ЕВРОПЕЙСКИ ПАРЛАМЕНТ PARLAMENTO EUROPEO EVROPSKÝ PARLAMENT EUROPA-PARLAMENTET
EUROPÄISCHES PARLAMENT EUROOPA PARLAMENT ΕΥΡΩΠΑΪΚΟ ΚΟΙΝΟΒΟΥΛΙΟ EUROPEAN PARLIAMENT
PARLEMENT EUROPÉEN PARLAIMINT NA hEORPA PARLAMENTO EUROPEO EIROPAS PARLAMENTS
EUROPOS PARLAMENTAS EURÓPAI PARLAMENT IL-PARLAMENT EWROPEW EUROPEES PARLEMENT
PARLAMENT EUROPEJSKI PARLAMENTO EUROPEU PARLAMENTUL EUROPEAN
EURÓPSKY PARLAMENT EVROPSKI PARLAMENT EUROOPAN PARLAMENTTI EUROPAPARLAMENTET

Directorate A - Economic and Scientific Policy
Policy Department A.: Economic and Scientific Policy and Quality of Life Unit

Slovenia

Economic Policy Brief

Note

IP/A/ECON/NT/2007-28 **PE 393.509**

Only published in English.

Authors: Christine BAHR
Policy Department Economy and Science
DG Internal Policies
European Parliament
Rue Wiertz 60 - ATR 00L042
B-1047 Brussels
Tel: +32 (0)2 284 02 77
Fax: +32(0)2 284 69 29
E-mail: christine.bahr@europarl.europa.eu

Stephanie HONNEFELDER
Policy Department Economy and Science
DG Internal Policies
European Parliament
Rue Wiertz 60 - ATR 00L046
B-1047 Brussels
Tel: +32 (0)2 283 27 86
Fax: +32(0)2 284 69 29
E-mail: stephanie.honnefelder@europarl.europa.eu

Manuscript completed in November 2007.

Slovenia

Economic Policy Brief

Table of Contents

Main features of country forecast - SLOVENIA

		2006			Annual percentage change					
		bn Euro Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices		30.4	100.0	3.2	4.4	4.1	5.7	6.0	4.6	4.0
Private consumption		16.3	53.4	3.8	3.0	2.7	4.0	4.2	4.0	3.5
Public consumption		5.9	19.2	2.8	3.1	3.2	4.4	2.6	3.0	2.6
Gross fixed capital formation		8.0	26.1	7.3	7.3	2.5	8.4	14.4	6.2	3.8
of which : equipment		3.1	10.0	9.9	8.7	2.7	8.6	12.0	6.0	5.0
Exports (goods and services)		20.5	67.4	3.1	12.5	10.1	12.3	13.3	10.2	8.9
Final demand		51.3	168.4	4.1	7.6	5.1	8.2	9.2	6.8	5.7
Imports (goods and services)		20.8	68.4	5.5	13.3	6.7	12.2	13.9	9.8	8.0
GNI at previous year prices (GDP deflator)		30.1	98.9	3.1	4.0	4.5	5.5	6.2	4.4	3.9
Contribution to GDP growth :	Domestic demand			4.2	4.0	2.7	5.2	6.5	4.4	3.4
	Stockbuilding			0.4	0.9	-0.5	0.6	0.0	0.0	0.0
	Foreign balance			-1.4	-0.5	2.0	0.0	-0.5	0.1	0.6
Employment				-	0.3	0.2	1.2	2.2	0.9	0.5
Unemployment rate (a)				-	6.3	6.5	6.0	4.9	4.7	4.6
Compensation of employees/head				-	7.8	5.3	5.5	6.2	7.0	5.9
Real unit labour costs				-	0.2	-0.3	-1.0	-0.5	-0.9	-0.6
Savings rate of households (b)				-	-	13.8	13.0	13.6	13.0	12.5
GDP deflator				22.6	3.3	1.7	2.0	2.8	4.2	2.9
Private consumption deflator				21.9	3.0	2.4	2.5	3.5	3.7	2.9
Harmonised index of consumer prices				-	3.7	2.5	2.5	3.5	3.7	2.9
Trade balance (c)				-2.6	-3.8	-3.7	-3.9	-4.9	-3.9	-3.1
Current account balance (c)				0.6	-2.6	-2.0	-2.8	-3.5	-2.6	-1.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.6	-2.5	-1.9	-2.6	-3.3	-2.6	-1.9
General government balance (c)				-	-2.3	-1.5	-1.2	-0.7	-1.0	-0.8
Cyclically-adjusted budget balance (c)				-	-1.5	-0.8	-1.1	-1.1	-1.4	-1.0
Structural budget balance (c)				-	-1.5	-0.8	-1.1	-1.1	-1.4	-1.0
General government gross debt (c)				-	27.6	27.4	27.1	25.6	24.5	23.8

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

(Source: European Commission Autumn Economic Forecast)

1. Executive Summary

The current report aims to provide a brief overview of the Slovenian economy.

