BUDGETING IN SLOVENIA DURING THE DEMOCRATIC TRANSITION:

A Comparative Analysis

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Executive Summary

Rapid budgetary change has been one of the most difficult challenges for the nations of Central and Eastern Europe (CEE) since the dramatic political changes took place in the late 1980s and early 1990s. Governments have had to adopt radical new budget policies while protecting domestic constituencies from economic upheaval and to reinvent budgetary institutions to facilitate both economic restructuring and democratization. Budgeting has increasingly been recognized in recent years as one of the most critical, integrative processes in governing. This is particularly true for the former eastern bloc nations in adapting from a command economy with centralized resource allocation. Since it did not have the kind of command economy imposed on most of her eastern neighbors, Slovenia represents an important “middle ground” in understanding budgetary transitions during the past decade.

At the time of the fall of the Berlin Wall and collapse of the Soviet Union, Slovenia was the trading arm of the former Yugoslavia, itself the most open economy in the region (OECD, 1997: 1). Under the Yugoslavian system of self-management, sometimes referred to as the “third way,” it was also relatively autonomous in terms of handling its own finances in a mixed market economy. Today, Slovenia has developed a budget system closest to the European Union (EU) nations and the west, even compared to the NATO countries of Hungary, Poland, and Czech Republic. Slovenia is especially useful for scholarly analysis of the region in helping to identify factors which tend to impede or enhance progress towards developing modern budgeting systems as part of economic liberalization and democratization. It provides an opportunity to begin to test certain hypotheses about budgeting in transitional democracies and the relationship between institutional capacity and budgetary choices.

As such, this report presents the results of the study conducted on budgeting in Slovenia with the support of NCEEER. It provides an overview and analysis of the evolution of the national budget system in Slovenia since its independence in 1991, including the budget process, executive and legislative budget institutions, policy changes, and the external factors explaining both institutional and policy changes. Building on earlier work by the author, this report also provides some comparative analysis of budget systems in Hungary and Slovenia focusing on theoretically significant similarities and differences, working towards a broader analysis of systems and budget change in CEE nations during the 1990s.

Introduction

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This report presents the results of a study conducted on budgeting in Slovenia with the support of the National Council for Eurasian and East European Research. It provides an overview and analysis of

[1] Organization for Economic Cooperation and Development (OECD), *OECD Economic Surveys 1996-97: Slovenia* (Paris: OECD, 1997), p. 1.

the evolution of the national budget system in Slovenia since its independence in 1991, including the budget process, executive and legislative budget institutions, policy changes, and the external factors explaining both institutional and policy changes. Building on earlier work by the author[2], this report also provides some comparative analysis of budget systems in Hungary and Slovenia focusing on theoretically significant similarities and differences, working towards a broader analysis of systems and budget change in CEE nations during the 1990s.

The methodology of the study included review of secondary literature and analysis of primary data on the Slovenian budget and economy, including budget reports and government accounts, since 1992. It includes for-attribution informant interviews with key Slovenian decision-makers including the Finance Minister, State Secretary for Budget, and President (chair) of the Parliamentary Budget committee, a written survey on budget procedures completed by Ministry of Finance officials, and responses to a written questionnaire by members of the Parliamentary Budget Committee.[1] The response rate to the survey of MPs was 50 percent.

Budgeting in Slovenia and Former Eastern Bloc Nations

Earlier works on comparative public budgeting by Caiden and Wildavsky allowed the development of several hypotheses relevant to budgeting in CEE nations in the 1990s concerning uncertainty and instability in budgeting.[3] Based on their work, we hypothesize that the rapid transition from command to market economy would reduce predictability in budgeting and increase uncertainty, resulting in repetitive budgeting - inaccurate forecasts and the need to frequently revise taxing and spending decisions during a budget cycle. Repetitive budgeting has consequences for policy in terms of the ability to maintain fiscal balances, shift relative priorities, and achieve specific objectives.

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[2] Lance T. LeLoup et al, "Budgeting in Hungary in Hungary During the Democratic Transition," *Journal of Public Budgeting, Accounting, and Financial Management* (Spring, 1998); Lance T. LeLoup, "Parliament, Parliamentary Committees, and the Hungarian Budget," in Lawrence D. Longley, ed., *Working Papers on Comparative Legislative Studies* (Budapest: Research Committee of Legislative Specialists, 1997).

[3] Naomi Caiden and Aaron Wildavsky, *Planning and Budgeting in Poor Countries* (New York: Wiley and Sons, 1974); Aaron Wildavsky, *Budgeting: A Comparative Theory of Budgetary Processes* (New Brunswick: Transaction, 1986).

A second hypothesis derived from their work concerns the linkage between political culture and a stable, institutionalized budget system. A political culture cultivated among both the mass public and governing elites under 45 years of communism with centralized resource allocation, artificially low prices, and few taxes on individuals would make it more difficult to adopt new budget processes and policies, particularly in the short-run. More recently, Straussman, in an examination of budget reform in CEE, also highlights the importance of the old "financing culture" developed over four decades as an obstacle to accommodating prescriptions for budget reform.[4] To the extent that Slovenia had more experience with markets and developed a different political culture under a less centralized process of resource allocation, one could predict an easier transition than other nations in the region.

A key development in budget theory in recent years has been the differentiation between "microbudgeting" and "macrobudgeting," and recognition of the inherent tension between them.[5] Macrobudgetary decisions include choices on broad-based aggregates, the size of the public sector, deficits and debt that are influenced by economic trends and external constraints. They represent more centralized, top-down processes and decisions made by high level officials.

Microbudgetary decisions include lower level choices on programs and ministry budgets, which are influenced by specialized interests and constituencies. Decision-making tends to be more fragmented and decentralized, more bottom-up, focusing on middle- and lower-level officials and legislators. The dichotomy between the two should be particularly important in Hungary, Slovenia, and other countries in the region. We hypothesize that the rapid economic transition and the importance of external actors such as International Monetary Fund (IMF), the World Bank, and the EU will lead to an even greater emphasis on macrobudgeting in terms of policy making and budget process reforms. This will tend to increase domestic dissatisfaction and the conflict between claimants and conservers in the budget process.

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[4] Jeffrey D. Straussman, "Ideals and Reality in the Evolution of Fiscal Reform in Central and Eastern Europe," *Public Budgeting and Financing*, 19 (Summer, 1996), p. 93.

[5] Allen Schick, "Macro-Budgetary Adaptations to Fiscal Stress in Industrialized Democracies," *Public Administration Review*, 49 (March/April, 1986), pp. 124-134; Lance T. LeLoup, "From Microbudgeting to Macrobudgeting: Transition in Theory and Practice," in Irene Rubin, ed., *New Directions in Budget Theory* (Albany: SUNY Press, 1988), pp. 19-42.

