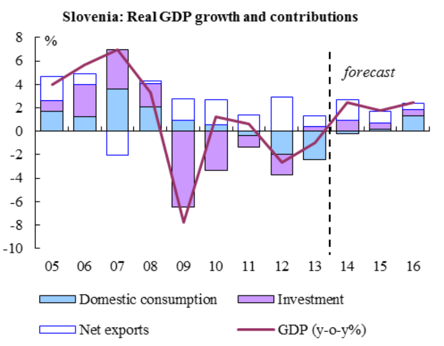
INVESTMENT IN SLOVENIA

What is the situation in Slovenia?

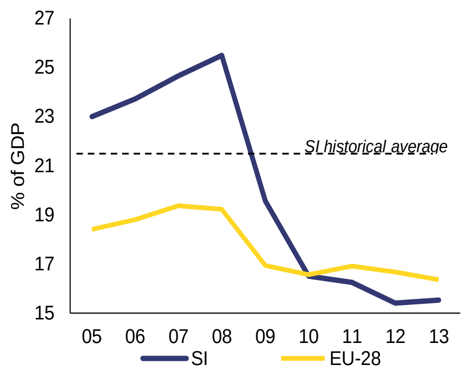


Source: European Commission 2014 Autumn Forecast

Slovenia came out of recession in 2013. Its economy is forecast to grow by 2.4% in 2014 before moderating to 1.7% in 2015. Growth has become broad-based, driven by net exports and exceptionally strong infrastructure investment due to EU-funded projects. At the same time, private investment has been lagging behind, especially productive investment in machinery and equipment. This persistent lack of investment since the beginning of the crisis has reduced the investment ratio from 29.6% in 2008 to 19.7% of GDP in 2013 (close to the euro area's investment ratio of 19.6% in 2013) and progressively eroded Slovenia's potential growth. Yet above-average use of productive capacity and increased profitability are expected to boost private investment in future, in particular in equipment. This is expected to contribute to the slow recovery in potential growth.

What is the main challenge?

Graph 2: **Investment in the private sector**

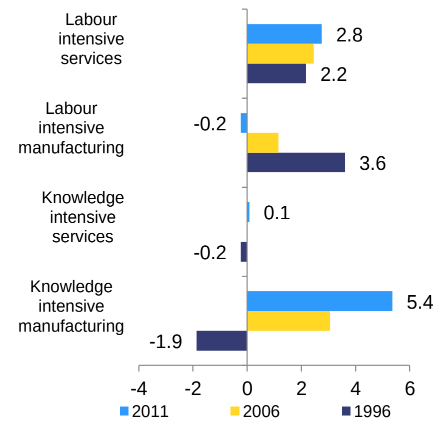


Source: AMECO

Private investment has continuously decreased in Slovenia not merely due to the crisis, but also because of the highly indebted corporate sector, significant state involvement in the economy, and an inefficient business environment. Companies, struggling to repay their debts, have been underinvesting compared to the historical average and peers in the region. Foreign investment is also still low. Credit growth to both corporate and household sectors has remained subdued, despite ample liquidity in banks following state recapitalisations and transfers of non-performing loans in December 2013. Financing conditions have been particularly challenging for vulnerable small and medium enterprises, which contribute considerably to the Slovenian economy, and which are also over-indebted and still recovering from the crisis. Overdependence on bank financing, and the slowly developing equity market have worsened SME access to finance.

Opportunities for investment

Graph 3: **Net exports by sector** (% of value added)



Source: WIOD database

Slovenia has a highly skilled labour force and is a knowledge-based economy with prospects to develop further with targeted investment. The knowledge-intensive, medium to high-tech sectors such as chemicals, pharmaceuticals, electronics, machinery and transport equipment show the highest comparative advantage and are currently the most suitable target for investment, particularly R&D investment. Innovative start-ups with high growth potential are creating jobs in the country. Ongoing corporate restructuring and privatisation offer attractive opportunities for private equity investment, and particularly foreign direct investment, which could also boost innovation and operational practices. Other types of alternative investment instruments (e.g. venture capital, early-stage finance, angel investors) are needed to help finance liquidity of restructured companies and reduce non-performing corporate credits. Further developing co-financing and co-investment facilities for SMEs or start-up companies will be crucial to ensure the sustainable recovery of the Slovenian economy.

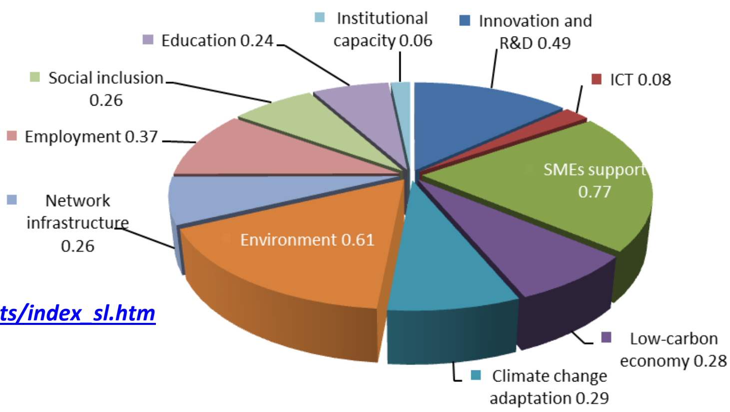
Reforms for investment

In the 2014 Country Specific Recommendations for Slovenia, the European Union recommended:

Ensure sustainability of public finances. Reinforce the budgetary strategy with specified structural measures to ensure correction of the excessive deficit in a sustainable manner by 2015.	Ensure long term fiscal sustainability by agreeing measures to ensure the sustainability of the pension system and long-term care by refocusing care provision from institutional to home care.
Develop a comprehensive Social Agreement, ensure that wage developments support competitiveness, domestic demand and job creation and fight labour market segmentation. Adapt working environment to longer working life and focus resources on tailor-made active labour market policy measures. Address skills mismatches.	Consolidate the banking sector, continue implementation of restructuring plans and finalise comprehensive action plan for banks. Clarify the mandate of the Bank Asset Management Company and publish its management strategy and business plan by September 2014.
Continue privatisations. Adopt a strategy for the Slovenian Sovereign Holding and commit to a divestment schedule for a number of well-targeted assets with a clear time scale. Adopt and implement a corporate governance code for state-owned enterprises to ensure professional, transparent and independent management.	Finalise a corporate restructuring master plan. Set up a central corporate restructuring task force for monitoring and coordinating the overall process. Establish a list of the most urgent restructuring cases, while maximising the recovery value for creditors. Reduce the length of judicial proceedings at first instance.
Reduce obstacles to doing business in Slovenia in key areas for economic development.	Take effective measures to fight corruption and enhance transparency and accountability.

EU funding for investment

2014 - 2020
in billion EUR



Source: Partnership Agreement:
http://ec.europa.eu/contracts_grants/agreements/index_sl.htm

Past or ongoing projects for investment

Gas interconnections

LNG evacuation pipeline.
Commissioning date: 2015
(**Croatia, Slovenia**)

Gas interconnection.
Commissioning date: 2017
(**Italy, Slovenia**)

Transport interconnections

Connecting Europe Facility:
"Baltic – Adriatic" core network corridor
(**Austria, Italy, Poland, Czech Republic, Slovakia, Slovenia**)

Connecting Europe Facility:
"Mediterranean" core network corridor
(**Spain, France, Italy, Slovenia, Croatia, Hungary**)