

Investment and Investment Finance – Slovenia

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Proceedings

The event “**Investment and Investment Finance – Slovenia**”, organized jointly by the Bank of Slovenia and the European Investment Bank, brought together leading domestic and foreign experts and practitioners. The conference focused on the investment gaps and opportunities in the country. Participants discussed how to best address the meagre investment trends and circumvent the barriers towards more sustainable, inclusive and smart investments.

In his introductory address, **Boštjan Vasle, Governor of Banka Slovenije**, highlighted investment and investment finance as a subject of great relevance to Slovenia, which is still on the road to catching up with the more advanced euro area economies. “Investment is closely related to the key challenge facing Slovenia: its relatively low labour productivity. This is almost a fifth behind the EU average, and it is equally concerning that we have been stagnating in this area for a few years now, and are not reducing the gap with the more advanced EU economies,” he said. He reiterated that successfully finding a way out of this situation will also depend on how effectively the money that is currently available at highly favourable terms is used. The governor largely attributed the slowdown in growth in labour productivity to low investment levels, and highlighted two figures: (i) the ratio of investment to GDP in Slovenia was lower than in the EU overall during the most recent boom, and (ii) the ratio was around 8 percentage points lower than in the period before 2008. As far as investment finance is concerned, the governor emphasised that Slovenia makes insufficient use of FDI as a source of financing compared with other EU Member States. He added that this has been improving recently, although he questioned whether it was doing so quickly enough. This has helped to produce the current situation, because if other channels of financing were better-developed, they would enable the absorption of savings, which have been increasing in the last few years.

In her introductory remarks, **Lilyana Pavlova, Vice President of the EIB**, stressed that the repercussions of the pandemic will be long and painful. What first seemed as a modest shock to the economy, later on proved to be a very severe shock, which warranted an unprecedented policy response at the national and supranational level. In this respect, the EIB was called upon to provide liquidity support for SMEs by creating a €25 billion Pan-European Guarantee Fund (EGF) focusing primarily on supporting SMEs across the EU. The EGF, which is operational from October 2020, is set to mobilise up to an estimated €200 billion of additional financing. Quoting EIBIS survey results, VP Pavlova elaborated that while the scars of COVID-19 will be structural but many opportunities have also been created during the pandemic, particularly with regard to infrastructure investment in digitalization and environmental sustainability. In line with the new EIB lending policy, and with its advisory services, the EIB stands ready to engage with partners in Slovenia and the EU to provide funding in various priority areas, particularly climate, digitalization, other infrastructure and investments related to the health sector and to research and development.

Arjana Brezigar Masten, Director of the Analysis and Research Department at Bank of Slovenia presented a macroeconomic overview focusing primarily on investments and productivity dynamics in Slovenia while addressing also the challenges and opportunities of the Slovenian economy for the future. Her remarks highlighted the impact of the Great Financial Crisis (GFC) in the muted

convergence of the Slovene economy to that of the Euro Area and the European Union in the years following the crisis. Based on the decomposition of GDP growth, in the most recent years before the outbreak of Covid-19 epidemic, the Slovene economic growth has been largely labour-dependent. Such a composition poses challenges for the future, in particular given the aging population in Slovenia. She iterated that to attain economic convergence of the Slovene economy to most advanced economies of the EU and EA, the introduction of structural reforms and technological advancement, triggered by larger investments in new technologies, digitalisation and automation of production processes and green transformation are crucial. She further emphasized that this can be largely supported with the efficient utilization of the Recovery and Resilience Facility (RRF) within the Next Generation EU (NGEU) that aim to accelerate investment dynamics and in doing so increasing productivity to ensure a sustainable economic growth of Slovene economy.

Debora Revoltella, Chief Economist of the EIB, complemented earlier discussion by presenting the results of the EIB Investment Survey (EIBIS) 2020 for Slovenia. She observed that the slow recovery of investment in the country was derailed by the shock caused by the pandemic, while a number of gaps, particularly in the area of infrastructure, have been building up. While the short-term impact is already visible in the economic data, it is becoming increasingly evident that the pandemic will not only have impact on short-term investment dynamics, but will likely generate long term consequences for enterprises. In this context, the way in which firms and policies address two key impediments towards greater investment levels – uncertainty about the future and the availability of skilled staff – will be crucial. It follows from the EIBIS survey that Slovenian firms lag in investment in intangibles and that digital infrastructure could be improved further. Furthermore, while Slovenian firms outperform many European peers in energy efficiency investment, they are only slowly catching up on climate-related investment. Providing proper resources for finance-constrained firms, particularly in the services sector and among SMEs, while incorporating the needs for climate-enhancing and digital technologies, will remain crucial to support the recovery.

