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The Root Causes and Influences of Slovenian Banking Crisis

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The Root Causes and Influences of Slovenian Banking Crisis

Liu Zuokui[1]

Abstract: In 2012, banking crisis occurred in Slovenia, and then further deteriorated in 2013. In this paper, the author analyzes the root causes of the banking crisis which are: banks were extreme nationalization and poor corporate governance; the real estate crisis has further eroded the banking stability; financial unsustainability leads to the fact that banking bailout cannot be carried out smoothly; government's slow response to the crisis aggravates pre-existing crisis. The prospect of the crisis is analyzed in this paper. The author thinks that Slovenia does not need international bailout, but needs to conduct a comprehensive structural reform. The author makes such reflection in the last chapter that gradual privatization is a good solution, but should keep up with the times. Slovenian banking crisis also creates investment opportunities for China.

Key words: Banking crisis International aid Structural reform Gradual privatization

I. Slovenia falling into banking crisis

Since the global financial crisis and European sovereign debt crisis occurred successively, the non-performing loans in the banks of Slovenia have surfaced and deteriorated gradually. In the first half of 2012, many enterprises in Slovenia went bankrupt (most of them were construction companies), and non-performing loans ratio in the entire banking industry rose sharply. According to the data from Academy of Macroeconomic Research in Slovenia, the non-performing loans in the banks of Slovenia reached to € 6 billion at the end of March in 2012, which accounted for 11.8% of all loans, and then reached to € 6.5 billion in October, accounting for 18.2% of all loans.[2]On August 3, 2012, the international rating agency Moody sharply downgraded Slovenia's debt, from A2 to Baa2, by claiming that Slovenia's financial system was facing serious risks and its banking industry was getting into trouble completely. Baa2 is only two notches away from junk rating.[3]After that, Standard & Poor's also downgraded Slovenia's credit rating from A+ to A, and maintained its rating outlook to negative, because Standard & Poor was concerned about the asset quality of banking industry in Slovenia and the risks faced by structural reform. On August 8, another international rating agency Fitch, also claimed to downgrade Slovenia's credit rating from A to A-, and maintained negative outlook. Fitch said the

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[2]http://see-business.eu/slovenia/82-slovenia/slovenia-business/3348-bad-loans-in-slovenia-soar-in-march

[3]http://gb.cri.cn/27824/2012/08/04/5951s3797390.htm

downgrade reflected further deterioration of Slovenia's banking business.[1]After the downgrade, the yield on 10-year Treasury Notes of Slovenia reaches to 7.5%. Since 7% is ranked by international financial institution as the redline which is needed to bailout, some international financial institutions thought that Slovenia could follow Greece, Ireland, Portugal, Spain as well as Cyprus and be the next possible recipient of a European bailout. However, the government in Slovenia has been claiming that no bailout is needed.

Influenced by the debt crisis happened in Cyprus, Slovenia's banking crisis became worse again in March 2013. OECD's economic assessment of Slovenia claimed that non-performing loans ratio of Slovenia was as high as 15.01%, only lower than Greece, Ireland and Hungary, but higher than Italy among OECD countries. However, for statistical reasons, actual non-performing loans ratio may be much higher than that. [2]OECD insisted that, Slovenia is facing severe banking crisis and must act swiftly, otherwise, it will enter into a prolonged recession and be abandoned by international financial market. [3]The voice about Slovenia may need bailout was heard again.

What are the root causes of Slovenia's debt crisis? Is it possible that Slovenia will need international bailout finally?

Ⅱ The root causes of debt crisis in Slovenia

Banking crisis in Slovenia is caused by many reasons. Several major ones are listed below:

1. Banks in Slovenia are nationalized at a high-level degree and the corporate governance of banking is weak for a long time. Gradually banking industry in Slovenia falls into crisis.

