

Slovenia Capital markets development strategy (2022-26)

Final conference

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REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE



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CMDS - issues & potential solutions identified

Primož Rozman, PwC



Current status

Capital markets development has historically not been very high on the priority list of the Government or part of the national strategy and so far no institution, public or private, has had a capital market development role in Slovenia

Public market

- Number of equities listed on LJSE has decreased from over 200 in early 2000s to 28 currently, generating low levels of liquidity
- The equity market capitalization to GDP ratio as of Sep-20 has reduced to 14%, one of the lowest in the region
- The total turnover in 2020 was about EUR 400m only
- There have been only 3 IPOs since 2009, and 3 companies have dual-listed abroad
- The situation on the Government bond market is similar in many ways – while capitalization of bonds has been increasing since 2007 and reached 74% of GDP as at Sep-20, at the same time liquidity has reached 0% of the GDP

Private market

- In terms of the private market, Slovenia is one of the most undervalued economies in the region as per Mergermarket research
- There is no currently no institution responsible for developing the SME / PE sector and its stakeholders
- PE investments accounted for only c. 0.002% of GDP in 2019, one of the lowest in the region in accordance with Invest Europe research

Challenges identified

How to improve supply of securities on the market? What to do with the regulatory, tax and pension system to create a successful public and private capital market that would support (finance) national economy?

Generate supply and liquidity

➔ support public and private investment into capital markets

➔ achieve Emerging market status in next 5 years

➔ stimulate investments in the private market

- National strategy to include privatisation of state owned enterprises via the LJSE to kick start the equity market and give confidence to the private sector to use the LJSE as a capital raising venue
- Designate a strategic body to lead the reform using modern privatisation techniques
- Review taxation regime to be more market orientated
- Implement a pension reform to include investment in equity markets
- Support ESG listings and FinTech solutions
- Launch of new products (i.e. REITs, Municipal bonds, Covered bonds)
- Upgrade SME market
- Remove other regulatory restrictions

Challenges identified

How to stimulate demand for investing / seeking finance in the capital markets? What to do with the regulatory, tax and pension system to create a successful public and private capital market that would support (finance) national economy?

Generate demand for securities and financing provided

- Review taxation regime to be more market orientated
- Attract savings into the capital markets
- Remove other barriers (i.e. high transaction and holding costs)
- Improve financial literacy
- Promote trust in capital markets
- Digitalization
- Integration with foreign markets to stimulate foreign capital investments

Proposed CMDS Targets

The Goals for the Next Five Years

Public market

- Equity:
 - ✓ Make the equity market an important pillar to fuel economic development growing to a equity market cap to GDP ratio of at least 30% by 2026 (EU average is at 81% in 2020)
 - ✓ Achieve Emerging Market Status with key index providers by 2025
 - ✓ Implement a domestic Green/Sustainability market immediately
- Government Debt
 - ✓ Consistently lower the Government Debt to GDP ratio to enable Slovenia to withstand more systemic risks
- Widen the asset classes to include covered bonds (if pricing becomes more favourable) and municipal bonds by changing the law
- Achieve pension reforms, enhance financial literacy

Private market

- Create an active Private Equity sector that accounts for up to 0.5% of GDP by 2026, in line with EU 2020 average

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**Director-General, Financial System Directorate,
Ministry of Finance**

Ms. Urška Cvelbar



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Director General DG Reform (EU Commission)

Mr. Mario Nava



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Director of the Securities Market Agency

Ms. Anka Čadež



Discussion pannels



1	National strategy - Corporate governance, privatization and transparency
2	Tax and regulatory changes
3	FinTech & Digital
4	Private market and its impact to the public market

National strategy – Privatisation, Corporate Governance, and Transparency

Key panelists

Brian Taylor – BTA Consulting

1 **Justin Sullivan, MBA** –
Communications Manager at
Department of Finance, Ireland

2 **Mag. Aleš Ipavec** – President of the
Management Board, Ljubljana Stock
Exchange

3 **Mag. Aleksander Nagode** –
Director-General, Public Property
Directorate, Ministry of Finance

4 **Daniel Medved** – Director of Investment
banking division, Nova KBM d.d.