Significant variations exist between nations in the region in terms of political and economic systems as well as budget systems. One key difference is in the size of government and the public sector, and a nation's fiscal balances as measured by budget deficits and external debt. Differences between Hungary and Slovenia are notable. Table 1, at the end of the study, shows how the two nations and other "middle economies" compared in 1994 when various economic and budget reforms were beginning to be undertaken. Although Slovenia had a public sector greater than the OECD average, the size of government was significantly smaller than Hungary. As early as 1994, it was one of the few nations that avoided deficits that expand external debt. Hungary, in contrast had a larger public sector, more government employees, a record of deficits, and high external debt. As a result, we hypothesize that externally-defined economic and budgetary targets and pressure to emphasize top-down, macrobudgetary solutions will have been greater in Hungary and other CEE nations in similar situations, than in Slovenia during the 1990s.

The scholarly literature also suggests that overall governing capacity of the political system will help determine the ability of nations to achieve budgetary goals. Weak or unstable governments, uncertain election results, parliamentary fragmentation, or minority coalitions, serve to obstruct budget reform. Using a three-tier model for assessing government capability developed by Weaver and Rockman, it is possible to make some general comparisons between Hungary and Slovenia.[6] Hungary appears to have the potential for relatively high government capability given its strong parliamentary system. Of the three post-communist governments, Hungary has had a single majority party government or strong governing coalition. Slovenia, on the other hand has been governed by more fragmented and diverse governing coalitions. We will examine whether the somewhat greater fragmentation in Slovenia has affected the capacity for budget reform.[7]

Although there has been considerable published research on economic transformation and political reform in the former Eastern bloc, the literature on budgeting *per se* is just emerging. Caiden found budget processes beginning to take on the rudimentary characteristics of more developed

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[6] R. Kent Weaver and Bert A.Rockman, *Do Institutions Matter* (Washington, DC: Brookings Institution, 1993).
[7] LeLoup et al, "Budgeting in Hungary"; LeLoup, "Parliament."

democracies.[8] Straussman identified steps to strengthen finance ministries, diversify revenue sources, and properly classify outlays, despite a slow fiscal learning process.[9] Mikesell found resistance to budget reform and external pressures in Ukraine.[10] Both Vanagunas looking at Lithuania, and Straussman and Fabian looking at Hungary, noted problems of local government finance related to national budget change.[11] This study will contribute to this developing literature.

Political Background and Context

A variety of factors assisted in the relatively smooth movement of the former Yugoslav republic toward democracy and a free market economy. Slovenia was relatively autonomous between the death of long-time leader Josip Broz Tito and the declaration of independence in 1991. During the Tito era, in contrast to many of its neighbors countries, Slovenia had combined both communism and some elements of economic and social liberalism found in Western democracies, including relaxed borders and social controls. As one scholar put it:

> Beginning in the early 1950's, after its break with Stalin and the Soviet Union, the former Yugoslavia began its four decade long experiment in socialist self-management, an alternative to the state socialism of the Soviet Union and to the market capitalism of western Europe and North American, which we have called 'the third way'.[12]

Market socialism, which was started in 1948, began to move toward a market economy by 1955. The mixed economy of Yugoslovia, combined with the lack of a direct connection to the Eastern Bloc, brought with it ties to the West as well as the East. There were significant systemic, as well as political, economic, and cultural differences between the former Yugoslavia and surrounding nations. However, until 1991, there clearly remained socialist tendencies and institutions.

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[8] Naomi Caiden, "The Roads to Transformation: Budgeting Issues in the Czech and Slovak Federal Republic," *Public Budgeting and Finance*, 13 (Winter, 1993), pp. 57-71.
[9] Straussman, "Ideals and Reality," p. 82.
[10] John Mikesell, "Doing Public Finance on the Frontier of Economic Transition: Observations from a Fiscal Advisor in Ukraine," *Public Budgeting and Finance*, 15 (Summer, 1995), pp. 1-2.
[11] Stanley Vanagunas, "Problems of Budgeting During the 'Great Transition," *Public Budgeting and Finance*, 15 (Spring, 1995), pp. 85-86; Jeffrey D. Straussman and Katalin Fabian, "Local Government Finance in Hungary: Okun Revisted," *Public Budgeting and Finance*, 14 (Winter,, 1994), pp. 71-83.
[12] Bogomil Ferfila, "The Budget of the Republic of Slovenia," in Bogomil Ferfila and Paul Phillips, *Slovenia and Canada: A Comparative Approach* (Ljubljana: Fakulteta Za Druzbene Vede, 1999), p. 232.

Given the nationalistic tensions that continue to simmer in the former Yugoslav republics today, Slovenia had the advantage of being relatively ethnically homogenous, with the Slovenes making up 90 percent of the population. There are small Hungarian and Italian populations in Slovenia, but they exist as legally protected minorities, and each are guaranteed a seat in parliament.[13] There was no Serbian minority in Slovenia, which many see as the main rationale for the decision by Serbia in 1991 not to contest Slovenian independence more vigorously than the few skirmishes that occurred.

During the late 1980's Serbian leader, Slobodan Milosevic, tried to recentralize the Yugoslav state around Serbia. This was strongly resisted by Croatia and Slovenia, whose leaders instead sought rapid economic and political reform, and further decentralization of power.[14] In Slovenia, however, there was growing support for an even more radical split from the past, embracing greater democracy and a market economy.[15]

Slovenia's first democratic elections in nearly fifty years were held in April 1990, and brought victory to the coalition composed of the Green Party of Slovenia, the Social Democratic Union of Slovenia, the Farmers' Union, the Christian Democrats, and the Slovene Democratic Union, with 55 percent of the vote.[16] Following the elections, there were attempts at making confederation agreements with the other Yugoslav republics, but clear differences in envisioned futures for the different republics eventually led to the Slovene declaration of independence in Spring 1991. Following the declaration, a limited armed conflict took place between Slovenian troops and the forces of the Yugoslav federal government. The European Community intervened five days into the conflict, and a cease fire and peace agreement were signed.[17] However, Belgrade has never officially recognized Slovenian independence.

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[13] Economist Intelligence Unit (EIU), *Country Profile: Slovenia* (1999), p. 11.
[14] Valerie Bunce, "Conclusion: The Yugoslav Experience in Comparative Perspective," in Melissa K. Bokovoy, Jill A. Irvine, and Carol S. Lilly, *State-Society Relations in Yugoslavia, 1945-1992* (New York: St. Martin's Press, 1997), p. 361.
[15] Ivan Bernik, Brina Malnar, and Niko Tox, "Slovenian Political Culture: Paradoxes of Democratization," in Danica Fink-Hafner and John R. Robbins, ed.s, *Making a New Nation: The Formation of Slovenia* (Aldershot, UK: Dartmouth, 1997), p. 60.
[16] Janko Prunk, "The Origins of Independent Slovenia," in Fink-Hafner and Robbins, ed.s, *Making a New Nation*, p. 29.
[17] Prunk, "Origins," p. 30.

