**Country Study**

**Slovenia:**

**Winning the Transitional Economies Race**

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**Government Finance in Transition Economies**

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**Fall 1996**

 ***The World Development Report: From Plan to Market (WDR) argues***

 ***that with consistent and sustained reforms, transition countries can***

 ***achieve successful long-term economic growth, but also warns that***

 ***many challenges and risks -- among them long-term stagnation and***

 ***rising poverty -- still lie ahead for some countries.***

 ***-World Bank News, June 27,1996-***

***INTRODUCTION***

 Five years ago a small republic of the former Yugoslavia, started on its path of transition from an eastern block socialist government with a planned economy to a democratic government with a free market economy. Fortunately, the rocky road, described by the *World Bank News* in the quote above, has not been long for Slovenia. Although Slovenia was the most prosperous Republic before the dissolution of Yugoslavia, after the breakup of Yugoslavia in 1991, Slovenia experienced high levels of inflation, a drop in the GDP and a tripling of the unemployment levels[[1]](#footnote-1). These problems did not stop Slovenia’s transition to an economic powerhouse in the former Eastern Bloc. However, Slovenia had several advantages over other Eastern Bloc countries which aided in such a successful transition. This analysis will present both Slovenia’s historical and current economic status by examining the political and economic background, budgetary and monetary conditions, expenditure policies and assignment, tax structure and administration, and social insurance.

**Political and Economic Background**

 Passing through its transition period from a centrally planned economy to a market economy, Slovenia has dealt with some successes and some failures. However, Slovenia’s experiences and economic policies could prove to be helpful for other economies in transition. There are many reasons why the transition period for Slovenia has been successful. The foundation for its quick transformation to a market economy lies within the positioning of Slovenia in the history of Yugoslavia before and after its dissolution.

 After the end of World War II, Yugoslavia’s definition of socialism changed. Ownership of the means of production was defined as ‘social’ rather than ‘state’ and firms were managed by workers councils. No central planning existed after 1965 and Slovenia, as well as the other republics in Yugoslavia, were given a high degree of autonomy. Also Tito, a former leader of Yugoslavia, had deviated from the ‘command economy’ model of the Soviet Institution. As a result, the Yugoslavian government policy had an emphasis on a greater sense of autonomy, as far the economy was concerned.[[2]](#footnote-2) The Republic of Slovenia developed its economic base by increasing the level of manufacturing in the republic as well as establishing stronger ties with the Western European countries.[[3]](#footnote-3) Slovenia had always been oriented towards the west, however, due to its northwestern location in Yugoslavia, its economic interaction with the western countries led it to become market oriented faster than other Eastern Europe countries.

 While Slovenia was a part of Yugoslavia, it was by far the most successful republic with a per capita income of almost double that of the national average.[[4]](#footnote-4) The Slovene economy could not be solely dependent on the national market and therefore they actively traded with Italy, Austria, Bulgaria and Hungary. In fact, “with only 8% of the population, little Slovenia brought in 25-30% of Yugoslavia’s foreign exchange.”[[5]](#footnote-5) Also, Slovenia accounted for 20% of the country’s Gross Domestic Product.[[6]](#footnote-6) As a result of this high degree of decentralization and positive net outflows, the aforementioned characteristics provided the economic basis to secession. In May 1990, the people of Slovenia elected a government whose economic policy, according to Mencinger, " was set by the premise that prospects of transition to a market economy were worsening; the economic policy of the federal government mistaken, the existing economic system unsuitable, and the Federation facing political turmoil."[[7]](#footnote-7) The referendum on independence passed with 90 percent support. Since that 1990 vote, Slovenia has come a long way economically.

 Slovenia declared its independence on June 25, 1991. The first year for Slovenia was quite difficult. “Real GDP fell 15% during 1991-92, while inflation jumped to 247% in 1991 and unemployment topped 8% - nearly three times the 1989 level.”[[8]](#footnote-8) The economy continued to plummet until 1993 when it flatten and then head into the positive direction. By 1993 unemployment was at 11% and many companies had lost almost 30% of their markets due to the bitter conflict in Bosnia and the loss of faith in the region by international trade partners.[[9]](#footnote-9) However, “[a]t its current rates of economic growth, [slovenia] it could pass EU members Greece and Portugal in four to five years.”[[10]](#footnote-10)