Political Brief

The ruling centre-right coalition, led by the Slovenian Democratic Party (SDS; centre-right) of the prime minister, Janez Janša, has only a narrow parliamentary majority and is made up of several parties with diverse policy agendas; the others are the Democratic Party of Slovenian Pensioners (DeSUS; centre-left), New Slovenia (NSi; right) and the Slovenian People's Party (SLS; right). The governing coalition is set to stay in power until the general election scheduled for late 2008. Until now, there have been occasional cabinet changes, which have not led to major disruption. However, in October and November 2007, there have been several events, which destabilised the government (general elections for the President of the Republic, which resulted in the 68% of the votes for the opposition candidate Danilo Türk, as well as a petition of almost 600 leading Slovenian journalists accusing the government of political pressures and censorship, sent also to all Heads of EU Member States).

In addition there have been fierce negotiations between the social partners about the wages, resulting in large demonstrations in the Slovenian capital on 17 November. All of this ended with the government's request for the vote of confidence in the Parliament which took place on 19 November and resulted in the government winning this vote of confidence with 51 to 33 votes. The Prime Minister recently stated, however, that a change of government could still happen in case of further non-constructive criticism of the government abroad. Incidentally, the European Parliament has been mentioned several times as a field of spreading a bad image of the Slovene government and state (the question of the erased, petition of MEPs on the Roma conference in Slovenia, the above-mentioned petition of journalists).

General Economic Situation

Economic growth in Slovenia remained buoyant in 2007. During the first half of the year, real GDP increased by 6.5 % year-on-year. Leading indicators for the third quarter show some cooling and a small deceleration of growth is expected for the second half of the year. Overall growth for 2007 is projected at 6.0 %, the highest rate in the last decade.

The general government deficit is expected to narrow to 0.7 % of GDP in 2007, well below the 1.5 % projected in spring. Despite the strong budgetary performance, further warnings regarding the sustainability of the current budgetary structure came from the EU Commission, as well as criticism that more should be done to reduce the structural budget deficit while the economy is performing strongly.

Consumer price inflation increased markedly in 2007 and is projected to reach an average level of 3.5 % for the year as a whole, compared to 2.5 % in 2006. Although euro changeover effects appeared limited initially, some abnormal price increases were reported following the end of the dual price display in June.

Slovenia's Euro Entry

Slovenia's sound macroeconomic policies were crowned with entering the euro area after only two and half years in ERM II. Fiscal prudence, income policies that kept wage growth below productivity and a cautious monetary stance brought down inflation and interest rates to Maastricht criteria levels while keeping external deficits and net debt low. Sustaining macroeconomic policy discipline while increasing attention to structural reforms will now be the key for success in the euro zone. This led the government to establish the Office for Growth (Minister: Ziga Turk), which will be dealing solely with structural reforms.

Financial Services – Insurance

The Slovenian insurance sector is characterised by steady annual growth rates of about 112% during the last ten years and is highly concentrated. The four major companies stand for more than 80% of the total market. Most companies do both life and non-life business. Slovenian insurance companies have only little business within the EU while other EU-companies, mainly from the UK, run comparably more business in Slovenia. Legal basis for the insurance business is the Insurance Act of 2000. The Slovenian Insurance Supervision Agency established in the same year has its main objective in protecting the interests of policyholders/insured and is responsible for the issuing of implementing regulations.

2. General Economic Situation[1]

The run-up to EU accession brought significant challenges for Slovenia, especially that of negotiating the transition from a centrally planned to a market economy. Slovenia opted for a gradual regime change as it was considered that this would minimise the risk of profound and rapid structural changes ultimately backfiring on the economy. Indeed, shocks have been largely avoided. With stable economic growth and no major macroeconomic imbalances, losses of output and jobs have been kept small and social peace preserved. Economic, social and political stability are considered to be the most prominent advantages of the gradualist approach.