5 **Daniel Delač, MBA** – Board Member,
InterCapital Securities Ltd.

6 **Bojan Ivanc, CFA, CAIA** – Chief Economist of
Analytics at Chamber of Commerce and
Industry of Slovenia

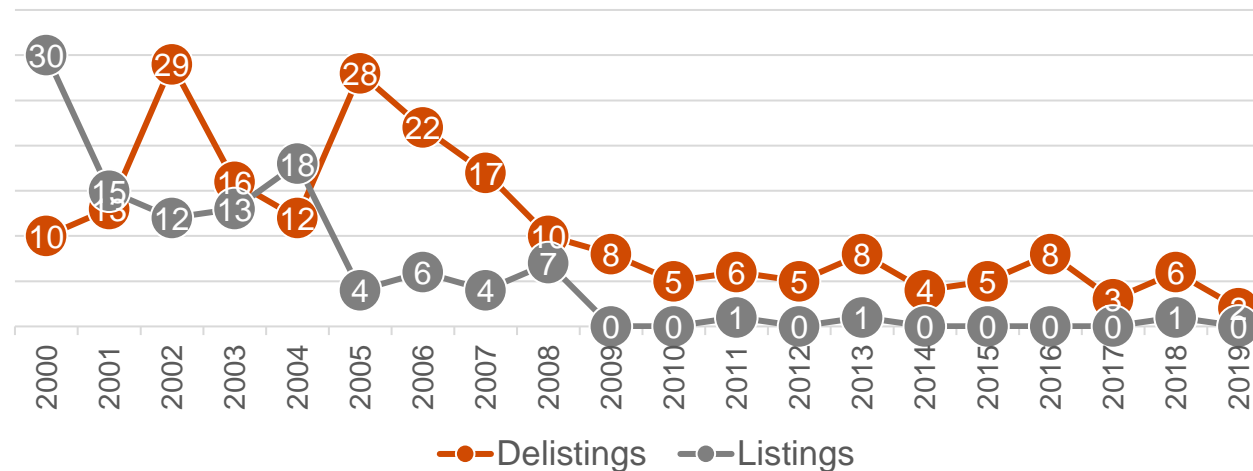
Current situation

The lack of supply of securities from all segments of the market is causing the market to contract in size rather than grow. The public or private capital markets are not at the centre of Government strategy as a core means to fuel economic development

Supply is a systemic issue in Slovenia

The public market has collapsed since 2004, there have only been two listings on the LJSE since 2013, and there are only 27 companies listed on the LJSE in 2020.

Slovenia has not developed a solution for sustainable finance which is now live under the SFDR



De-listings exceed listings – a route to zero

Source: WFE, LJSE (access: 10.2020), PwC analysis

Corporate Governance

The “Comply or Explain” model for existing listed companies is not working properly, is not sufficiently transparent and is not followed by Government

International benchmarks show that companies that enforce best practice outperform their peers

Transparency as a whole is weak on the LJSE – the profiling of listed companies can be significantly improved

Topics for discussion



How could we best utilize FinTech to support capital markets development?

- ① Should the Slovene Government encourage capital market development through a new set of modern privatizations to kick-start the LJSE, or should the LJSE rely on developing the Private Equity (PE) market as a source of new listings?
- ② What is the biggest barrier to develop PE market? Is it the same as SME segment, or PE/VC is completely different segment, hence different strategy, stakeholders ?
- ③ Should “comply or explain” be replaced by a mandatory corporate governance code and if so, how does a market encourage Government to comply in state-owned listed companies?