During the Fall of 1991 and Winter of 1992, the transition government established the Bank of Slovenia, the tolar (SIT) was introduced as the new form of currency, and a new Slovenian Constitution was adopted. By early January 1992, the European Union officially recognized Slovenia, and in May 1992 it became a member of the United Nations. However, in April following a vote of no-confidence, the government was replaced by a new coalition led by a former president of the Yugoslav Federation, Janez Drnovsek. In December of 1992 the first parliamentary and presidential elections following the declaration of independence were held, and Milan Kucan was elected as president.[18]

Slovenia's government is characterized by a parliamentary system, with multi-party coalitions and a weak presidency. While the role of president is largely ceremonial, the president is responsible for nominating the prime minister in consultation with the political parties. The legislature is bicameral, with direct elections for the 90-member National Assembly every four years. The Council of State, the upper house, can only delay or initiate legislation.[19] Local governments, approximately 192, receive strong financial support from the central government, but appear to have little voice at the national level.

Following the 1996 elections, a different governing coalition was formed that was comprised of the Liberal Democracy of Slovenia (LDS), the Slovene People's Party (SLS), and the Democratic Party of the Slovenian Pensioners (Desus). The LDS and Desus parties are considered to be left and center-left and have some roots in a reformist wing of the former communist movement, while the SLS belongs to the center-right and has consistently sought a clean break with their socialist past. The presence of a pensioners party in the governing coalition presents certain problems for the government in confronting one of the major budgetary problems, the sustainability of the social security system as it is currently financed. In the Weaver and Rockman scheme of institutional capability, Slovenia has not had a single majority party or unified governing coalition. It does not have as strong a parliamentary system as Hungary, for example, which makes it more difficult to impose budgetary losses. The governing coalition has some fundamental differences among the parties over policy, which has often led to a relatively slow decision-making process. Table 2, at the end of the study, examines election results and

[18] OECD, *OECD Economic Surveys*, pp. 150-151.
[19] EIU, *Country Profile: Slovenia*, p. 6.

party control during the 1990s. While the Liberal Democrats have seen some decline in support since 1991, it is still the largest party in the governing coalition.

Political culture in Slovenia is also an important contextual variable in budgetary politics. Slovenes have escaped the brutal violence that has plagued the Balkans and their former Yugoslavian partners in the 1990s. However, attitudinal surveys have found a persistence of ethnocentric and xenophobic attitudes in Slovenia, tempered by growing underlying support for democracy.[20] Slovenia also has a cultural acceptance of trade, specifically trade with the West, again in contrast to many of her neighbors. Despite its economic liberalism, it is important to remember that Slovenia shares some of the legacy of communism with its neighbors in terms of lingering public attitudes. The movement toward a free market economy has not removed the traditional leftwing tendencies of much of the population. Citizens expect services from government, particularly social services, pensions, health care, and family services. The government, for example, still subsidizes half of the funeral costs of all its citizens, regardless of income.

Overall, the strong culture of consensus-building within Slovenia, although leading to more painstaking decision-making processes, has created a fundamentally stable political system and social peace. Some observers believe this consensus-building has come at the cost of delaying decisions on key reform issues, but eventual reforms of the economy and changes in budget policy are likely to be more broadly accepted and not be overturned by subsequent governments.[21]

The Economic and Budget Context

Although a number of economic problems remain, Slovenia has created arguably the most stable and most successful transition economy in the region. In the transition process, Slovenia's general familiarity with market mechanisms and decentralized control provided a springboard into free trade and an open market system. It had already formed and maintained strong trade relationships with some of the

[20] Bernik et al, "Slovenian Political Culture," p. 67.
[21] EIU, *Country Profile: Slovenia*, p. 18.

more advanced economies in the West, including Germany and Italy, which created an enormous advantage over other emerging economies:

> Slovenia was among the first transition countries where growth resumed. The recovery started in 1993 with GDP growth of 2.8 percent, improved to 5.3 percent growth in 1994, and 3.9 percent in 1995. In 1996 GDP growth is estimated to have been around 3.5 percent and Slovenia recovered the GDP level of the pre-transition years.[22]

Table 3, at the end of the study, compares Slovenia to Croatia, Hungary, Czech Republic, and Poland on a number of economic indicators. The level of GDP per capita in Slovenia is roughly double that of other Central European states in dollar terms. Even in purchasing power parity (PPP) which controls for relative price levels, Slovenia is the most prosperous country in the region. Slovenia's per capita income was 68% of the EU average in 1997.[23]

Slovenia's history of trade with the West helped prevent the precipitous decline in GDP experienced by other CEE nations that were totally dependent on trade with the Soviet bloc. The loss of internal Yugoslav markets had negative effects, but has led to an increasing dependence upon external trade, which speeded recovery. Slovenia's application for associate status in the EU was approved in 1996.[24] Full membership in the EU has multipartisan support and is perhaps the single most unifying priority for the country.

Slovenia has also been helped significantly by a conservative fiscal policy which has maintained balanced budgets and avoided high levels of external debt. Low levels of external debt have made budget policy in Slovenia more independent of the IMF and World Bank, since massive loan or bailout packages were not needed. Slovenia became a member of the IMF in January 1993. While Hungary's GDP is more than twice as large, its external debt has hovered around $26-27 billion over the last three years, five times larger than Slovenia's $4-5 billion. In the same three-year period, Croatia's debt has leapt from $4.8 billion in 1996 to $8 billion in 1998. Lower levels of outside interference have allowed for the

[22] OECD, *OECD Economic Surveys*, p. 2.
[23] EIU, *Country Profile: Slovenia*, p. 17.
[24] Ferfila, "The Budget," p. 212.

strengthening of internal mechanisms and institutional capability for managing market mechanisms, system shocks, and budgetary pressures.

Despite the successes, in some areas Slovenia has been somewhat slow to restructure and has not completely faced the task of transforming its economy from a regional one to that of a nation state.[25] The Value Added Tax (VAT) had yet to be adopted in mid-1999, making Slovenia the last of the EU applicant countries to comply (although some within the country believe that this was advantageous). Slovenia has made progress in price liberalization and reduction of price differentials with EU levels, and has slowed wage increases below the growth of labor productivity, but other difficulties loom large on the horizon.