***Current Economic Conditions***

 ***Gross Domestic Product***

 In order to appreciate the current economic conditions of the country, it is necessary to examine some of the economic indicators in relation to their past figures***.*** The first indicator is Gross Domestic Product. According to the EIU Country Report for the 2nd quarter of 1996, the real GDP growth percentage is slowing down. In fact between 1994 and 1995 there was a -1.4% increase in GDP.[[11]](#footnote-11) Even though there was a negative change, the Chamber of Economy in Slovenia states that due to “tremendous growth of new companies, particularly small businesses, and the shift of foreign trade westward,” they project that slovenia is expecting to experience a 5-6 percent increase in GDP in the period up to the year 2000.[[12]](#footnote-12) In addition, “the GDP per capita is higher than those of Greece and Portugal, double that of Hungary and the Czech Republic, and it has a comparatively efficient manufacturing sector.”[[13]](#footnote-13) Currently, mining and manufacturing are contributing the largest percentage to the GDP (figures from 1995 report 31%) with Trade, Hotels and Restaurants and Financial Market Services at 14% each. Although, Slovenia continues to depend on manufacturing and machinery production, other industries continue to grow and keep a diverse base for Slovenia’s GDP. (See Appendix I) The country of 2 million people has a GDP of more than $18.5 billion.[[14]](#footnote-14) The EIU predicts that the real GDP percentage change form the previous year will be 3.0 and 4.0 in 1996 and 1997, respectively.[[15]](#footnote-15) (See Appendix II)

 ***Imports and Exports***

 Other important indicators are foreign imports and exports. In 1995 Slovenia had $20.8 billion in foreign trade, goods and services. Slovenia’s international trade has been geared towards western Europe, especially Italy and Germany.[[16]](#footnote-16) (See Appendix III & IV) One advantage that Slovenia has had in trading with the Western European countries, is that Western Europe does not charge any duty on good entering their countries from Slovenia, except some agriculture, steel and textile products; in 1995 70% of all of Slovenia’s foreign trade went to the EU.[[17]](#footnote-17) Western Europe has maintained a high demand for machinery and transport equipment, comprising 27% of Slovenia’s exports. (See Appendix V &VI) This consistent link with the West also is evident in the political philosophy of Slovenia.

 ***Inflation***

 In 1991, when the Republic of Slovenia first started establishing policy towards a market economy, the inflation rate reached a peak of 247.1%.[[18]](#footnote-18) This was expected, since the economy was moving from a highly state subsidized centrally planned economy to a free- market economy. Fortunately, by 1995 the inflation rate had reached 9.5%.[[19]](#footnote-19) One important quality of this transition was that Slovenia managed to bring inflation under control without any balance-of payment problems. Inflation in 1996 thus far is at 10.7% a small increase form 1995, however, the Chamber of Economy of Slovenia has a positive outlook for the next year.[[20]](#footnote-20) (See Appendix VII)

 ***Privatization***

 In 1994, the Slovenian government took its first steps towards privatization. At first the country observed the other Eastern Bloc countries and learned from their failures. The companies or enterprises’ were allowed to choose between five privatization models, which were then approved by the Agency for Privatization.[[21]](#footnote-21) Most of the companies were sold off to the workers and managers.

 The citizens were given privatization coupons valued at 100,000 - 400,000 Tolars, depending on the age of the individual. The coupons could be used to buy shares or invest the money into securities. Over 45% percent of the coupons were invested into fund securities.[[22]](#footnote-22) According to Price Waterhouse, over 400 enterprises have been successfully privatized and another 1000 will soon be at the same status. However, some companies, such as public utilities, national telecom, and two commercial banks have not gone through the process; the government states that these entities will undergo special privatization processes.[[23]](#footnote-23)

 ***Political Situation***

 On the 25th of June, 1991, Slovenia declared the end of its political ties with the former Yugoslavia. Although, the government of the former Yugoslavia did not want the republic to secede, after a mild show of military force, Yugoslavia gave Slovenia up. Since then, the National Assembly has been the main legislative body of the Republic of Slovenia. This national legislature consists of 90 members that are directly elected by the people for four year terms. In addition, there is the Council of State that is elected for five years. This council has 40 members, 22 representing local interests, 12 evenly divided between employers, and 6 representing non-economic activities.[[24]](#footnote-24)

