Slovenia: High inflation, unemployment

Earl L. Wright

Presentations by the assistant dean of the Bled School of Management and the assistant dean of a tourism school. Article information from Earl L. Wright.

What Slovenia lacks in size and world power it makes up for in great natural beauty. “The northern two-thirds of the country is similar to the Swiss Alps in geology,” says Earl Wright. “The bottom one-third is similar to Italy, with its lush aromatic vineyards.” A short coastal strip, 46.6 km, sits on the southwest corner.

Small wonder then that tourism accounts for about 10 percent of the gross domestic product. “There is no clear indication as to how much this industry could grow or if it could become an even bigger part of the overall economy,” says Wright.

Slovenia is a transportation hub thanks to good, well-maintained highways and a strategic location. Goods are moved along the corridors linking Eastern Europe, Turkey and into central and western European countries. Plus, the port of Koper on the Gulf of Trieste at the northern end of the Adriatic Sea, is very active. Sixty-five percent of the country’s economy is dependent on exporting, says Wright.

Of the ten new Eastern bloc entrants to the European Union, Slovenia’s transition to a free market economy has been the most trouble-free. The government, made up of a democratically elected president and bicameral parliament, “has been effective in paving the way for Slovenia to meet all of the standards for EU entry. The GDP growth is 3.2 percent, “relatively better than that of other EU countries,” says Wright.

GDP per capita in 2002 was $11,027, and there was a slight deficit. “The forecast for a small deficit for 2003 suggests extremely strong fiscal controls.”

A lingering problem, however, has been high inflation. Slovenia has the highest inflation of any of the EU countries: 2002 at 7.5 percent, 2003 at 5.2 percent. Another problem for the economy has been the decrease in foreign direct investment over the last couple of years. There are signs that this situation is beginning to turn around and “it is anticipated that FDI will pick up in the future.”

“The banking system supports the relatively heavy savings pattern of the population, which runs 10-15 percent of income per year,” says Wright. “However, most of the money, according to the assistant dean of the Bled School of Management, is transferred by banks outside of Slovenia and not re-loaned in Slovenian businesses or investments within the country.

Slovenia has a stock market but it is small and, says Wright, “subject to insider trading abuses. It is likely to become more sophisticated as the laws and government become more sophisticated in establishing the rule of loan processes by which all people can be treated as close to equal as possible.”

Current property laws and titling are murky. Anyone buying real estate is cautioned to proceed at his own risk as it is hard to determine what, if any, previous claims are attached to the property and what rules govern ownership. The laws are currently being revised and should invigorate the real estate market once they are clearly written and understood.

Labor issues revolve around a lack of jobs for the well-educated labor force and concern that pension funds will dry up.
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Funding for pensions is problematic, similar to that of neighboring countries where as much as 35 percent of the worker’s salary may be taxed for this purpose. “These monies are not being reinvested for the future but rather are used to pay current pensioners,” says Wright. If future generations’ pension payouts are to be secured, changes in the system are necessary. The fact that the population is decreasing doesn’t help.

There are about 50,000 students currently attending college. Some say that many of these students stay in school a prolonged length of time because the job situation is so unattractive.

Slovenia is home to the internationally acclaimed Bled School of Management which has 120 graduate students, 20 percent of whom are from Slovenia and the balance from other countries. Eighty percent of those students are supported by their employers.

Conclusions

Wright is optimistic about Slovenia’s future. “Slovenia is a country in transition with a well-educated population, unique language and an opportunity to take advantage of being part of the European Union. First, a different mind-set needs to occur.

- “Large corporations have to exercise their muscle in dealing with the various government ministries, the uncertainty of laws and the uncertainty of the judicial system,” says Wright.
- “Entities that will have an opportunity to prosper in the potential economic opportunities are those that are natives, that are entrepreneurial in nature and that know how to deal with the conditions that are unique to the Slovenian culture.
- “For some Slovenians who have a good education, opportunities within the bureaucracy will open up as the government seeks more sophisticated individuals to figure out the laws and processes under which the country can thrive.
- “The institutions best positioned to benefit from EU membership are the banks and financial institutions. There is some discussion that those institutions may be financially troubled because of the loans they have been forced to make in the past. But it is my opinion they are probably the best positioned to understand where the opportunities, on a risk-controlled basis, exist within the Slovenian economy and how they can be taken advantage of.

“EU membership has created an opportunity that Slovenian businesses, government and the general population can take advantage of to enhance their economic future. Whether or not it is done depends upon two things: the revision of government rules and regulations to allow foreign direct investment to be made in an environment that is not overly risky, and the development of management talent that is now in short supply.”

Slovenia Vital Signs

Capital: Ljubljana
Population: 2 million
Population growth rate: -0.01% (03)
Labor force: 876,100
Unemployment rate: 11.2% (03)
Language: Slovene
Literacy: 99.9%