The pension fund, which is of increasing concern for the administration, is projected to continue to rise at an unsustainable rate in the near future. While central funds are being transferred to cover immediate shortfalls, some sort of resolution must be found in the near future. Proposals to introduce commercially funded benefits met with firm opposition in 1997, and have virtually disappeared. Recent proposals would increase the pension age for men from 63 to 65, and from 58 to 63 for women. The social security shortfall in 1997 was 4.3% of GDP, and is expected to rise substantially unless direct action is taken.[26]

Inflation has been a continuing concern for Slovenia, but current conditions are a dramatic improvement from just a decade ago. Retail prices in the former Yugoslavia rose by more than 1400% in 1989 alone. “Shock therapy” programs in the early 1990’s, along with strict monetary policies, helped to pull the annual rate below 100% in 1993. The annual rate did not drop below 10% until 1997 and 1998. Current inflationary rates, hovering now below 10 percent, are certainly no longer at crisis levels, but many believe they must be controlled if the country is to reach its full economic potential. Steps are being taken to build public confidence in the currency despite public uncertainty about inflation and exchange rate developments, but these may not be enough to pull rates down substantially.[27]

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[25] Bojko Bukar, “The International Recognition of Slovenia,” in Fink-Hafner and Robbins, ed.s, *Making a New Nation*, p. 39.
[26] EIU, *Country Profile: Slovenia*, p. 20.
[27] OECD, *OECD Economic Surveys*, p. 6.

Unemployment is also of concern and has been on the rise from 4.7% in 1990 to 14.6% by 1998, according to official Slovenian statistics. However, by more standardized international measures of unemployment, the rate in Slovenia is under 10 percent. Nonetheless, it remains a policy concern. Nearly half of the job seekers are over 40. Demographic trends and higher levels of productivity suggest that these percentages will be on the rise unless specific reform measures are implemented.[28] Additionally, the country faces continuing tax collection difficulties despite recent reforms to the Tax Administration. Tax compliance, and an inability to target a relatively large portion of the "gray" economy (estimated by informants at somewhere around 25 percent of GDP), pose serious challenges and remain imposing obstacles. Both of these problems are also prevalent in Hungary and pervasive among post-socialist countries in the region.

Financial gains expected through the privatization of centrally held industries, which began in 1992 and ended in 1998, provided surprisingly little revenue for the new Slovene government. During the six-year period, a number of the companies awaiting privatization experienced a depreciation of assets, a "privatization gap" which the government has promised to cover. By mid 1997, this gap represented a projected 5% of GDP, and a substantial shortfall for the central government.[29] Despite these continuing financial and institutional challenges, the Slovenian government appears to have shown better economic results than the rest of the Central and East European transition economies (and several EU countries) within a few short years.[30]

The Slovenian Budget and Budget Process

Comparisons with the Slovenian budget before independence and the democratic transition are extremely difficult, even though Slovenia had acquired limited fiscal authority over its own budget and economy as a republic of Yugoslavia. Official budget figures, using Marxist terminology, divided

[28] EIU, *Country Profile: Slovenia*, pp. 23-24.
[29] EIU, *Country Profile: Slovenia*, p. 16.
[30] Ferfila, "Budget," p. 244.

expenditures into categories such as “general consumption” and “collective consumption”.[31] It is difficult to differentiate between various elements of the public sector, and official data before the breakup of Yugoslavia are incomplete. In addition, the hyperinflation that plagued the Federal Republic in its final years also make budget comparisons extremely difficult and unreliable. As a result, we will only examine budget trends in Slovenia since independence.

Elements of the Budget

Despite the greater comparability of data since 1992, one of the key difficulties of budget research in the region continues to be definition and measurement, particularly for purposes of comparison with other nations. Neither Hungary nor Slovenia have “unified” budgets in the U.S. sense. In Slovenia there are separate budgets for pensions, health insurance, central budget expenditures, local government, and a “galaxy” of extra-budgetary entitles.[32] Inconsistent classification and multiple counting of expenditures is also a problem, although less so than in Hungary. In 1998, the consolidated expenditures of the government amounted to 1,479 billion Slovenian Tolar (175 SIT=$1 U.S., June 1999) which encompassed approximately 46 percent of GDP.[33] The four main components of the Slovenian budget are:

- *Central Government Budget (45 percent of outlays, 21.5 percent of GDP, 1998):* includes the main elements of national government, including salary and wages of government employees, purchases of goods and services, and transfers to individuals excluding pensions.
- *Pension and Disability Insurance Fund (30 percent of outlays, 13 percent of GDP, 1998):* covers outlays for old-age, disability, and survivors’ pensions, including soldiers and farmers from the former Yugoslavia, and rehabilitation; costs have risen rapidly in the 1990s, and this sector is largely responsible for the small deficits incurred in 1997 and 1998.

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[31] Marko Lah and Anrej Susjan, “The Public Sector in Transition,” in Fink-Hafner and Robbins, ed.s, *Making a New Nation*, p. 192.
[32] OECD, *OECD Economic Surveys*, p. 57.
[33] Slovenian Ministry of Finance, *Consolidated General Government Revenues and Expenditures, Actual 1992-97, Accepted Budgets for 1998, and Outturn January-November 1998* (Ljubljana: 1999).

- *Health Insurance Fund (14.7 percent of outlays, 6.7 percent of GDP, 1998):* encompasses outlays for basic health care services, hospitals and clinics, health resorts, pharmacies; also covers other health-related expenditures, sick benefits above 30 days, and funeral costs.
- *Local Government (10.3 percent of outlays, 4.8 percent of GDP, 1998):* includes contributions to wages, good and services, interest payments, and transfers to municipalities.

In addition to these four main components of the Slovenian budget, a number of separate entities are off-budget, separate from Treasury accounting, and operating under their own accounting rules. Although their overall fiscal impact is not large in terms of budget share or percentage of GDP, they do reduce budget transparency and complicate efforts to provide comprehensive or unified analysis of the overall budget situation. The largest of these off-budget entities include the Development Fund, the Capital Fund of Pension Insurance, the Fund for Agricultural Lands and Forests, and the Fund for Compensation. These entities, comparable to "quangos" (quasi-autonomous non-governmental organizations) in the British usage, include funds for regional development, radio and television, insuring bank savings, handling radioactive wastes, and other diverse purposes.[34]

Expenditures

The size of the public sector (expenditures as share of GDP) has changed little since 1992, remaining at around 45 percent of GDP. This is higher than OECD average and reflects the continuation of a significant government role in the economy and generous social welfare benefits. For example, the government provides one year fully-paid maternity benefits for all women. The lack of a reduction in the size of government during the 1990s is a source of disappointment for a number of officials in Slovenia, both in the ministries and in Parliament, who would like to see that figure closer to 40 percent. Despite certain reductions in government activities, the increased costs of pensions and relatively slow privatization has kept outlays stable. Table 4, at the end of the study, examines the pattern of outlays across the four major budget components from 1992 to 1998.