 Slovenia is currently governed by two dominant parties who have formed a government coalition, the Liberal Democracy of Slovenia (LDS) and the Slovene Christian Democrats (SKD). The LDS stems from the youth movement of the former communists while the SKD originates from a Christian tradition dating back before the Second World War.[[25]](#footnote-25) The differences in these groups are the main reasons why there seldom is cooperation in making government decisions. However, there are other parties with greater opposition: the Social Democrat Party of Slovenia(SDSS), the Slovene National Party (SNP) and the Slovene People’s Party (SLS).[[26]](#footnote-26)

 One aspect that has helped Slovenia remain stable politically is that the ethnic make-up is not extremely diverse. Almost, 91% of the population is Slovene and they are predominantly Roman Catholic.[[27]](#footnote-27) (See Appendix VIII ) This composition has allowed Slovenia to focus on economic revival rather than religious ethnic conflict, quite unlike their neighbors to the south in Bosnia-Herzogovina.

 In November of 1996, Slovenia had elections and most of the incumbents were re-elected. The LDS won the most seats (25) and the Slovenian People’s Party, conservatives, won the second largest at 19.[[28]](#footnote-28) This could cause a conflict because, both the liberals and the conservatives have gained a significant amount of power after this election. In the coming months the coalitions that form with the parties with fewer seats could be significant for the political climate of Slovenia. The far right conservatives, United List of Social Democrats(ZLSD- former communists), do not back Slovenia’s entrance into NATO, claiming neutrality should be considered an option; the entrance into the EU will be supported by the ZLSD.[[29]](#footnote-29) However, economists warn that Slovenia should not rely on its economic successes in the past but instead should focus on increasing privatization and address the slowing industrial production and rising unemployment.[[30]](#footnote-30) The new government needs to continue to work towards improving the economic state of the Republic if they expect to become more like a Western European country.

**Budgetary and Monetary Conditions**

 Slovenia began to stabilize its economy before it had gained its complete independence because inflation was increasing drastically. Although, Slovenia made a clean break to independence, there were some costs involved. Slovenia had 33 percent of its exports going to Yugoslavia, however, with its independence Slovenia had an instant 6 percent decrease in its GDP.[[31]](#footnote-31) This economic shock was small in comparison to the 38 percent decrease in industrial production Slovenia faced because of its transitional state. Slovenia stabilized its economy by October 1992. This was achieved through the introduction of a new currency, the tolar, and the creation of an independent central bank, the Bank of Slovenia.

 The financial sector plays a key role in the transition process. In 1995, the financial and market services sector comprised 14% of the GDP, the second largest contributor.[[32]](#footnote-32) In addition, a strong financial sector is necessary for resource allocation and mobilization, and a prerequisite for any large-scale privatization scheme.

 In 1991, there was a lack of financial regulation in Slovenia, which produced many problems. Most banks were owned by the firms to whom they lent. As a result, 30-40 percent of the loans on the books were non-performing.[[33]](#footnote-33) This combined with a monopolistic structure, lead to exorbitant lending rates, preventing many viable enterprises from access to capital. In addition, a healthy banking system requires recapitalization and investment to improve service. This was not happening right away in Slovenia. As a result, banks were audited in 1991 and in the autumn of that year, the Bank Restructuring Agency was founded to deal with these problems and to help restore competition. Now, most banks in Slovenia have been privatized except two which remain state-owned.

 ***Monetary Policy***

 Facing expansionary monetary policy, Slovenia needed some financial discipline for the newly created enterprises and government, thus, they created the Bank of Slovenia. The bank was created with the objectives to stabilize prices and establish a balanced functioning of domestic and international payments. The law that mandated the Bank of Slovenia, allowed the bank to execute monetary policy, free from political control. Another characteristic of the Bank of Slovenia that helped its success, was that the bank would only give out short-term loans to the government to cover cash flow problems. This restriction served to be effective in preventing the accumulation of deficits. In 1994 the Bank of Slovenia introduced a number of legislative acts which covered the following areas:

 **\*** accounting standards and financial statements

 **\*** methods of calculation of capital and capital adequacy

 **\*** criteria for the classification of balance sheet and off-balance sheet items

 **\*** the levels of provisioning for potential losses

 **\*** the level of exposure to a single borrower

 **\*** capital investments and fixed assets reducing the capital

This legislation was adopted with the intent to ensure safer bank operations that conform to the basic principles of liquidity, solvency and profitability.[[34]](#footnote-34)

 In the early years of transition 1991-1992 the Bank of Slovenia allowed several new banks to start up. Now, in 1996 Slovenia has the highest concentration of banks in their region, with 31 banks and a relatively small population of 2 million. The central bank was faced with the problem of deterring speculators to avoid any kind of banking crisis. The central bank decided to increase the amount in minimum capital requirements for banks to $35 million. This move prevented any future mis-happenings while also pushing banks towards consolidation.