On the other hand, important opportunities have been wasted. By deterring foreign capital, Slovenia has failed to reap the benefits of technological modernisation, the introduction of technologically demanding products, the transfer of management skills and access to new markets.[2] Moreover, growth might have been more pronounced if financial markets had been reformed more rapidly.

While the prospects for durable, balanced growth over the medium term are solid, Slovenia has been outperformed since 2000 by the other recently acceded Member States of similar size. The consistent implementation of structural reform in addition to stability-oriented macroeconomic policies is paramount in securing sound economic conditions for growth and development. However, if economic activity becomes strained due to structural shortcomings (see below), domestic forces for growth may eventually become exhausted and potential growth could back-pedal.[3]

Main structural challenges for 2007-2008:

- Reducing administrative burden, simplifying business environment and introducing a system for measuring administrative costs;
- Improving operation of regulators, particularly in the areas of network industries and liberal professions;
- Gradual withdrawal of state from company ownership and liberalisation of networks (incl. telecommunications);
- Increase of R&D funds and their efficiency as well as enhancing cooperation between research and corporate sector;
- Overhaul the higher education system
- Employment: reducing long-term unemployment and employment of the elderly and highly educated young people;
- Increase in transparency of the social transfers system;
- Gradual fiscal consolidation in order to strengthen its long-term sustainability and counter-cyclical role.[4]

GDP development

Economic growth in Slovenia remained buoyant in 2007. During the first half of the year, real GDP increased by 6.5 % year-on-year. Leading indicators for the third quarter show some cooling and a small deceleration of growth is expected for the second half of the year. Overall growth for 2007 is projected at 6.0 %, the highest rate in the last decade.

---

[1] This section largely draws on the Economist Intelligence Unit, Country Report Slovenia; European Commission Autumn 2007 Economic Forecasts; IMF: Republic of Slovenia, Staff Report for the 2007 Article IV Consultation.

[2] Oxford Analytica, 2004.

[3] Mateja Peternelj: Slow is beautiful? Slovenia's approach to transistion; ECFIN Country Focus, 26 May 2005.

[4] National Reform Programme 2007.

An impressive build-up of fixed capital continued to be the main driving force for growth. Non-housing construction was particularly buoyant due to, inter alia, motorway construction and other infrastructure investment. Investment in machinery and equipment was also strong. Private consumption expenditure remained lively, on the back of a high employment increase and lower taxation of physical persons.

Exports of goods and services grew at very high rates during the first half of the year, supported by the adoption of the euro and a generally favourable external environment. However, the external sector is expected to have a negative contribution to growth, due to the very high import growth. The latter is attributed to the strong demand for investment goods as well as intermediate inputs used mainly in the production of export goods.

In 2008, economic growth is projected to decelerate. The main reason for the loss of momentum is the expected considerable slowdown in gross fixed capital formation growth. The already strong expansion of production capacity of the last years, the international economic slowdown and the expected deceleration in housing will all contribute to this. However, private consumption is projected to remain vigorous.

Investment boom

Slovenia's economic growth has been above the medium-term trend for several quarters. Hence the question of whether Slovenia has shifted to a higher growth trajectory, or whether the current economic cycle has peaked.

The key to the outlook is the investment boom that started in the second half of 2006. There are several factors behind it:

- Capacity utilisation has been rising almost uninterruptedly since mid-2005, and reached an all-time high in the second quarter of 2007. This is the result of buoyant domestic and external demand, and has encouraged businesses to invest in order to expand capacity.
- The government has recognised that parts of Slovenia's transport infrastructure require improvement, and has therefore embarked on a multi-year investment programme into road and rail networks. A large portion of the 24 billion EUR earmarked for national development projects in 2007-23 will go into the construction of infrastructure, particularly roads.
- Some areas in Slovenia, such as the capital, Ljubljana, and the Adriatic coast, have been experiencing strong house price growth in the past couple of years. This has been driven both by underlying demographic factors and by a speculative component, and has led to a strong pick-up in residential construction.

Only the official infrastructure projects of the three above-mentioned factors look to be long-term in nature. Investment in the expansion of production capabilities will taper off once businesses feel that they are producing more comfortably within their constraints. Although the extension until 2010 of certain fiscal advantages could encourage some further house-building, the small size of Slovenia, coupled with declining interest from investors, will eventually dampen residential construction. Investment growth is therefore likely to slow. As a result, there is little reason to believe that Slovenia will succumb to overheating in a similar manner to Spain.