[34] OECE, *OECD Economic Surveys*, pp. 57-58.

These figures, provided by the Ministry of Finance, are comparable to General Financial Statistics (GFS) figures provided by the Organization for Economic Cooperation and Development (OECD), World Bank, and other international organizations. Several trends are found in these figures. As noted above, general government expenditures have remained at around 45 percent of all outlays during the 1990s, although change has occurred within the overall totals in terms of the composition of spending. For example, subsidies to firms have been reduced from 6 percent of the budget in 1992, to around 2 percent in 1998. Capital expenditures have declined from around 8 percent to 4.5 percent, and transfers to nonprofit institutions such as universities have declined from 4 percent to 3 percent. Conversely, reflecting public sector wage pressures, expenditures on wages and salaries have increased from 11.3 percent to 15.6 percent of the budget. Transfers to individuals and purchases of goods and services have also increased.

Among social welfare expenditures, spending has increased for pensions and the disability insurance fund from 27 percent of all outlays to 30 percent of all outlays between 1992 and 1998. Somewhat surprisingly, given trends in other Western nations as well as Central European nations, expenditures of the obligatory health insurance fund have declined slightly over the period to under 15 percent of the budget. Local government expenditures have declined slightly from 10.8 percent to 10.3 percent. Unlike the trend in central government spending, subsidies for firms at the local level have not fallen and, in fact, increased from 3.4 percent to 4.2 percent of general government expenditure.

Revenues

Slovenia, with its more advanced budgetary institutions compared to other nations of the region, has had a Treasury and a treasury system throughout the 1990s. Nonetheless, one of the most widely voiced complaints among informants concerned improving tax collections and compliance and the ways in which government revenues are managed. Table 5, at the end of the study, shows the structure of general government revenues in Slovenia from 1992 to 1998. Approximately 54 percent of revenues come from various income and sales/turnover taxes, and 35 percent from payroll taxes. The largest single source of revenue is a consumption tax on goods and services (29 percent of all revenues). This has increased from 23 percent in 1992 and will increase further when the sales taxes are replaced with a VAT in mid-1999. Social security contributions (20.2 percent of revenues in 1998) are the second highest source of revenue. They reached a high of nearly 26 percent in 1995, but declined after payroll taxes were cut and revenues supplemented with general government expenditures. Because social security contributions are a significant element of wage costs and high contributions discourage job creation, it has been the policy of the government to reduce rates. Personal income taxes account only for 14.6 percent of all revenues, comparable to contributions to health insurance (14.4 percent). Overall, the revenue and outlay trends have shown more relative stability in the 1990s than in other nations in the region.

One of the most significant features of budget policy in Slovenia during the 1990s has been its ability to maintain a balanced budget at a time when most of its neighbors were running significant deficits. Hungary, for example, had an annual budget deficit as high as 6 percent of GDP during the mid-1990s. In 1997 and 1998, Slovenia ran slight budget deficits in the range of 1 percent of GDP. This occurred because of rapidly growing pension costs, reductions in social security contributions, and reductions on customs duties.[35] Despite these small deficits, Slovenia has deficits significantly below CEE nations, EU nations, and the Maastricht criteria for EU membership. Slovenia has also had more budget surpluses than deficits during the transition. How Slovenia has been able to maintain such fiscal discipline is an important aspect of its budget process since independence.

Budget Process

The budget process in the Finance Ministry and the parliament are examined in detail in the following sections. First, however, it is useful to take an overview of the Slovenian budget process and its basis in law. As part of the former Yugoslavia until 1991, Slovenia did not have its own national budget until 1992. In 1993, the Rules of Procedure of the Parliament that regulate budget procedures

[35] EIU, *Country Profile: Slovenia*, pp. 20-22.

were adopted).[36] Procedures were amended in 1994 and the budget process has stayed essentially the same through 1999. Interviews with ministry and parliamentary officials indicated that they expected that the organic budget law which was submitted to parliament in 1999 would pass in the near future. It would change a number of procedures, adopt prominent reforms, more fully integrate the treasury system and move Slovenia closer to IMF guidelines for budgeting.[37]

Table 6, at the end of this study, provides an overview of the budget preparation timetable in Slovenia. The process has a strong macrobudgetary emphasis to set parameters on subsequent decisions. It begins in March with the establishment of macroeconomic forecasts and overall projections for revenues, spending, and the deficit or surplus. The Ministry of Finance (MF) is assisted by the Institute of Macroeconomic Analysis and Development (IMAD).[38] Decisions are first made on overall targets for revenues, outlays, and deficit/surplus. This is contained in a memo that is sent out to the various ministries in April indicating the spending ceilings for each. In May and June, ministries prepare their budget requests and submit them to the MF in June. The Budget division within the MF headed by the State Secretary (Budget director) represents the Finance Minister in negotiations with the ministries over their budget estimates. This process is completed by the end of the summer and a draft of the state budget for the coming fiscal year is submitted to the cabinet in September. The cabinet has until the end of September to agree on the elements of the budget. This process includes the active participation of the Finance Minister and Prime Minister. The budget is then submitted to parliament by October 1. Parliament has three months to approve the budget before the start of the fiscal year on January 1. This date has proven difficult to achieve in Slovenia since 1992. Final approval has been several weeks to months late in almost every year, requiring temporary stop-gap funding measures similar to continuing resolutions adopted in the United States.

[36] Marija Krizan and Petra Zemljic, Written responses to “Questionnaire: Budget Procedures in Central and Eastern European Countries,” submitted to Holger Gleich (Bonn: Center for European Integration Studies, 1999), p. 7; obtained from Slovenian Ministry of Finance.
[37] Slovenian Ministry of Finance, *Organic Budget Law* (Ljubljana, 1999).
[38] Ferfila, “Budget,” pp. 258-259.

Ministry and Government Budget Institutions

Budget Conservers versus Claimants

Budget guardians or conservers are relatively powerful in Slovenia, bolstered both by formal rules and informal norms. In addition, widespread support of budget balancing has helped keep public spending in line with revenues since independence. Much of that has to do with the budget process in the Finance Ministry and its relationship to the governing coalition. There are a number of formal constraints on spending, from the Minister of Finance's initial memo limiting ministry budget estimates to the annual law on the execution of the central government budget which defines a ceiling for public sector debt.[39] On the other hand, certain formal rules, such as the deadline for adoption, have not been respected. During the budget formulation stage in the Finance Ministry, the Finance Minister establishes targets based on the macroeconomic forecasts and political commitments. These have the backing of the Prime Minister, but *they are not binding on ministries.* Agencies generally respect the expenditure ceilings, but, because there are no legal sanctions, whether they do depends on individual ministers.

