Table A11. Slovenia: Social Indicators

	Latest single year, 1992-97	
	Slovenia	European Union
AGE STRUCTURE OF THE POPULATION	(in percent of total population)	
Population 0-14 years old	17.4	18.9
Population 15-64 years old	70.2	66.8
Population 65 and over years old	12.8	14.3
SOCIAL INDICATORS		
Health		
Life expectancy at birth, female, in years	78.6	81.0
Life expectancy at birth, males, in years	71.0	74.1
Infant mortality rate, per 1,000 live births	5.2	5.2
Practising physicians per 1,000 population	2.2	3.2
Education		
Gross enrollment ratio	(in percent of relevant age group)	
Primary level	97.9	105.5 1/ 2/
Secondary level	91.7	117.3 1/ 3/
Tertiary level	36.4	48.8 1/
Public Expenditure	(in percent of GDP)	
Health	7.1	6.1 1/
Education	5.8	5.6 1/

Sources: 1999 OECD Health Database CD-ROM; 1999 World Development Indicators CD-ROM, World Bank.

1/ Luxembourg not included in these aggregates.

2/ Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data.

3/ In some of the EU countries, it includes training for the unemployed.

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IMF Concludes Article IV Consultation with Slovenia

On March 3, 2000, the Executive Board concluded the Article IV consultation with Slovenia.[1]

Background

Slovenia is among the most successful transition economies of central and eastern Europe. The budget has historically been in broad balance (although small deficits have emerged since 1997) and public debt is low (25 percent of GDP at end-1999, including debt of the former Socialist Federal Republic of Yugoslavia assumed by Slovenia). From the outset of transition, monetary policy has been oriented towards reducing inflation in a framework of a managed float of the tolar and domestic monetary targeting (initially base money and, since 1997, broad money). Inflation has decelerated, dropping below the 5 percent mark in early 1999. Growth has averaged around 4 percent in the 1990s, largely driven by exports. The economy is very open to trade and increasingly integrated with western Europe (exports amount to almost 50 percent of GDP, and more than two-thirds are absorbed by the EU). Competitiveness is strong; the export sector is diversified and its market share has been increasing; and the current account has historically been in balance or surplus.

Developments in 1999 were shaped by changes in the external environment and temporary domestic factors. The slowdown in western Europe, the economic difficulties in Croatia (Slovenia's fifth largest trading partner), and—to a much lesser extent—the crisis in Russia were reflected in lower exports (down 4.4 percent in the first three quarters of 1999 relative to the same period in 1998). The effect on activity was mostly offset by a temporary surge in domestic demand ahead of the introduction of the VAT in July: thus, real GDP growth in 1999 is estimated to have been only marginally below 1998, at 3 ¾ percent, and unemployment

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

declined to 7.4 percent. The effects of lower exports and the surge in domestic demand on the balance of payments, however, went in the same direction, and the current account recorded a deficit of 3 percent of GDP. The drying up of financial flows to emerging markets implied that this deficit was partly financed by a drop in official reserves, which, however, still stood at US$3.1 billion (3¼ months of imports) at year-end. CPI inflation fell to 4.3 percent in the year to June 1999, largely due to continuing wage moderation. However, the introduction of the VAT had a major impact (some 3 percentage points) on the price level, and the CPI ended the year 8 percent higher than at end-1998.

Policies were adjusted to accommodate the changing macroeconomic environment while maintaining domestic and external stability. After a sizeable tightening in 1998, the fiscal stance remained on a more or less even keel in 1999. Expenditures increased, following the trend of recent years, but were offset by the change in composition of aggregate demand towards domestic consumption, and the general government deficit remained unchanged at 0.7 percent of GDP. Within the confines of a target for annual M3 growth of 16-24 percent, monetary policy was adjusted flexibly to the changing conditions. In the early part of the year, the Bank of Slovenia allowed the exchange rate to depreciate somewhat faster than in 1998, refrained from sterilization, and accommodated liquidity pressures (that arose partly as a result of a surge in demand for cash ahead of the introduction of the VAT), leading to a decline in interest rates. In the second half, to nip inflationary expectations in the bud, the Bank of Slovenia tightened its policy stance, which reversed the decline in interest rates, stabilized the exchange rate, and brought average annual fourth quarter M3 growth—the definition of the target—to 16 percent, the bottom of its target range.