Different from the privatization of banking industry in Central and Eastern European Countries, Slovenia's banking industry is accompanied by the state's increasingly enhanced control of them in the process of slow privatization. The banking industry in Slovenia is highly nationalized and produces serious corporate governance issues. Slovenia's banking crisis is resulted from long-term ill management system. Weak corporate governance, unreasonable credit controls, fragile banking regulation and supervision result in more and more non-performing loans in banking industry.

Slovenia declared independence from Yugoslavia in 1991, however, it paid a high price for the independence. Slovenia's banks lost all the foreign exchange reserves in the central bank of Yugoslavia, and burdened numerous bad debts left by Yugoslavia. Therefore, Slovenia had to carry out an extensive Bank Rehabilitation Plan. Banking industry in Slovenia was reconstructed and nationalized through the way of solving the bad debts at the national level. Thereafter, Slovenia's banking industry has always been characterized by highly regulating and lacking market competition. The

[1]http://jr.100xuexi.com/view/otdetail/20120809/1b81e52c-2801-4a2b-9f7a-4a1d5652c255.html
[2]http://www.oecd.org/eco/surveys/slovenia-2013.htm
[3]http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-slovenia-2013_eco_surveys-svn-2013-en

permission to foreign banks' access to Slovenia was filled with troubles. Government played a key role in the banking industry, which was controlling the majority of Slovenian banks directly or indirectly, especially the three biggest banks, NLB、NKBM and Abanka, are all controlled by the government with majority shareholding. NLB holds the dominating position in the bank system and influences deeply the whole bank system. 13 regional banks attach to NLB and it controls 90% banking business in Slovenia (including state-run and private). The government controlled the 84.6% market shares of the banking industry directly and indirectly according to the statistics from the Bureau of Statistics in Slovenia in 1998. [1]Since Slovenia carried out gradual privatization, the situation that banking industry controlled absolutely by the government has not been changed. The sampling survey statistics of NLB、NKBM、Abanka、Banka Celje、SID banka、Gorenjska banka made by OECD in October 2012 showed that loans of large state-owned banks reached to 58% of the total shares, and loans of small banks which is controlled by local governments as well accounted for 8%, while loans of foreign banks only accounted for 34%. [2]

Government also maintains the control of other banks other than the three largest banks through holding shares in the corporations (some banks in Slovenia are managed by corporations). Therefore, most of the Slovenian banks are possessed by social enterprises, which are major borrowers of banks and have representatives in bank boards. Consequently, unclear responsibilities and duties between corporations and banks resulted in poor business performance in banking industry, high default rate in corporations and increasing bad debts in banking industry. Lack of supervision to loans in banking industry is a potential problem as well. Although the banking system in Slovenia accepts the regulatory system of European Central Bank, the enforcement of the regulation is not fully realized. All of those problems make banking system severely lack corporate governance.

The high degree of state ownership makes the banking industry hardly acquire experience in international competition for a long time. Lack of fiscal discipline, excessive employment and waste of investment are also the root causes of the poor performance of Slovenia's banking industry. Government directly and openly supports ill-managed state-owned enterprises and makes banks provide loans. As a result, big banks always fund those enterprises with poor credit through political interference. Government often offers subsidies and helps to banks, and then gradually shoulder a great deal loans with great risk.

2. Unreasonable loans of banking industry to real estate (construction companies) make the crisis worsen.

Banks' investment in real estate is hard to take back, which leads to a large amount of bad assets in banking industry. Banking crisis is deepened due to real estate troubles.

The industry structure in Slovenia is relatively single, and excessively relies on construction industry, light industry and service industry. In recent years, in order to

[1]David Moore and Peter Zajc, Implementing Bank Privatisation in Slovenia, Moct-Most, No. 1, 2000, p.37.

[2]http://www.oecd.org/eco/surveys/slovenia-2013.htm

improve people's livelihoods and stimulate economic growth, Slovenia has built a lot of residences. But construction companies didn't consider the real needs to a large extent, which resulted in that bank's loans for real estate were unable to take back. In sum, residence policy is one of major causes of banking crisis.