A discussion followed, moderated by **Simon Savšek, the EIB economist for Slovenia**. Reaching out to more than 150 participants, the invited speakers were **Maja Bednaš, the Director of the Institute of Macroeconomic Analysis and Development (IMAD) and Sibil Svilan, the President of the Management Board of the SID Bank**. The debate focused on short-term and long-term impediments to investment growth in Slovenia. The panellists agreed that the pandemic will have strong consequences for investment and growth outlook in Slovenia and that policies supporting the investment outlook will need to be targeted and coordinated. This is particularly important as the risks surrounding the investment outlook are substantial and depend largely on the pandemic outlook and success of the vaccination.

In this respect, **Ms. Bednaš** noted that recovery in investment in the short term will depend crucially on the epidemiological situation and policy support (monetary, fiscal, structural). Due to the pandemic, some firms already accelerated digitalisation, one of the key aspects for a more robust investment recovery. Adaptations in integration into global value chains are another important aspect. Last year, only the pharmaceutical and ICT industries increased their output compared to 2019, while one of the largest declines was recorded in the automotive industry, confirming the above trends. It is becoming more certain that the containment measures will mostly affect sectors such as the hospitality sector. To address longer-term investment barriers, skills are paramount. In Slovenia, discrepancies in knowledge, skills and competencies can be observed at various levels. In this respect, the modernization of educational programs and lifelong learning are imperative given rapid changes in the economy. As a matter of fact, motivation for lifelong learning is low in Slovenia and training programs are often expensive or inadequate. Public funding is also relatively low. To tackle these

impediments, greater awareness of the importance of lifelong learning and better quality training reflecting the needs of employees need to complement increased financial support. Furthermore, recognition of certificates and strategic planning (eg. via forecasting platforms) will be also crucial. Higher spending in R&D is crucial for fostering innovation and digital transformation, which is seen as a key factor in productivity growth. This is particularly important in the light of worrisome demographic trends in Slovenia. In this respect, funding for investment in intangible assets will depend on both private and public sector support, both at the national and the EU level. Green and smart infrastructure should also not be left out.

As such, the pandemic is therefore likely to generate clear winners and losers and therefore “business as usual” will likely not be possible anymore. In this respect, coordinated, strong and immediate policy response, as witnessed by the EIB and SID bank, was crucial to prevent even worse investment outlook in Slovenia. Nevertheless, there is no room for complacency. The crisis opened up even more the existing gaps, particularly in the area of smart, digital infrastructure and skills as noted above. Investments in these two areas, combined with a more balanced financing mix, will increase the productivity and establish the necessary conditions to bring Slovenia back on a more sustainable growth path and fasten convergence towards more developed EU partners.

In this respect, **Mr. Svilan** noted that the main challenge for any development bank in a crisis time is to respond not only quickly, but also comprehensively enough to achieve a desired macroeconomic impact. Importantly, intensive countercyclical financial support was granted by the SID bank; EUR 580mn in new financing, EUR 1.5bn in non-marketable insurance and further EUR 100mn in guarantees schemes to banks. While providing liquidity to the economy, the Bank’s support mainly targeted sectors, which were affected mostly by the crisis and/or where impacts needed to be mitigated. It goes without saying that short term response and structural response go hand in hand. With regard to the latter, transition to a sustainable and green economy, digitalization and R&D have been paramount also in preparation of the new products under major financial programmes (eg. RRF, MFF). Projects in the above-mentioned areas are critical to stimulate productivity and guarantee adequate cash flows in the future. Nevertheless, the quality of investments is more important than the quantity and thereby non-discriminatory principles need to be put in practice. However, this will not be possible without a sound regulatory and financial environment. Blending, advisory services and an appropriate mix of grants with own and other financial resources are key. Developing and enhancing new forms of financing, such as venture capital, are another important factor. SID bank has been progressively introducing such products, thereby playing an important enabling role. As risks are a major consideration, particularly with long-term infrastructure projects, development banks have a special role in facilitating the above links. To further enhance these relations, cooperation between national and international development banks could also be improved. To fill this gap, at least partially, SID Bank will prepare a regional technology transfer fund together with the EIF.

Francesco Ferrero, the Head of the EIB Office in Slovenia, concluded the event. While thanking the organizers and participants for the excellent event, he highlighted importance of joining forces on several fronts. As the conference showed, identifying properly the bottlenecks and opportunities for investments, and joining strategic, advisory and lending activities, is key to stimulate investment growth in Slovenia and the EU, he said. In this respect, the EIB Group stands ready to continue and increase its activities in the country.