, 74.7% of the R&D expenditure was carried out in private businesses, 13.8% in government, 11.2% in higher education, and 0.3% in private non-profit institutions.

The effects of the global economic crisis have largely been reflected in the adjustments of public budgets, also across all levels of education. Slovenia was among the countries with the largest negative adjustments: in 2015, public expenditure on educational institutions as a percentage of was 4.3 (4.1 without R&D), a 15% decrease vis-à-vis 2010, and 19% vis-à-vis 2005. The higher education rate, i.e. the share of students in the 20-24 year-old population, was 46.7% in 2016.

6. Public opinion attitude towards transformations

When we examine public opinion about transformation, we follow two main lines: first, one's attitude to the change of regime, and primarily to change in ownership (i.e. privatisation); second, people's attitudes to their country's membership in the EU, as one of the most important factors in their daily lives.

Slovenians are hard-working, economical peoples who worked also for the people of the other, poorer republics of Yugoslavia. Once independent, they sought security, i.e. their primary aim was to become member of the EU and NATO. But, they also wanted to maintain their control over their own country. Hence a certain degree of aversion to private capital, especially if it originates from abroad. It is generally believed that a particular area is best under government control. Entrepreneurs who move their capital abroad are treated as traitors. Unless they invest into the former Yugoslav republics, because these latter are being exploited by the Slovenians the same way as the West does with them: they export their capital and repatriate the profit, and also import the best manpower and employ at half price at home (Szilágyiné 2019). It is, therefore, no wonder that privatisation has always progressed slowly, and the privatisation of the most important (largest insurance and telecom) companies (Triglav and Telekom) was stopped for reasons of national security. Also, in the largest bank, the state must, by law, remain the largest shareholder.

Regarding the public opinion about the country's EU membership, there is a significant change in it since the time of gaining this membership. Support for the EU membership, which peaked at 57% in 2003, turned into 52% of Slovenian respondents expressing distrust towards the European integration in 2015 (Kukovič and Haček 2016). We can add that the introduction of the euro, which seemed to be a good idea at the time, proved to be a rather bad idea: first, because, being much more appreciated than the tolar would be, it penalises the Slovenian exports; second, the Slovenian government had to borrow 250 million euro so as to pay its due part in the Greek rescue packages. And the risk that a similar event may happen in the future is not negligible.

Conclusions

Slovenia's economic transformation from a socialist to a market economy went parallel with two other transitions: from a regional to a national economy, and from being a part of Yugoslavia to becoming an independent state. When observing the Slovenian way, we have to take into consideration some important facts: first, this new independent country was the most developed region not only in SFR Yugoslavia, but in the whole of Central and Eastern Europe; second, reforms started already under the former regime, and enterprises, operating in a quasi-market system, were exposed to some degree of competition; third, Slovenia inherited a unique enterprise ownership structure based on self-management, where workers exercised management functions; and finally, all three transition processes were undergoing in a period of intense social conflict. Having in mind all the above, we can identify three characteristic features: trade unions were very strong and organised labour shaped the trajectory of new Slovenian capitalism in many ways; gradualism had to prevail in all aspects of transition; foreign capital and intervention of any kind was not welcomed.

Among the most important achievements, we can observe that Slovenia was able to distinguish itself as a new independent nation with a relatively stable economy and high living standard, also maintaining good quality public services available for the majority of people. This small country, contrary to most of the other transformation countries, has never had to ask for financial help from international institutions, introduced the euro first among the new EU member states, and is among the strong innovator nations of the EU. Despite the changes related to EU and eurozone membership (e.g. the giving away of monetary policy), despite structural reforms and the partial downscaling of the welfare system, despite a restrictive fiscal policy gaining (also constitutional) grounds since mid-2013, Slovenian neo-corporatist structures did in fact remain in place and social dialogue has not vanished.

Short-term challenges facing the new government (in office since September 2018) include the need to finalise or get through with bank privatisation, and reform the public health and pension systems. Its plans for higher taxes and spending threaten to undo the fiscal consolidation measures taken by the previous government to ensure the long-term stability of public finances. Institutional weaknesses continue to undermine prospects for long-term economic development. In particular, the judicial system remains inefficient and vulnerable to political interference. Corruption continues to be perceived as widespread.

Key long-term challenges are related to relatively low productivity growth, and as yet only slow adjustment to demographic change. High level of labour market segmentation of young people, and the relatively low economic and social inclusion of older people can also prove to be problematic. From the environmental point of view, high and rising GHG emissions from transport, the interrupted increase in the share of renewable energy sources and unsustainable use of land should be mentioned.

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