The economic policy environment in Slovenia is changing fundamentally as a result of a significant acceleration of structural and institutional reforms. The implementation of the EU Association Agreement in February 1999 and the new Foreign Exchange Law in September 1999 liberalized most capital controls and dismantled the barriers to foreign bank branches. Furthermore, the successful introduction of the VAT in mid-1999, the adoption of the pension law, and progress in a number of budgetary and treasury reforms were major steps towards rationalizing the structure of public finances. These measures enhanced Slovenia's credibility and were recognized by the European Commission in its October 1999 Regular Report.

Executive Board Assessment

Executive Directors noted that Slovenia had established a track record of prudent macroeconomic policies, which had contributed to successful disinflation, external stability, and international credibility. Structural reform efforts, on the other hand, had been much more gradual, leading over time to a backlog of delayed reforms. Against this background, Directors strongly welcomed the recent acceleration of structural reforms, which would boost the economy's potential growth rate and prepare it for membership in the European Union.

Directors endorsed the stance of financial policies for 2000. Given the prospects of a gradual acceleration of real GDP growth in 2000–01, they stressed that Slovenia's financial policies must signal unambiguously to market participants the authorities' strong commitment to continued disinflation and the maintenance of a sustainable external position. Directors felt that the mix of a broadly unchanged fiscal stance and a slightly tighter monetary stance, as established in the monetary policy targets for 2000, was appropriate. They stressed that the authorities should stand ready to tighten the fiscal stance should the pace of recovery exceed significantly current expectations, or capital inflows increase substantially. Directors also hoped wage moderation would continue to play a key role in safeguarding the successes in disinflation.

Looking to the medium term, Directors agreed that the recent structural reforms and the process of harmonization with the European Union, particularly as regards capital flows and financial sector liberalization, would bring significant benefits, but would also present new challenges for economic policy. They would make the conduct of monetary policy more difficult, increase risks to the financial sector, place a heavier burden on fiscal policy, and require greater flexibility in the labor market. Directors considered that the current macroeconomic situation and stable capital account provided a propitious opportunity for the authorities to start tackling these challenges in a decisive manner.

Directors agreed that the flexible exchange rate system had served Slovenia well in recent years, and supported the authorities' intention to continue with this regime until European Union requirements made a change necessary. They encouraged the monetary authorities to focus on the goal of disinflation. Directors pointed out that the significant liberalization of capital flows last year, and the planned abolition of all capital controls by 2002, would expose the capital account to greater potential volatility than in the past. Greater nominal exchange rate flexibility was therefore in all likelihood inevitable, but it might also help deter short-term inflows. In the event of substantial capital inflows, Directors cautioned against reversing the recent liberalization measures, and recommended instead that fiscal policy should be used more actively to support monetary policy in maintaining external balance.

Directors urged the authorities to proceed without delay with the privatization of the two state-owned banks in a manner that would promote transparency, efficiency, and greater competition. The first step would be for the government to announce a precise plan and timetable for the divestment of its shares in these banks.

Directors urged the government to move toward a comprehensive medium-term expenditure policy, aimed at a reduction in the level and improvement of the structure of spending, including through improved targeting of social transfers to channel them to the truly needy, and far-reaching health system reform. They praised the government's initiative in the area of budget management, and urged greater efforts in the reform of public administration and employment. Directors also welcomed the long-awaited pension reform, although it would not provide a lasting solution for the finances of the social security system.

Directors noted that the centralized and partially-indexed wage determination system in Slovenia had played an important role in ensuring wage moderation. Nonetheless, Directors felt that the legislative framework of the labor market was too restrictive. They urged the authorities to take liberalization steps in this area, and recommended moving toward forward-looking indexation, in order to accelerate further the disinflation process.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. As part of a pilot project, the staff report for the 1999 Article IV consultation with Slovenia is also available.