 ***Currency***

 In October 1991, the Tolar was introduced. As a means of inflation-proofing, the law allowed contracts and wage agreements to be denominated in foreign currency so no exchange was required. The deposits in the banks were converted automatically on a one-to-one basis and 86 billion dinars of personal cash were converted within a short period of time. The tolar’s introduction came with ease as more than 80 percent of household monetary savings were in foreign currency deposits.[[35]](#footnote-35) The Tolar’s exchange rate quickly stabilized due to a highly restrictive monetary policy which was aimed at decreasing inflation, increasing stability and strengthening the domestic currency.[[36]](#footnote-36) Between 1993 and 1995 the Tolar was depreciated to reflect a real exchange rate. (See Appendix IX) This monetary policy aided in stabilizing the Tolar and making it fully convertible. On November 19, 1996, 1USD was equivalent to 137.69 Tolars.[[37]](#footnote-37) In addition, the stabilization allowed for foreign investors to conduct business in USD, DM or Tolar.

 Slovenia put tight controls on foreign currency movements in order to maintain the stability of the tolar. Since the introduction of the Tolar, total savings deposits have increased by over 494 billion Tolars. Savings in 1995 accounted for 23.3 percent of GDP.

 Also, Slovenia has a positive balance between the foreign debt and exchange reserves. By August of 1996, foreign allocated debt had reached $4.21 Billion and the exchange reserves were at $4.3 Billion. (See Appendix X) This positive balance shows that the country’s economy continues to stabilize.

 Furthermore, Slovenia has managed to get credit ratings higher than those of Greece and other countries with longer histories of being democracies and having market economies.[[38]](#footnote-38) As of May 1996, Slovenia had the following Country Credit Ratings : [[39]](#footnote-39)

 Moody’s Investor’s Service A3

 Standard’s & Poor’s A

 IBCA A-

In addition, according to Institutional Investors, Slovenia ranks 47th among 135 countries, with regards to potential areas for investment.[[40]](#footnote-40)

**Expenditure Policies and Assignments**

 In October 1995, the Parliament unanimously approved the 1996 draft budget presented by Slovene Prime Minister Janez Drnovsek. Expenditures are expected to be about 570 billion Tolars (about $5 Bill.).[[41]](#footnote-41) A significant portion of the expenditures are allocated for health, education and infrastructure. Revenues for 1996 were expected to be 582 billion Tolars, about

46.5% of Slovenia’s GDP.[[42]](#footnote-42) The surplus is allocated to cover the Pension and Invalidity Insurance Funds, this action preempts the expected expenditure of 42 billions Tolars in 1997 towards the Pension Fund which is a 20% increase from 1996.[[43]](#footnote-43) One-third of the budget will be spent on Civil Servants salaries and contributions, much higher that the 1995, due to the desire to increase public employees salaries. Nearly 11 billion Tolars will be spent on subsidies to exporters for social welfare contributions, technological development, and for maintaining current levels of employment.[[44]](#footnote-44) Although, there were no current figures available concerning defense expenditures figures from 1993 show 13.4 billion Tolars were allocated for the military, about 4.5% of the GDP.[[45]](#footnote-45) Finally about four million Tolars are allocated for liabilities in international agreements to members of the Paris Club and commercial banks; this is a new item in the budget.[[46]](#footnote-46) However, the current expenditures are being met by disapproval from the Slovenian businessmen, who wanted a budget for 1996 to be equivalent to the 1995 budget. This demand was not possible for Slovenia, as it tries to battle inflation, unemployment and provide for its’ citizens welfare.

**Tax Structure and Administration**

 ***Intergovernmental Financial Relationships***

 Slovenia has had relative success with the administration and collection of taxes from its citizens and corporations at all levels of government.. Article 147 of the Constitution states very generally: " the state shall levy taxes, custom duties and other charges in accordance with statute. *Local government* bodies shall levy taxes and other charges in such circumstances as are determined by this Constitution and by statute."[[47]](#footnote-47) This constant flow of funds has allowed the government to continue to provide needed services, as well as end several years, since independence, with budget surpluses. The country has tried to diversify the tax base, which has also added to the increased stability of the tax base.