Public finances

The general government deficit is expected to narrow to 0.7 % of GDP in 2007, well below the 1.5 % projected in spring. This is primarily due to the fact that general government revenue increased markedly, despite the comprehensive tax reform. Higher-than expected GDP growth and a tax-rich composition of growth helped achieve this result. Also, expenditure increased more slowly than in 2006. Revenues as a share of GDP are expected to decline as the tax reform continues.

Despite the strong budgetary performance, further warnings regarding the sustainability of the current budgetary structure came from the EU Commission in June, as well as criticism that more should be done to reduce the structural budget deficit while the economy is performing strongly. The European Central Bank (ECB) remarked that although Slovenia is not among the countries subject to an excessive deficit procedure, it is not working towards meeting its medium-term objective in terms of deficit reduction.

If anything, the government has delayed, albeit modestly, the attainment of its deficit targets. At the end of June the government raised its 2008 deficit target to 1.3% of GDP, from 0.9% originally, mainly as a result of increased spending on railway infrastructure and on the EU presidency. Some social transfers will also be increased ahead of the general election in late 2008. Slovenia's budgetary position is still stronger than that of some of its peers in EMU. However, the expenditure side of the budget is in need of reform, with particular regard to mandatory social spending, as underlined by an IMF consultation paper released in May.

Employment and wages

The figures for the labour market continued to improve during the first half of 2007, owing mostly to robust economic activity, which underpinned employment trends. In the first quarter of 2007 employment and unemployment figures were, respectively, the highest and the lowest on record. Nevertheless, some of the improvement in the unemployment figures can be attributed to the adoption of stricter criteria for keeping individuals on the unemployment register.

Nominal gross wage growth averaged 5.6% year on year in the first five months of the year. As in previous quarters, wages grew more rapidly in the private sector than in the public sector. Real wage growth picked up to 3% year on year in the first quarter 2007. This still compares favourably with economy-wide productivity growth, which was 3.8% year on year in the first quarter of 2007.

Price developments and interest rates

Consumer price inflation increased markedly in 2007 and is projected to reach an average level of 3.5 % for the year as a whole, compared to 2.5 % in 2006. Eurostat's October annual inflation figures give a rate of 5.1% for Slovenia, by far the highest rate in the euro area.

Several indicators point to rising demand pressures: surveys of firms report the reaching of capacity levels and lack of skilled personnel; unemployment has fallen to the lowest level recorded since Slovenia's independence and the economy is likely experiencing a positive output gap. Moreover, the increases in food and energy prices experienced by most euro-area countries and low competition in some sectors of the economy also contributed to the rise in inflation.

The Bank of Slovenia warned in July that although external influences such as higher global energy and food prices are contributing to raise inflation, domestic factors such as strong economic growth were also playing a role. This, said the bank, called for greater vigilance on the part of policymakers.

Although euro changeover effects appeared limited initially, some abnormal price increases were reported following the end of the dual price display in June.

In line with strong economic activity and with the upward trend elsewhere in the euro area, domestic interest rates have generally risen in recent months. Spreads between average euro area and Slovenian interest rates have been virtually eliminated for the most part. However, there were some notable exceptions. The strong demand for consumer and mortgage loans in Slovenia has driven related interest rates up, in turn increasing the differential between domestic and euro area mortgage rates.

3. Slovenia's Euro Entry

The road to the euro

Slovenia decided to implement the fast-track approach to joining EMU and entered ERM II on 28 June 2004, barely two months after its accession to the European Union. Three reasons could have supported a decision for such a strategy: increasing tradability of the Slovenian economy with euro area countries, fulfilment of the Maastricht criteria, and solid political as well as public support for EMU membership.

On 16 May 2006, the European Commission and European Central Bank released separate convergence reports on Slovenia's readiness to join the euro zone. In January 2005, the Government of Slovenia and the Bank of Slovenia adopted a plan for the euro introduction that laid down all essential procedures associated with the introduction of the euro. On 11 July 2006, the Council adopted a decision allowing Slovenia to join the euro area from 1 January 2007. The euro replaced Slovenia's currency, the tolar (SIT), at the fixed and irrevocable conversion rate of SIT 239.640 to one euro.

The strategy of quickly adopting the euro, although limiting a series of exchange rate and macroeconomic risks, simultaneously requires a highly orchestrated domestic economic policy intervention. The weakest part in such an integration agenda is a sustainable disinflation policy. Prolonged ERM II membership also harbours dangers when inflation is targeted while the exchange rate has to be kept stable.

