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Lithuania, a country to emulate or just an aberration?

Corporate Governance Less and Less Globally Competitive

10.01.2008

By Vanja Kovačič

In the 2007-2008 Global Competitiveness Report, published annually by the World Economic Forum, Slovenia placed 39th out of 131 countries, nestled between Lithuania and Portugal. This ranking represents a drop in

the global competitiveness of Slovenia, while most of the separate scores received show stagnation in comparison to last year.

Based on the Global Competitiveness Report (GCR) 2007-2008, prepared by the World Economic Forum (WEF), Slovenia ranked 39th out of a total of 131 countries, achieving an overall global competitiveness score of 4.48 out of a possible 7. Of the new EU member states, only Estonia, the Czech Republic and Lithuania ranked higher than Slovenia, achieving 27th, 33rd and 38th place respectively, while of the old EU member states, Slovenia ranked higher than Portugal (40th), Italy (46th) and Greece (65th).

The WEF has been preparing reports on global competitiveness since 1979, first assessing Slovenia in 1991, when it gained independence. The overall ranking of Slovenia has been steadily declining for the last three years: in 2005 Slovenia ranked 30th, in 2006 33rd, and this year settling in 39th place. The most problematic factors giving rise to the rather low ranking of Slovenia on the global competitiveness chart are tax regulations and rates, restrictive labour rules, and inefficient government bureaucracy.

In addition to the Global Competitiveness Index (GCI), the WEF also measures the so-called Business Competitiveness Index, where Slovenia ranked 35th out of 127 countries. This represents a climb by one spot for Slovenia from the previous year, mainly due to the improvement in the sophistication of company operations and strategy.

Results dissected

The least problematic areas of global competitiveness in Slovenia are crime and theft, government instability, foreign currency regulations and inflation. Thus, the areas in which Slovenia gained a score higher than its overall rating are the business costs of crime, where Slovenia placed 22nd of 131 countries, costs of terrorism (15th), inflation (34th), government debt (37th), good telephone infrastructure (30th), the quality of healthcare and primary education (22nd), the capacity for innovation (19th), and the area of overall market efficiency (38th).

The lowest scores were received primarily in the areas of goods and labour market efficiency. Thus, Slovenia ranked 110th in the area of the business impact of rules on foreign direct investment, and 104th in the area of time required to start a business, since there are still too many procedures that need to take place before starting a business, a separate category where Slovenia placed 52nd. The tax climate in the country was also rated low, Slovenia ranking 104th in the area of the extent and effect of taxation.

In the field of agricultural policy costs, Slovenia placed 92nd, and 64th in the area of government surplus or deficit. In terms of the labour market and its efficiency, Slovenia also ranked very low, ranking 111th in the field of hiring and firing practices, 108th in the field of rigidity of employment, and 107th in the field of flexibility of wage determination.

The stagnating competitiveness

The GCI, calculated annually by the WEF, is an aggregate index consisting of three subindexes, and this year, compared to the year 2006, Slovenia ranked lower in two of the three subindexes. In the subindex of basic requirements, which consists of the ranking of institutions, infrastructure, macroeconomic stability and health and primary education,

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Slovenia achieved an overall score of 5.1 out of 7, a slight drop from the 2006 score of 5.17. In the second subindex, that of efficiency enhancers, made up of the scores for higher education and training, goods and labour market efficiency, financial market sophistication, technological readiness and market size, Slovenia received the score of 4.40, a drop from 4.48 in the year 2006. In the last subindex, of innovation and sophistication factors, Slovenia received the score of 4.20, a slight increase from the 4.18 received in 2006.

Slovenia's performance in terms of global competitiveness shows a stagnation in the recent years, which is not alarming, but should nevertheless be addressed. The key problematic areas remain the goods and labour market efficiency, especially in terms of the rules governing foreign direct investment, foreign ownership, and the rigidity of the labour market.

In the year 2006, only Estonia and the Czech Republic outranked Slovenia on the Global competitiveness chart, while this year the two were joined by Lithuania. This is mainly due to the fall of Slovenia by six places, as Lithuania only climbed one place from the 39th it occupied in 2006. Apart from Slovenia, the United Kingdom, Austria, France, the Slovak Republic, Hungary, Poland, Cyprus and Greece also experienced a drop in their rankings.

In the overall global competitiveness chart 2007-2008, the USA remains in first position, followed by Switzerland, Denmark, Sweden, Germany, Finland, Singapore, Japan, the United Kingdom and Holland. The newest EU member states, Romania and Bulgaria, placed 74th and 79th respectively, both experiencing a drop in comparison to the 2006 chart, Romania by one place, and Bulgaria by four. This year Serbia and Montenegro were, for the first time, ranked separately, achieving 91st and 82nd place respectively.

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