Slovenia has a cultural tradition of consensus-building that emphasizes negotiation and social peace.[40] It is reflected in negotiations between claimants and conservers in the budget process. From June to mid-September, the government focuses on developing a set of budget proposals that can gain the support of the coalition partners. This is not always easy given that the three governments since independence have had rather diverse partners. The ruling coalition in power after the 1998 elections is particularly problematic on the issue of pensions – perhaps the number one budget problem - since one of the parties in the coalition is the Pension party. This makes it difficult to reform a pension system that experts agree is unsustainable in the future and is the largest single threat to maintaining fiscal balances. Nonetheless, in conflicts with program advocates, the government uses arguments about fiscal discipline and EU accession to foster macrobudgetary goals.

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[39] Krizan and Zemljic, responses, p. 3.
[40] EIU, *Country Profile: Slovenia*, p. 18.

Individual ministers can appeal budget decisions by the budget director and Finance Minister directly to the full cabinet. The Finance Minister and Prime Minister do not have any special formal powers vis a vis other ministers in the budget process, but have considerable informal political power in enforcing their priorities. Members of parliament have a limited involvement with this stage of the budget process in Slovenia, but party leaders are consulted about major issues.

The budget was very fragmented under the Yugoslavian self-management system, with over 600 separate budgets before 1992. The budget has become more centralized since then, but remains more fragmented than in many other OECD countries. State Secretary for the Budget, Milan Cvikl, argues that the budget remains too fragmented, with 250 separate bureaus that each contain as many as 3000 separate budget line-items. This fragmentation also rendered the Slovenian budget only partially comparable to other countries in statistical profiles. Items have often been classified incorrectly or ambiguously, such as "payment of services."

Reforms in 1995 helped improve the situation, reducing the number of bureaus and moving towards the adoption of GFS and functional categories for the budget. However, Cvikl and others are impatient for further reforms of the budget process. "The problem for Slovenia, in a way, was success in macroeconomic stability in the short run," he stated. "As a result, there has not been as much push for reform today on many budget issues." However, the evidence suggests that Slovenia is pushing for a number of reforms as it enters the 21^{st} century, including a more detailed budget for better control, a stronger treasury system, and the beginning elements of program budgeting. It has also recently adopted more standardized functional budget categories along OECD guidelines.

Budget Implementation and Flexibility

The Ministry of Finance has extraordinary flexibility at the implementation stage of the budget, more than observed in most other nations. It is particularly striking in comparison to the United States, where much of the budget is consumed by entitlements and other mandatory spending, and discretion by the president and Office of Management and Budget is limited by the Budget and Impoundment Control

Act of 1974. Slovenia, on the other hand, has the ability to adjust spending during the fiscal year to achieve macrobudgetary and fiscal goals. Perhaps the best example occurred when Parliament – outside of the regular budget process – passed a law increasing family and children's benefits. Despite the significant rise in outlays that this caused, budget officials in the Finance Ministry were able to impose spending cuts of as much as 10 percent on other ministries before the end of the fiscal year to finish the year without a deficit. According to Finance Minister Mitja Gaspari, on other occasions, cuts as much as 20 percent have been imposed to compensate for revenue shortfalls.

That is not to say that officials always can always adjust spending to preserve a balanced budget. Slight deficits (less than 1 percent of GDP) occurred in several years because of increases in pension costs and needed transfers from the central government budget. Individual ministries also have considerable flexibility in budget execution. Line ministries are not allowed to move reserves to wages, but they may "reprogram" funds between programs. Some Finance Ministry officials believe that there is too much flexibility in the budget process for individual ministries, and that it should be reduced. The organic budget law proposed in 1999 would reduce the discretion of ministries to some degree.

Despite the ability of the government and the Finance Ministry to exert significant control over taxing and spending, they are subject to the same political calculations and conflicts faced by other democratic nations. Slovenian governments have been restricted in their ability to reduce the size of the public sector and cut government spending because of the diverse parties forming the governing coalitions. The most difficult challenge for the Finance Ministry is trying to formulate a package that is acceptable to all the coalition partners. This involves meetings with the Prime Minister, the Cabinet, and a small group of parliamentary leaders. Conflicts within the cabinet are often severe, although the recognition of the need to live within available revenues militates against budget claimants. The cabinet is the final authority on all aspects of the government's budget, including macroeconomic assumptions and forecasts, multiyear projections, and proposals to parliament for both the annual budget and extra-budgetary funds. The cabinet may combine a vote in parliament on the budget with a confidence vote on the government, but this has not occurred.[41]

Role of External Actors

In formulating the Slovenian budget since independence, Slovenian officials have been more independent of external actors than other countries in the region. Because Slovenia has relatively low external debt and largely ran a balanced or surplus budget in the 1990s, it has not needed to follow tightly prescribed budget guidelines to receive loans and assistance. In comparison, the most stringent and unpopular budget austerity package in Hungary was proposed in March 1995 by the Socialist government just days before a major visit by IMF officials. Russia has had constant conflict with IMF over budget reforms needed to keep essential loans coming. Such events have not occurred in Slovenia. The perception by MPs on the Parliamentary Budget Committee, as indicated in their written survey responses, is consistent with this view. All but one MP (a member of Desus – the Pensioners' Party) responded that external organizations like IMF have had relatively little influence on Slovenia other then keeping them mindful to avoid deficits. Several MPs believed, however, that the influence of EU was rapidly increasing and would become even more significant in the future.

Although external influence has been less than in neighboring nations, it would be a mistake to conclude that international organizations have not had a very important impact on Slovenia and Slovenian budgeting. IMF and OECD guidelines have been instrumental in reforming budgeting. As Finance Minister Gaspari explained it, "Slovenia has been in a position to adopt standards that have merit in themselves, depending on our own judgements." There is a real distinction between adopting budget procedures because leaders want to and choosing policies because they feel that they have no choice.

The European Union accession guidelines are a driving force in setting budget policy in Slovenia, but officials do not follow them in an uncritical way. Top Finance Ministry officials complain that the EU and European Commission are very bureaucratic and complicated and that EU procedures are better

[41] Krizan and Zemljic, responses, p. 8.

suited to dealing with countries much larger than Slovenia. As a result, on several matters, officials report lobbying for more flexible and innovative approaches to EU rules and "negotiating and educating" EU officials about their situation. In noting his nation's reluctance to deal with a set of externally imposed bureaucratic rules, the Finance Minister noted, "we already went through it once as part of Yugoslavia, we do not want to go through it again with the EU."