Slovenia successfully mastered the path to the euro and managed to conclude its fast-track approach in the minimum time. Its sound macroeconomic policies were crowned with entering the euro area after only two and half years in ERM II. Fiscal prudence, income policies that kept wage growth below productivity and a cautious monetary stance brought down inflation and interest rates to Maastricht criteria levels while keeping external deficits and net debt low. Sustaining macroeconomic policy discipline while increasing attention to structural reforms will now be the key for success in the euro zone.

The change-over[5]

The introduction of the euro in Slovenia on January 1st 2007 was the first occasion on which euro notes and coins have been introduced by a single country in isolation from any others, and Slovenia was the first country in which the euro was introduced as book money and as cash on the same date, without any transitional period (the so-called "Big Bang" approach). The experience of Slovenia in introducing the euro is therefore a valuable example for future entrants into the euro zone.

Slovenes' have had an existing familiarity with the euro in both cash and book money forms. The benefits of the familiarity with the euro were manifest in a number of areas such as training and communication. The national communication campaign was comprehensive in Slovenia, with a particular focus on developing a new scale of values, the understanding of the value of coins and recognition/security features of the notes and coins and the importance of being attentive to rounding and fair pricing.

Nevertheless, as Slovenes were generally familiar with the euro, the national campaign could target groups most likely not to be familiar with the euro and focus on the last four months of 2006 and the first two weeks of 2007 - to an extent that might well not be appropriate in other countries.

[5] Sources: Review of the Slovenian Changeover to the Euro; Final Report commissioned by the European Commission, http://ec.europa.eu/economy_finance/euro/slovenia/docs/Finalreport27August2007.pdf.

Similarly economic entities could largely restrict their training to note recognition and, above all, counterfeit prevention. Rapid conversion of ATMs proved to be of psychological benefit but was not a factor in early introduction of low-value notes into the economy - because Slovenes already had significant amounts of euro in their pockets. However, it should also be borne in mind in this context that there was no significant retail activity in the first two days of the year.

A study conducted for the European Commission recently came to the conclusion that the Slovenian experience justifies the choice of a 'Big Bang' and proves that it is possible to introduce the euro as book money and cash simultaneously. It was also more cost-effective. However, it was acknowledged that compressing the changeover into a short period can increase systemic risk in some types of IT changeover, and this needs to be carefully considered by other 'pre-ins'.

Slovenia's experience also seems to justify the choice of a shorter dual circulation period than in the first-wave countries, i.e. two weeks as opposed to four-to-eight weeks as it was in the first wave. Slovenians could buy euro at the conversion rate in December 2006 and already had considerable amounts of euro in their pockets and cash registers on 1 January 2007 from sources other than sub-frontloaded and frontloaded cash.

Is the euro a "Teuro" in Slovenia?[6]

The issue of inflation perceptions as opposed to reality was an issue for Slovenia as it was in the first-wave countries. Slovenia did not fully succeed where others also partly failed, i.e. in avoiding perceived inflation starting to diverge from actual inflation in the context of the changeover.

The perception that some retailers see the introduction of the euro as an opportunity to put up prices remained. While this was certainly the case in some instances, the statistical evidence is that this was more the case in the service sector, but that consumers do not make that distinction.

It is more than likely that other countries will therefore have to combat a further perpetuation of the idea that the introduction of the euro is inflationary, even though the actual level of euro-induced inflation in Slovenia was 0.3 percentage points or less and prices actually went down overall in both January and February 2007.

The fact that increases tend to be in the cost of eating and drinking out, and in everyday personal services, which are often not contestable, inevitably creates a perception of higher prices, and the message about the overall limited level of price increases is not likely to counteract this perception.

In the light of the Slovenian experience the Commission study comes to the conclusion that it is possible to say that caution should be exercised in placing too heavy a reliance on dual price display as an anti-inflation measure in itself, and that more emphasis should be placed on fair-pricing agreements.

Slovenia's use of dual price display questioned received wisdom. Slovenia made dual price display compulsory at the central parity rate in ERM II more than four months before the conversion rate was fixed, judging that this would in itself induce price restraint. The Slovenian authorities considered, moreover, that the risk of voluntary initiatives at a plethora of rates and confusion for consumers was greater than the risk of the future fixed conversion rate being different or even of adoption of the euro not going ahead on the projected date.