 ***Administration***

 The Slovene government is making extra efforts to insure successful implementation of tax policy. Slovenian tax administrators are taking part in the OECD’s multilateral tax network program which provides advice on taxation practice, policy and systems, with workshops for administrators in member countries such as Austria, Denmark, Hungary and Turkey. In addition, this program will evaluate the countries after the year is over, regarding their effectiveness in implementing tax policy. A key factor that has aided in the current implementation of the tax system is that the Slovenian Tolar is internally convertible, and therefore, foreign investors or business dealing can take place easily in foreign or domestic currency.

 In 1997, Slovenia intends to unify the tax administration offices. Currently, there are two tax collection services, one for the companies and one for the individuals.[[48]](#footnote-48) In addition, according to OECD, in the next two years there will be significant changes in the tax policy and administration in Slovenia.

 Currently, the tax year runs from 1 January to 31 December, with tax returns to be filed by 31 March of the following year (15 April for a consolidated return).[[49]](#footnote-49) In general, the system depends on self-assessment, however, if there is falsification of earnings or evasion of taxes, the government assesses heavy penalties.

 The government, although requiring penalties for late payments is being realistic in the charges it assess for tardiness. A new act was passed in 1995, which reduced the late payment fees from 25% of amount owed to 18% on all public aged debt including income tax, sales tax and social security late payments.[[50]](#footnote-50)

 The tax administrators have developed a system which allows for advance payment of taxes and deadlines that apply to readjustment of taxes. Balances due on taxes must be paid five days after the annual return has been filed and if readjustments are made then the company has thirty days to make the payment.[[51]](#footnote-51)

 ***Corporate Tax and Incentives***

 As of 1995, the corporate tax rate was at 25%.[[52]](#footnote-52) The republic has made a large effort to keep the business environment attractive to foreign investors. However, the rates were increased to 30% by 1996 and now legislation is trying to reduce the amount to 25% once again; the reduction in taxable income due to re-investment exemptions could make the effective rate 20%, if legislation goes through.[[53]](#footnote-53) Slovenia continues to honor double taxation treaties signed by the former Yugoslavian government. In addition, a temporary tax exemption regarding capital gains derived from securities transactions has been extended to January 1, 1997.[[54]](#footnote-54) "As of January 1, 1994, up to 20% of the amount reinvested in fixed assets(except for cars used for personal purposes) and long-term intangible assets is deductible from the investor’s taxable income, provided that the amount does not exceed the tax base."[[55]](#footnote-55) The tax structure also provides for 30% deductions from taxable income for the first year if the corporation hires an unemployed or disabled worker.

 "Taxable income is defined as gross income less expenses incurred in earning that income."[[56]](#footnote-56) Some of the deductions include: 1) depreciation on fixed assets if it does not exceed set rates, with straight line depreciation being used only;[[57]](#footnote-57) 2) interest if it does not exceed the average interbank interest rate; 3) sums contributed for future reserves for investment; 4) up to 70% for entertainment expenses; 5) losses may be only carried forward for five years.[[58]](#footnote-58)

Furthermore, for corporation inventories are valued using the first-in, first-out method; last-in, first-out method; or the weighted average method.

 ***Individual Tax***

 If one is a resident citizen of Slovenia, taxable income includes income world-wide, however, for non-residents only income earned within Slovenia can be taxed. The system does not provide for the taxation of families, only individuals; therefore, joint tax returns are not filled. The income tax is paid directly through the employer and is based on progressive rates for the income earned in the previous month.[[59]](#footnote-59) (See Appendix XI) In addition, capital gains of real estate are taxable. After January 1, 1997, gains from sales of securities will also be taxable.[[60]](#footnote-60)

 The government has some deductions and relief built into the system. All individuals may deduct an amount equal to 11% of the annual wage in Slovenia; in fact if you earn less than this amount you do not have to file a return. Furthermore, up to 3% of the tax base can be deducted for each of the following: 1) expenses in purchasing state securities, 2) membership fees in various parties or organizations, 3) payments for health care, 4) payments for education.[[61]](#footnote-61)

 ***Withholding Tax***

 Slovenia levies a withholding tax of 25% for residents and 15% for non-residents. There is also a withholding tax on royalties of 25% on all individuals.[[62]](#footnote-62)