NATO membership is also important because as one official put it, Slovenians "do not want to be pushed back to the Balkans." They see themselves as part of Europe, not part of the Balkans. Slovenia currently spends approximately 1.8 percent of GDP on national defense. While not anxious to increase this amount, it may be necessary if Slovenia is to join NATO.

Parliamentary Institutions and their Impact on Budget Policy

Rules and Procedures

The Slovenian parliament enters budgeting relatively late in the process, with the exception of the coalition party leaders who consult with the cabinet in the formulation of the budget. Parliament receives the proposed state budget by October 1 each year and has only three months to review it, propose amendments, and approve it. This relatively constrained schedule for consideration is one reason why the December 31 deadline has rarely been met. The government does not submit earlier macroeconomic estimates or other planning documents for the review or the approval of parliament. Members of parliament and standing committees then have an initial period to go through the budget documents and make comments and to propose alterations. Then, a general discussion is held on whether to continue parliamentary consideration of the state budget, or whether to turn it down at that point. If it were to be turned down (and this has not occurred since 1992), the government would be forced to submit a revised budget. If parliament votes to continue consideration of that budget, committees convene within 25 days of the submission of the budget to hold hearings and discuss the proposals.

Although various committees consider the government's budget proposals, the most important committee is the Budget Committee.[2] It acts as a conduit for all proposed amendments to the government's budget proposals and is a powerful gatekeeper within the parliament. Virtually no proposal can be adopted that has not come through and been approved by the Budget Committee. Representatives of the MF and cabinet officials appear at committee meetings to explain and defend the budget proposals. They also testify for and against proposed amendments to the budget and make any adjustments to economic assumptions. The Budget Committee, after considering the proposals of other committees and the Secretariat for Legislation and Legal Matters, draws up a joint report for the full parliament to consider.[42]

One of the important budget rules is the requirement that any amendments that would take the budget out of balance, by raising spending or reducing taxes, must include offsetting spending cuts or revenue increases. This serves as a significant constraint on legislators in Slovenia, just as it does in other parliaments where it is enforced. Parliament then holds a second general discussion of the budget as revised. On the floor, the introductory speech supporting the proposal is made by a representative of the government, followed by a member of the Budget Committee. Plenary debate addresses the parts of the budget rather than the whole, focusing on specific amendments proposed by the government and by members. After amendments are debated and voted on, the Budget Committee must verify that the amended budget remains in balance. If so, parliament votes on adoption of the budget proposal. If not, the process is delayed and a proposal for rebalancing the budget must be considered.

The procedure is often somewhat cumbersome and rarely completed in time, requiring parliament to adopt a temporary funding measure. It has been the practice to continue fiscal discipline by allowing ministries no more in budget authority than they had been allowed in the previous year. The only other budgetary task for parliament is to vote on the overall government financial statement, which is submitted before the June session. This activity is also centered in the Budget Committee, which is responsible for drawing up a report that comments on the financial statement.[43]

A distinction is made in Slovenia between the budget passed by parliament, which is not considered a law, and the law actually implementing the budget. This does not appear to have any

[42] Ferfila, "Budget," p. 264.
[43] Ferfila, "Budget," p. 266.

substantive impact on budget outcomes. There are no special rules or procedures specifying supplemental budgets or stop-gap budgets when parliament fails to meet the December 31 deadline. While Slovenia faces the same changing projections and faulty estimates of other nations in the region, it appears to rely on supplemental budgets less than it neighbors. In terms of the hypotheses about repetitive budgeting, Slovenia would seem to have a higher level of certainty and resemble Western Europe in its practices more than Central and Eastern Europe. Additionally, the ability of the Finance Ministry to manipulate outlays without parliamentary approval reduces the need to continually revise budgets and submit additional budgets to parliament.

Generally, parliamentary rules and procedures, such as those requiring offsets, favor guardians over spenders. Proposed reforms in the organic budget law will emphasize fiscal integrity even more. These rules and procedures are buttressed by fiscal norms that favor keeping government spending in check or lowering the size of the public sector and balancing the budget. Among the respondents of the questionnaire for Budget Committee members, 85 percent stated that holding down spending was more important than adding new programs. Significantly, the responses cut across parties. While the parliament considers and approves macrobudgetary totals, this is more the domain of the coalition party leaders and chair of the Budget Committee. Most of the attention of rank and file legislators is on microbudgeting: decisions on roads, bridges, and other investment projects.

Reflecting the lingering fragmentation and lack of a truly “unified” budget, one of the parliament’s greatest powers lies in passing legislation outside of the normal budget process that has profound budgetary implications. A good example is the measure enacted by parliament in 1998 to increase children’s and family benefits. Despite the fact that it was opposed by the main governing parties, one of the coalition partners joined with the opposition to enact the law. It significantly increased spending during the fiscal year and required the Finance Ministry to require cuts in other programs to keep the budget in balance. While this may be the exception rather than the rule, it offers a possibility for significant parliamentary impact on taxing and spending priorities. It also reflects a major flaw in budgeting, since all policy actions that affect revenues or expenditures should come under the control of the national budget process.

The organic budget law proposed in 1999 would prohibit such actions by parliament. It would prohibit any such increase in spending from taking effect during the fiscal year in which it is passed.[44] The new law would also limit the time that parliament has to consider the budget from 90 days to just over 70 days. Considering that parliament could not pass the budget in the time allotted during the 1990s, this may be of questionable utility. While parliamentary consideration of the budget may be “inefficient” and time consuming, it is critical to establish the legitimacy of the process. However, at least one member of the opposition commented that since all their amendments were turned down, the process might as well be shortened.

Committees and Party Leaders

The comparative study of the impact of parliaments on budgeting and economic policy often centers on the organizational strength of committees and the role of party factions and their leaders. In Slovenia, the influence of parliament is dependent on both. The Budget Committee is the key unit in making changes in the content of the government’s budget proposals. All MPs and committees may offer amendments to the budget, which range in number to as many as 400 to 500 per year. The vast majority of these are not accepted or even come to a vote before the full parliament. Budget Committee members indicated that only 10 to 20 amendments per year, coming though the committee, were accepted. The vast majority of these were offered by the government itself or MPs in the governing coalition. On rare occasions, an amendment offered by an opposition MP may be endorsed by the ruling coalition and adopted. Despite the poor odds for passage, many MPs, particularly those in the opposition, believe it is important to offer amendments to the government’s proposals and to discuss them. A number of members of the Budget Committee responded that these activities were key to their role in the budget process.

[44] Slovenian Ministry of Finance, *Organic Budget Law*.