---

[6] Sources: Review of the Slovenian Changeover to the Euro; Final Report commissioned by the European Commission, http://ec.europa.eu/economy_finance/euro/slovenia/docs/Finalreport27August2007.pdf; Government of Slovenia, Institute of Macroeconomic Analysis and Development: Euro Changeover Effect on Inflation in Slovenia.

They took a two-stage approach. For any business wanting to introduce dual price display on a voluntary basis, the Slovenian law on dual price display made it mandatory to use the ERM II central parity rate from 15 November 2005. Dual price display became compulsory on 1 March 2006, also at the ERM central parity rate for as long as there was no official conversion rate. Once the conversion rate was fixed, the use of that rate became compulsory. The two rates were in practice the same.

Mandatory informative dual pricing in tolars and euros ended in June, after 15 months. However, several large companies stated that they would keep dual pricing at least until the end of this year. Consumer-protection groups are trying to retain dual pricing in many sectors, whereas business organisations insist the decision should be taken by individual companies.

The role of dual price display in preventing price increases cannot be quantified, but it does not appear to have acted as a particular restraint. In addition, consumers tend not to pay attention to dual price display until the last minute, so the need to implement it before the conversion rate is set can be questioned.

The other major anti-inflation measures were fair-pricing agreements by the public sector and the retail sector. These are more useful when they are publicised well before the changeover (whereas in Slovenia they were not published until early December 2006), and have wide coverage, including government, banks, retailers and their supply chain (whereas in Slovenia they did not include the banking sector).

A positive by-product of the approach to the pricing issue in Slovenia was the way in which the support for the Consumers' Association's PriceWatch scheme and associated activities was used to develop awareness of consumer rights in a country where this was still relatively underdeveloped.

4. Financial Services

General Situation

The Slovenian financial market – due to the lack of long-term investment-credit instruments (various bonds, including mortgage and other guarantee instruments) – has **insufficient capacity to absorb annual increases in valuable long-term assets,** so they flow out into European securities. Consequently it seems that the domestic Slovenian saving will to a large extent boost investment and employment outside Slovenia.

Insurance

The insurance industry in Slovenia is **still characterised by composite insurance companies**, which means that an insurance undertaking as a single legal person may perform both non-life and life insurance business. Seven out of thirteen insurance companies are composite insurance companies. Slovenia is therefore among the minority of EU Member States still maintaining this type of insurance companies. Further, Slovenia is one of those EU Member States with the **predominant domestic ownership**, since eight insurance companies, i.e. a good 90 % of the entire insurance market, are still in the majority domestic ownership.

After the introduction of the market system the insurance companies rehabilitated themselves, and succeeded in **maintaining a high concentration in the insurance market**. As a result, the biggest insurance company (by total gross premium collected) still maintained its market share of 41 % (without health insurance even 52 %) as at the end of 2006, and the aggregate **market share of the four biggest insurance undertakings was approximately 83 %**. In 2006, market shares changed in particular in the voluntary health insurance, and it is noteworthy that half of the insurance companies succeeded in increasing their respective market shares in 2006 on account of a decrease in the share of the first biggest composite and the biggest specialised health insurance company.

Slovenian insurance undertakings also started to **penetrate the markets of other EU Member States**. The premium collected in 2006 from risks underwritten in other EU Member States, mostly Germany, amounted to SIT 58,100 thousand[7].

However, the Slovenian insurance undertakings are encountering competition on the Slovenian market of **insurance undertakings from other EU Member States**, performing insurance business in Slovenia either directly or through the two branches. The premium collected from direct insurance business in 2005 amounted to EUR 8,780.1 thousand, of which the major share was collected by insurance companies from Great Britain, while the two branches collected the premium in the amount of EUR 5,056.5 thousand. Overall, OECD Data puts the share of foreign insurers of premiums at just .6% (2003 data).

Market Data

The Slovenian insurance Market is **highly concentrated**. Considering all business the **four companies** Triglav (39.75 %), Vzajemna[8] (14.85 %), Adriatic Slovenica (12.91 %) and Maribor (12.15 %) count for about 80% of the market. A more closer look to the life and non-life sector shows only slight differences in the involved companies:

- Life sector: Triglav (38.16 %), KAD (22.55 %), Maribor (10.01 %) and Merkur (6.51 %);
- Non-life sector: Triglav (40.43 %), Vzajemna (21.22 %), Adriatic Slovenica (17.42 %) and Maribor (13.07 %).

[7] Or approximately EUR 242.4 thousand.
[8] Health Insurance Mutual.

