Conference on European Economic Integration

PANEL 1: Past and current reform strategies in Europe

Structural reforms in Slovenia – a role for economic development

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Main messages

- Monetary policy would be more effective if structural reforms would be in place.

- Structural reforms: to mitigate the negative externalities of accommodative monetary policy

- The case of Slovenia: EC recommendations

- Measures taken by the central bank to improve financing conditions and to facilitate durable resolution of non-performing loans

- The idea of secondary market for NPLs in the Euro area

- Slovenia: macro picture improved

- Future challenges for banking sector
EC Recommendations for Slovenia

- Monetary policy should be complemented by structural reforms.

- European Commission's recent country specific recommendations for Slovenia relate to the following areas: public finance, pension system, financing conditions, labour market, healthcare system and long-care, business environment and state-owned enterprises.

- "... improving the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing."
Durable resolution of NPLs

BoS continues to use its supervisory powers to encourage banks to address the NPL issue:

1. Supervisory dialogue with banks
2. MRA monitoring
3. Development of MSME NPL restructuring
4. Participation in the ECB TF and WS for NPL resolution
5. GAP Analysis of ECB guidelines and NPL regulation in Slovenia
6. Implementation of public credit register of corporate loans

![Graph showing differences in shares of gross non-performing exposure in total exposure between 2013 Q2 and 2016 Q3.](source: ECB, Bank of Slovenia calculations. Note: Difference for LU is calculated between 2014q4 and 2016q3. NPE is calculated on consolidated basis.)
Platform for NPLs

...NPLs are still a problem at European level.

- Idea to establish a secondary market for NPLs – a special trading platform was not well perceived in Slovenia...now is being discussed at the European level.

- Idea of a special trading platform for NPLs:
  - bringing together banks and investors;
  - mitigating market failures in NPLs secondary market;
  - overcoming information asymmetry;
  - reducing costs for investors.
Macroeconomic environment is improving...

Slovenian economy experienced one of the highest economic growth of all EA countries in 2016 (3.1%) and Q2 of 2017 (4.4%).

...greatly improved labor market conditions: unemployment has fallen sharply; more pronounced growth in average gross wages.

Source: SORS, Bank of Slovenia, Eurostat
### Future challenges for Slovenian banks:

- Further consolidation
- Adjustment of business models
- Revived credit growth yet to have positive impact on credit portfolio quality and interest income.
- The rising proportion of sight deposits continues to entail risk in the event of unforeseen external shocks.
- Improved financial position of NFC, low indebtedness level and improved income position of HH together with favorable economic forecasts establish the conditions for the beginning of a new credit cycle.

...banks need to **adjust to the new environment** too.

...response to the potential negative spillovers from monetary policy are **macroprudential tools**.