Another potential source of parliamentary influence is through hearings where testimony is taken from government officials explaining budget decisions. That avenue of influence in Slovenia is limited by a lack of capability and expertise. Parliament as a whole and committees in particular do not have much professional staff to help them in this process. The Budget Committee has only two staff persons. Opposition MPs have only personal staff, making high quality, informed opposition more difficult.

Although officials from the Finance Ministry appear at the request of parliament, hearings are mainly an opportunity for the government to promote its budget or justify certain changes. Most hearings are held by the Budget Committee, but other committees also may hold hearings. Top officials from the Finance Minister and State Secretary for Budget on down respond to parliamentary questions in person and in writing. They discuss both macrobudgetary issues as well as specific program details. Parliament can also express its views through plenary debate on the budget. This provides a chance for government members and opposition alike to make a record and express constituency concerns. It is rarely an opportunity to restructure budget priorities.

How do members of parliament perceive their own impact on the Slovenian national budget? The answers in our survey of Budget Committee members depended strongly on whether members were in the governing coalition or the opposition. Those in the majority believe that parliament has some substantive impact on the budget, as one member said, “particularly in constituency-related matters such as roads, bridges, and monuments.” More broadly, he also noted the ability of parliament to make changes in public policy, such as raising social benefits, that have significant budget implications. A number of other examples of “non-budgetary” parliamentary actions in the 1990s that affected taxing and spending included increasing various social transfers, health insurance payments, and increases in a range of pension benefits. Opposition members tended to agree with the response that “parliament is just the long hand of the government” and has little independent impact. Another responded that the governing coalition “blindly rejects all amendments.”

In addition to potential parliamentary influence on the government’s budget proposals through the formal process – hearings, amendments, plenary debates, and final passage – members of the governing coalition may have influence by shaping proposals *before* the budget is submitted to parliament. This was particularly true in Hungary and holds as well for Slovenia, but to a lesser degree. Informants reported that three or four key MPs, including the chair of the Budget Committee, negotiate directly with the Finance Minister in the weeks before the October 1 budget submission to "see what will go."

Although the majority coalition in parliament may be the "long arm" of the government, there are often differences in perspective and priorities between ministers and MPs. This is particularly true with a diverse governing coalition. One member of LDS, the largest coalition party, complained that "coalition governments are expensive in a democracy," because some of their coalition partners were irresponsible in terms of spending. Nonetheless, some of the most critical decisions in Slovenian budgeting are those brokered between the government and legislative leaders before the budget is proposed, and while it is being debated. Parliamentary leaders, in turn, consult with rank and file members to determine negotiating positions or to lobby for acceptance of budget agreements.

Overall, the Slovenian parliament has modest influence on the national budget. Compared to Hungary, the divisions within the governing coalition in Slovenia have resulted in a slightly greater degree of parliamentary influence. It is still a system dominated by a strong Ministry of Finance and proposed reforms are likely to restrict parliament's influence, rather than expand it.

Summary and Conclusions

Slovenia presents an interesting and important case in the study of comparative budgeting in post-socialist countries making the transition to democracy and market economies. Clearly, Slovenia had certain advantages over its neighbors at the start of the 1990s and has not squandered its lead. Based on this analysis, and in comparison to the earlier study of budgeting in Hungary, the following conclusions are suggested:

1. Slovenia has had more certainty and less repetitive budgeting since the political transition than Hungary or other Central European nations. While there have been many temporary budgets because

the state budget was not approved on time, there were fewer comprehensive budget revisions enacted mid-year. This reflects the more advanced development of budgeting in Slovenia as well as the relative stability provided by its lack of budget deficits or large external debt.

2. Slovenian budgeting presents somewhat contradictory characteristics, with a system that has been relatively fragmented compared to other CEE countries in transition to a market economy and democracy, but one that has developed processes where central guardians/conservers are relatively strong. Slovenia does not have a "unified" budget and there is still considerable decentralization among the components. However, the expectation that the lack of deficits or external debt would tend to deemphasize macrobudgeting in Slovenia was not confirmed. Strong political consensus over the need to maintain a balanced budget has led to a strong emphasis on macrobudgeting in Slovenia.
3. Slovenian Finance Ministry officials have extraordinary flexibility in the budget implementation stage to achieve macrobudgetary and fiscal objectives. The example of adjusting outlays late in the fiscal year by as much as 10 percent to maintain a balanced budget is largely unprecedented in the U.S., Western Europe, or Eastern Europe. Slovenia's relatively small size is one explanation, but considerable formal and informal powers of the Finance Ministry are also important in explaining why that is the case.
4. Institutional capacity and the kind of governing coalition appears to affect the budget process in Slovenia as expected. Compared to Hungary, for example, greater fragmentation among the parties of the governing coalition in Slovenia has sometimes limited the ability of the government to make hard choices or impose losses on certain constituencies.
5. Slovenia is more advanced in budgetary evolution than any other nation in Central and Eastern Europe. That is manifested most clearly in the reform agenda of Slovenia compared to her neighbors. While Hungary, for example, has been working on developing a full treasury system, a computerized budget information system, and on reigning in autonomous ministries that maintain their own budget reserves, Slovenia is moving towards more advanced reforms such as performance budgeting and reforms that attempt to determine value for cost.

6. As hypothesized, because of the lack of external debt or budget deficits, the impact of international organizations such as World Bank and IMF has been less than in other countries in the region. However, these organizations have in practice been quite influential in the modernization of Slovenian budgeting, including adopting functional budget categories and other model budget reforms. Their influence is sought and selectively implemented rather than imposed. Guidelines for prospective EU membership are perhaps the most important influence on budget policy today.
7. Although Slovenia can be considered a model of successful transition both in terms of democratization and market economics, budgeting has not become an essential part of the democratic debate over national priorities and issues. In other words, budgeting is still seen as somewhat separate and technical; there has been no "budgetization" of politics. In comparison, the debate over budget priorities in Hungary has been a more critical part of election campaigns, and budgeting and policymaking are not seen as separate processes as much as they are in Slovenia. Citizens and even civic and cultural elites in Slovenia have not been engaged in discussions and decisions over competing budget priorities. Further, officials in Slovenia report that citizens do not understand prioritizing and budget tradeoffs – that government cannot do everything. They suggest that this is a strong remnant of the socialist political culture extending back many generations, even before the Yugoslavia era.
8. Finally, although Slovenia can be considered a model of sorts, it still faces a range of difficult budget issues and choices including privatization, pension reform, inflation control, and employment. In terms of its institutional capacity to deal with these problems, Slovenia finds itself between Eastern and Western Europe: more advanced than other nations in the East, but still adopting its processes and policies to resemble the nations in the West.

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[2] The full name of the committee is sometimes translated as the Committee for Finance and Monetary Policy and the committee chair is referred to as president. It is commonly referred to as the Budget Committee and that is the designation used here..