Discussion pannels



1	National strategy - Corporate governance, privatization and transparency
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Tax and regulatory changes

Key panelists

Tomasz Jedwabny – BTA Consulting & Mojca Bartol Lesar – PwC

1 **Mag. Tina Humar** - Director General,
Tax, Customs and Other Public Revenue
Systems Directorate, Ministry of Finance

2 **Mark Brownridge** – Director General,
The Enterprise Investment Scheme
Association (EISA), UK

3 **Blaž Hribar, CFA** – Member of the
Management Board, Pokojninska
družba A, d.d.

4 **Justin Sullivan; MBA** - Communications
Manager, Department of Finance, Ireland

5 **Andrej Petek, CFA** – Member of the
Management Board at Triglav Skladi, d.o.o.

Current situation

The current tax strategy does not support capital market growth, while generating relatively low capital gain collection from retail investors on the capital markets (c. EUR 18m in 2018, or 0.1% of total taxes collected in Slovenia).

Relatively high capital tax rates in Slovenia

Slovenia has not only relatively high capital gain tax rates for retail investors in comparison to peer countries, but also holding period before reaching tax free disposal (i.e. 20 years)

Low number of incentives

None / limited tax incentives are available for investors / issuers in Slovenia, as known abroad – for example:

- **France:** Relief on Personal Savings Plans invested in the SMEs
- **UK:** Individual Savings Accounts for investments in securities and cash holdings up to GBP 20,000 per annum
- Also any losses incurred are not only off-set in the same financial year, but can be off-set against future profits realised
- Enterprise Investment Scheme – personal income tax and capital gain tax reliefs for investments in EIS companies (SME, start ups, etc. – specific conditions apply)

Country	Capital gains tax – retail investors, %, 2019
Netherlands	30.0%
Finland	30.0%
Austria	27.5%
Slovenia	27.5%
Germany	26.4%
Spain	23.0%
Estonia	20.0%
Poland	19.0%
Czech Republic	15.0%
Greece	15.0%
Croatia	12.0%
Romania	10.0%
Bulgaria	10.0%

Topics for discussion



Should tax regime and pension system change to help develop Capital markets?

- ① Slovenia has no / very limited tax incentives to support Capital markets development for issuers and investors. How could the Slovene Government address this and what is the Irish experiences in this field?

- ② Could tax regime be used to stimulate transfer from retail deposits to Capital markets? Should the Slovene government consider reducing the relatively high capital gains tax (and holding periods), or introduce an annual tax free allowance for investors?

- ③ What do you think are key regulatory issues which are important with regard to increasing the capital markets segment in Slovenia?

- ④ What is your view on the effectiveness of tax incentives on mobilising financing for start-ups and SMEs? What is the UK experience?

- ⑤ How could we reform the pension system to enable higher proportion of individual retail savings to be placed on the capital markets? I.e. through investing into the 2 and 3 pillar? What about elimination of minimum guarantee return?

Discussion pannels



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FinTech & Digital

Key panelists

Mariusz Wieckowski – BTA Consulting

1

Jan Ceysens – Head of the Digital Finance Unit, DG FISMA (EU Commission)

2

Nena Dokuzev – Head of Project Group for New Economy and Blockchain Technologies at MGRT

3

Aleš Butala – Senior Advisor, Securities Market Agency

4

Mag. Davor Pavič – Member of the Board, KDD d.o.o.

5

Daniel Medved – Director of Investment banking division, Nova KBM d.d.

Current situation

In the post-Covid era, FinTech development could contribute to the success of Slovenian capital markets

Impact of FinTech on capital markets

Lower costs, service expansion, financial inclusion, improved regulation and investor protection

Low level of FinTech activity in Slovenia

Slovenia is ranked low in multiple FinTech rankings

There are only a small number of FinTech companies

No digitalised public registers with automatic access for authorised financial institutions

Regulatory and supervisory tools needed

There is no regulatory sandbox or innovation hub for FinTech

Legal and regulatory barriers

A dedicated project to identify and remove FinTech related barriers is needed

Such project should aim to identify potential niches that could be exploited and propose actions to stimulate their development

Topics for discussion



How could we best utilize FinTech to support capital markets development?