During the past 10 years[9] the **Slovenian insurance business has risen** by annual growth rates between 106.4 %[10] to 119.3 %[11]. The total amount of premiums increased from SIT 121.815 million[12] to SIT 371.424 million[13]. Total claims increased from SIT 78.005 million[14] in 1996 to SIT 209.659 million[15] in 2005.[16]

Legislation

General Rules

The basic act which regulates the issues related to establishment, operation, supervision and dissolution of insurance undertakings is the **Insurance Act**. It was adopted on **27 January 2000** and extensively amended in 2002, 2004 and 2006[17]. [18]

Recent Developments

In a countrywide referendum Slovenians voted against the government's proposal for the privatisation of 35% of insurer Zavarovalnica Triglav, rejecting the relevant amendments to the act on the ownership transformation of insurance companies with just over 71% of the popular vote[19]. According to referendum legislation, the results of the referendum are binding on the government for one year.

In compliance with the ownership transformation of insurance companies act of 2002, some 35% of Triglav would land in the hands of an estimated 750,000 policy holders. The government later adopted amendments that transfer the 35% stake to the state-run Pension Fund Management (KAD), arguing that it was nearly impossible in practice to privatise Triglav in a way that would allow those who held insurance policies in 1990 to participate. This led the National Council, the upper chamber of parliament, to first veto the amendments and later request a referendum, thus preventing KAD from selling (and thus privatising) the 35 % stake. Finance Minister Andrej Bajuk, whose ministry authored the amendments, regretted the result. Andrej Kocič, the chairman of Zavarovalnica Triglav, said the referendum would not affect business. "Things remain unchanged in terms of governance and strategy". Yet the management board wished "long-term and stable ownership" he said. [20]

---

[9] 1996-2005.
[10] 1997.
[11] 2001.
[12] Thereof SIT 20.127 million in the life insurance sector and SIT 101.690 million in the non-life sector.
[13] Thereof SIT 111.393 million in the life insurance sector and SIT 259.849 million in the non-life sector.
[14] Thereof SIT 6.149 million in the life insurance sector and SIT 71.856 million in the non-life sector.
[15] Thereof SIT 32.674 million in the life insurance sector and SIT 176.985 million in the non-life sector.
[16] Data taken from The Slovenian Insurance Association, http://www.zav-zdruzenje.si/E_statistika_detail1.htm-
[17] Official Gazette of the RS, No. 109/06 – official consolidated text, and No. 9/07) (IA-OCT2).
[18] The insurance Sector is further regulated by the following laws:

- Amendments to the Compulsory Insurance in Traffic Act (Official Gazette of Republic of Slovenia No.67/2002).
- Pension and disability insurance act (Official Gazette of Republic of Slovenia no.106/1999, 72/2000, 81/2000, 124/2000, 52/2001, 109/2001).
- Health care and health insurance act (Official Gazette of Republic of Slovenia no. 9/1992,13/1993, 9/1996, 29/1998, 77/1998, 6/1999, 56/1999, 99/2001).
- Tax on insurance premiums act (Official Gazette of Republic of Slovenia no. 57/1999).
- Civil code (Official Gazette of Republic of Slovenia no. 83/2001).

[19] According to early unofficial results of the National Electoral Commission.
[20] The Slovenia Times, November 11th, 2007.