 ***Inheritance and Gift Tax***

 Beneficiaries of the inheritance or gift must pay taxes unless they are the spouse or child of the donor. If the beneficiary is a relative(i.e., brother, sister , nephew or niece) they have to pay only 5 Tolars on receipts with a market value of 1,164,822 Tolars. However, if the beneficiary is not a relative they may have to pay up to 30% of the value in taxes.[[63]](#footnote-63)

 ***Property Tax***

 Once the value of the building is determined by the government, a progressive rate of no more than 1.5% is applied. Some buildings may be exempt. Their is also a tax of 2% of the purchase price on immovable property.[[64]](#footnote-64)

 ***Customs and Excise Duties***

 Rates for imports vary form 0% to 25% of the value of the goods. There are also some excise taxes which apply to fuel, tobacco, and alcohol.[[65]](#footnote-65)

 ***Value-Added Tax***

 The VAT, which was introduced to Slovenia at the beginning of 1996, will provide important revenue to the Slovenian government. Before the VAT was introduced, sales tax was assessed on the sale of retail goods and services and on imports. However, several rates applied depending on the type of good. The tax was ultimately paid by the consumer. The VAT has already been introduced in 5 other transitional economies and it seems to be effective. In addition according to OECD, the VAT continues to be a key in the tax reform process in the transition countries.

 As the previous discussion shows, Slovenia has developed a highly specific, and involved tax structure. The country is making an attempt to have a sophisticated tax administration and structure that is effective, efficient, equitable and has a yield that will allow for enough revenue for the government to function. In addition, the country has a highly diversified tax base, which also strengthens the income from tax revenue.

**Social Insurance**

 Slovenia’s current social safety nets and income transfers are obstructing free market labor productivity, postponing structural adjustment and are harboring high levels of unemployment. Before entry into the EU, Slovenia must alter its social programs. There is a strong belief among EU members that the assistance for employment fostering policies leading to the future improvement in the quality of labor in Slovenia is more efficient and desirable than the future income transfers covering unemployment benefits and social safety that would otherwise have to be provided.[[66]](#footnote-66)

 ***Housing***

 Housing Policy is yet another area of concern for the government. In October of 1991, the government of Slovenia passed the Housing Act. Creating a state housing policy was necessary for the private ownership of land and building. In addition, the government created the National Housing Fund which was anticipated to be a "social cushion’ and was supposed to create national housing policy.[[67]](#footnote-67) This did not happen!

 The Housing Act ended up back firing. The Act was created to allow for equal ownership for all citizens. Unfortunately, some people were able to purchase greater amounts of property and effectively bought out the property rights of their neighbors.[[68]](#footnote-68) This situation has caused many tenant-owner conflicts. Another problem created by the Housing Act was the inequity in the amount of housing sold in each region. There was a great amount of disparity which may cause problems for future housing reforms.

 ***Unemployment***

 Slovenia experienced high levels of unemployment in its first stage of transition as the number of individuals seeking early retirement increased substantially. In addition, many enterprises that had entire branches, equipment, factories in the other Yugoslavian republics went bankrupt or lost a large sector of their business.[[69]](#footnote-69) Therefore, unemployment was a huge social problem for the new Republic of Slovenia. In 1992, 140,000 people were unemployed.[[70]](#footnote-70) The transition of the economy brought about increased need for social insurance. The residents considered retirement income systems(RIC) the most important part of the social safety net since the RIC alleviated the economic hardships faced by the retired elderly. The government of Slovenia knew how these problems used to be solved and they knew how the EU wanted them to deal with it. The dilemma was deciding what was in the country’s best interest.

 There was a complex relationship between spending priorities on social safety and on human capital development. The trade-off in the short-run balanced the government and the private sector expenditures on welfare and investment in human capital against high unemployment, increasing poverty, and a high share of retired persons in the total population absorbing funds that could otherwise be allocated on labor training programs. However, investment in human capital had the possibility of increasing productivity and labor force competitiveness in the long-run. Without sufficient qualifications, Slovenia’s workers experienced high unemployment and created a demand for compensatory benefits that would have to be financed either by limited domestic sources or by external savings.[[71]](#footnote-71)

 ***Pensions and Disability***

 In 1995, the managers of the Pension and Disability Insurance Fund (ZPIZ) finished the business year with a deficit of 12 billion Tolars.[[72]](#footnote-72) However, the ZPIZ has made it a priority to insure that all pensioners received their pensions. Additional support for the ZPIZ and their policy came from the Slovenian Parliament, which passed an increase of 42 billion Tolars for the funding of the ZPIZ.[[73]](#footnote-73) Furthermore, Slovenia is one of the few countries in transition that has tried to keep monthly old-age pensions as a relatively constant percentage rate of the average monthly gross wages. (See Appendix XII ) This has helped elderly citizens provide for their own needs through their pensions.