① What should be the role of regulatory and supervisory authorities in FinTech development?

② What are the implications of the EC Digital Strategy for the Slovenia? What is the experience of other EU countries?

③ How could digitalisation of public registers and automated access of authorised institutions impact the business? What other FinTech niches could be identified for Slovenia?

④ What FinTech development tools could be considered by the regulators?

Discussion pannels



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Private market and its impact to the public market

Key panelists

Peter Premk – BTA Consulting

1 **Luka Podlogar, MBA** – President of the Management Board, Generali Investments d.o.o.

2 **Mag. Maja Tomanič-Vidovič** – Director, Slovene Enterprise Fund

3 **Blaž Kos** – Strategic consultant, Slovene Enterprise Fund

4 **Primož Damjanovič** – Deputy Director, Securities Market Agency

5 **Dejan Jelisavac** – CEO, ALFI Alternative investment fund

6 **Bojan Ivanc**, CFA, CAIA, Chief Economist of Analytics at Chamber of Commerce and Industry of Slovenia

Current situation

Lack of transactions in the innovative sector may indicate that the economy is not technology-oriented and that the fast growing firms (start-ups) are either not present or they seek financing in alternative ways

Slovenian PEs are innovators

Based on the European Innovation Index, Slovenia is ranking above EU average (UMAR Development Report 2019, pg. 89), however based on the PE investments (as % of GDP), Slovenia is ranked as the very last (0.002% of GDP in 2019) (Invest Europe Report June 2020, pg. 19).

SME market vs. PE market

The reason may be that SME growth market and PE markets are not developed properly – functionally, strategically, technically and operationally.

What is the difference between PE and SME market? Only the legal formation of companies?
Can these 2 markets be assimilated?

SME market

LJSE runs a MTF platform – SI Enter, dedicated to SMEs

This market is not successful, as SI Enter is inactive, with critically low liquidity

SI Enter is **not** classified as SME Growth Market under MiFID II, which results in unproportioned regulatory burden for issuers

SME market to include PE?

Private Securities and SME markets: How can these be structured to offer liquidity and easier access for both companies and investors? Is there a need for a different intermediation structure?

Private capital market development responsibility

Slovene Enterprise Fund

Working in isolation?

No institution is directly responsible for PE/VC Market development

- **Barriers to growth of the private market in Slovenia are related to the lack of strategic coordination:**
 - No organisation or institution is responsible for development of the PE markets
 - Lack of key stakeholders / representatives of the PE market in Slovenia
 - Small financial capacity of the local PE funds, which lack a proven track record and have limited experience
 - Lack of experienced PE advisors / lawyers
 - Limited options for exit strategies from different PE / Venture capital funds – LJSE or Si Enter, foreign trading venues
 - Legal barriers are minor
 - No tax incentives for the PE market

Topics for discussion



Should CMDS strategy be focused on public market (LJSE), private market, both equally in parallel?

- ① What is the biggest barrier to develop the PE market?
- What incentives should be adopted?
- ② Do you believe some of households' deposits in banks can be mobilized and allocated to the PE market? If yes, how? With retail investors direct access or through intermediaries?
- ③ Who should be the “facilitator”; i.e. have the leading role in developing PE/VC market in Slovenia – SPS, MGRT, ATVP? Does the PE market need a supervisor, regulator?
- ④ Do you believe insurance companies/pension funds should be more active on the PE market? Do you see any need for amending (lifting) their investment restrictions, as per current legislation?
- ⑤ What is your view on the idea to completely renew/restart the SME private market segment under a new platform and technology, potentially merge with it the PE market? Could such new restructured market provide an exit possibility for privately owned companies ?



Closing statement

Primož Rozman, PwC



Thank you