Capital Adequacy – Solvency I and II

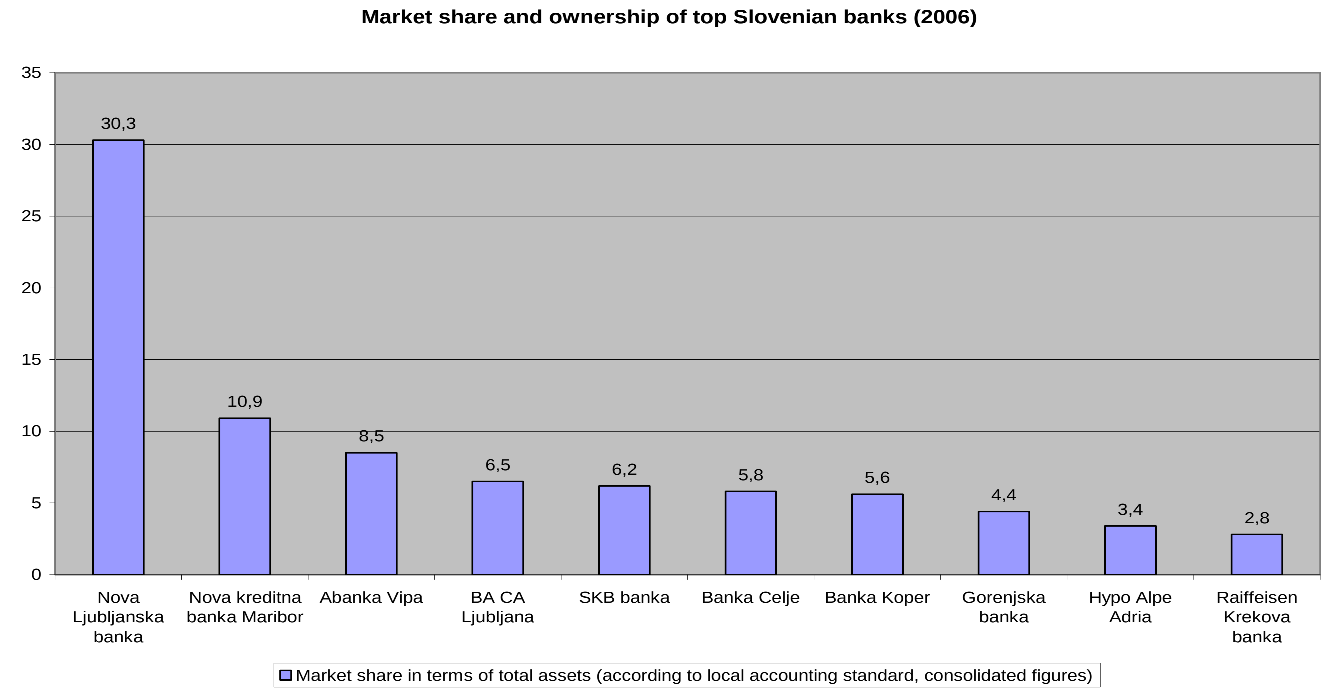
The principle of risk management is stipulated in the Insurance Act. Provided that adequate technical provisions are ensured – and also appropriate investment of assets covering technical provisions and assets covering mathematical provisions, reinsurance, co-insurance and liquidity management of these assets – insurance undertakings control their risk exposure primarily by ensuring sufficient capital, i.e. capital adequacy (the **minimum capital** and the guarantee fund). In accordance with the criteria laid down in the Insurance Act, the capital adequacy is ensured if the insurance undertaking at any point in time disposes of adequate capital with regard both to the **volume and type of insurance operations** performed, and to **the risks to which it is exposed in performing those operations**. The capital adequacy is calculated by applying the methodology set out in the Insurance Act and the implementing regulations adopted on the basis thereof. The capital adequacy of insurance undertakings is established and disclosed on prescribed forms (**self-assessment of capital adequacy**). Insurance undertakings are obliged to calculate their capital adequacy and to **submit the completed forms to the Insurance Supervision Agency as part of quarterly or annual statements**.[21]

The rules will change with the new Solvency II package, which Slovenia will negotiate in the Council and with the EP as the country in presidency in first half of 2008.

Banking

Although less concentrated in comparison to the insurance market, the majority of Slovenian banking business is still in the hands of several domestically owned companies.

Top Banks in Slovenia



State & KBC Group 34%	State	Majority priv local capital	UniCredit Group	Société Générale Group	Nova Ljubljanska Banka	Intesa SanPaolo	Majority private local capital	Hypo Alpe Adria Group	Raiffeisen International

Source: UniCredit New Europe Research Network

[21] Report on Business Performance of the Insurance Industry in 2006, p. 32.

Nova Ljubljankska Banka (NLB): When KBC (Belgium) invested in NLB, the biggest banking group, it was promised to eventually get the majority stake in several years time. There has been no intention by the government to increase the KBC stake from the current 34%.

Nova Kreditna Banka Maribor (NKBM): The second biggest group is NKBM, which is currently in the process of privatisation. Their management as well as the owner (State) announced that there is no need for selling a share to a strategic investor and thus decided to privatise 49% of the bank through IPOs. The first round of IPO opened to retail as well as institutional investors on 19 November and will be closed on 27 November.

The IMF report published in 2007 is stating that the Slovenian banking sector is less efficient and profitable than their regional rivals. The problem is enhanced by state ownership and declining net interest margins on the way to euro zone accession.

Legislation: Of recent legislative initiatives Slovenia has implemented CRD and is in the process of implementing the Payment Services Directive.

+++