 ***Unemployment***

 Slovenia also has a National Unemployment Office (RZZ). This office reported in February 1996, 123,689 people remained unemployed which is 1.9% more than February 1995.[[74]](#footnote-74) This further supports that the economy of Slovenia may be experiencing a slow down. As of July of 1996, the RZZ reported that unemployment was 13.7% but according to the ILO definition of unemployment, the figure was much lower at 7.3%.[[75]](#footnote-75) However, with the change in government, hopes are that these issues will be discussed and policies implemented to reduce the level of unemployment. Currently, the country is providing unemployment insurance for the people without jobs who register with the RZZ.

**Conclusion**

 Slovenia remains a powerhouse in comparison to some of the other former Eastern Bloc countries. It has proceed with some caution, realizing the changes that are necessary for a stable free market economy. Now, with new leaders, the country has to decide whether it will continue the course set forth by the originators of the country or whether it will go back, taking more conservative steps. From Slovenia’s current actions, it would seem that the next step is either Associate Membership or Full Membership in the European Union.

 Janez Drnovsek when presenting the 1996 budget to parliament informed the legislative body that "Slovenia met three of the five Maastricht criteria for introducing a single European currency: ‘Our public debt is well below the European average and the budget is balanced, which is significantly better than the European Union average. We also meet the third criterion on the convertibility of the national currency. Two criteria remain: both our average interest rate and our inflation is too high, but we are planning to cut inflation down to about 6.5%.’"[[76]](#footnote-76) Currently, Slovenia seems to be ahead of some of the current members of the EU in satisfying the Maastricht Treaty’s requirements. In addition, the question remains, whether Slovenia will join NATO. The new parliament may have a well defined opposition to this prospect.

 Additionally, Slovenia is flourishing as an economic center of commerce in the East. Slovenia needs to strengthen its ties with other eastern countries, such as Russia, in order to develop its trade partners. The transitioning countries can serve as a new market for the West as well as Slovenia. Furthermore, additional trade partners exist in the far east, which are currently not being considered.

 Many challenges face the transition countries as the century comes to a close. It will be important to watch these economies as they begin to rise above the already established economies of the West. It will be important that Slovenia manage it’s inflation rate, keep interest rates at a stable level and insure that the Tolar remain at a controlled level. All these factors will play a large role in determining successful public financial and monetary policy in the Republic of Slovenia.

1. Http://soho.ios.com/`finsol/emregions/e-europe/slovenia.htm [↑](#footnote-ref-1)
2. Golnik, Richard. “Calm & Safe Slovenia.” Emerging Nations -Slovenia, June 1995. [↑](#footnote-ref-2)
3. Slovenia was at one point a part of the Austro-Hungarian Empire and thus always had felt a strong historical and economic ties to the Western European countries. [↑](#footnote-ref-3)
4. Ibid, p.4. [↑](#footnote-ref-4)
5. Danforth, Kenneth. “Slovenia: Open markets in an open society.” Europe. May 1996, no.356, p.22(3). [↑](#footnote-ref-5)
6. Golnik, 1995, p.1. [↑](#footnote-ref-6)
7. Mencinger, Joze. (1989) The Yugoslav economy: Systemic changes, 1945-1986. Pittsburgh, PA.: University of Pittsburgh Center for Russian and East European Studies. The Serbian/Bosnian/Croatian conflict was getting worse and the country was starting to fall apart. [↑](#footnote-ref-7)
8. Http://soho.ios.com/`finsol/emregions/e-europe/slovenia.htm, p.4. [↑](#footnote-ref-8)
9. Schneider, Jens. “Slovenia searches for Europe.” World Press Review, Jan. 1993 Vol.40, No.1, p.42(1). [↑](#footnote-ref-9)
10. Danforth, 1996, p.2. and “Unimaginable only a few years ago, one of the six republics that once composed Yugoslavia is being praised in most Western capitals as the model for any ex-communist state aspiring to membership in NATO and the European Union.” [↑](#footnote-ref-10)
11. EIU Country Report- 2nd Quarter. Slovenia. The Economist Intelligence Unit Limited, 1996. [↑](#footnote-ref-11)
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