The price of residence in Slovenia rose by 40%-50% from 2005 to 2008. But this trend was disrupted by economic crisis, and downward trend was increasingly obvious in 2009. Because real estate was profitable, Slovenia underwent rapid growth of investment in real estate before 2009. Until the last quarter of 2009, more than 1000 building permissions were approved in every quarter of each year. There were still 664 building permissions being approved in the first quarter of 2012, even though real estate fell into crisis. [1]In the process of building large amounts of real estate, banks were major investors and lenders of real estate agencies. Slovenian capital Ljubljana is the barometer of the real estate throughout the country. It is not only the largest ghetto of residents in Slovenia (Census in 2011 showed the amount of population there is 272220[2]), but also the biggest and most important economic center. Property values in Ljubljana increased greatly before 2008. Its residence price even caught up with those of some EU countries' capitals.

Because of the financial and economic crisis, real estate price has shrunk, and investors of residence and office buildings were unable to repay the debt, therefore problems occurred in the real estate market in Slovenia. Leasing companies and banks then took over the assets, but they did not want to sell these assets in the market at a price lower than that before the crisis. As a result, it was difficult to get back the investment money. [3]At the same time, the buyers did not want to pay such a high price to buy the house which may be expected to depreciate. Stagnating wages and unenthusiastic expectations about the future deepened the wait-and-see attitude towards the real estate market, making the real estate face serious challenge. The unenthusiastic expectations spread to the loans of banking industry as well.

In the first half of 2012, many enterprises in Slovenia went bankrupt (most of them were construction companies), and non-performing loans ratio in the whole banking industry rose sharply. Slovenian government continued to recapitalize banks. At the end of June 2012, the government poured € 381 million into New Ljubljana Bank one time. But the bad debts increased, and it was more and more difficult for government to deal with.

3. The unsustainability of public finance makes the state far less able to aid the banking industry

When the state has the financial ability to aid, banking problems can be solved to some extent. However, if the state is experiencing financial difficulties, debt crisis in banking system will break out.

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[1]Statistical Office of the Republic of Slovenia, 2012.
[2]Statistical Office of the Republic of Slovenia, 2012.
[3]Currently, some international agencies think that Slovenia has experienced a crisis in the real estate bubble burst, but in some Slovenian scholars' views, that point is not correct. According to Slovenian scholars, obvious real estate crisis in Slovenia does not appear, and there is no bubble, which is just the reflection of normal market fluctuations. Since there are different views on this issue, those institutions including the OECD all do not put forward Slovenia's real estate bubble burst when assessing its economy.

Since 2009 Slovenia has undergone the economic recession. GDP decreased by 8% in that year. Although there was a slight increase of 1.4% in 2010, it fell into recession again in 2011, which decreased by 2%. Due to the weak demand to Slovenian exported products from the Euro Zone, plus the new center-right government in Slovenia took fiscal austerity measures, GDP of Slovenia in 2012 decreased by 2.3%, and is expected to decrease by 1% in 2013.[1]Shrinking economy resulted in the increasing budget deficit. The financial situation in Slovenia has been to deteriorate since 2008 and the proportion of GDP in that year was 1.8%, while was respectively 6%, 5.7% and 6.4% from 2009 to 2011.[2]Budget deficit in 2012 was expected to reach to 4% of GDP.[3] EU often warned Slovenia to pay attention to its fiscal unsustainability.

The financial unsustainability is caused by many reasons. Euro Zone is Slovenia's main export market, so European debt crisis has a greater impact on Slovenian economy. Another major cause is that generous welfare system resulted in government's shouldering heavy burden, especially the pension system let the government weigh big pressure. Public spending currently accounts for 50% of GDP,[4] and Slovenia is one of the countries in OECD which has the highest public spending. Cash and benefits in kind accounts for 20% of GDP, while the average level in OECD countries and Eastern European countries is around 17% and the ones in the Nordic countries are about 18%. Employees' compensation accounts for 13% of the GDP, while that of other Central and Eastern European countries is 9% and 11% in OECD countries.[5]Public debt is expected to reach 87% of GDP in 2025, and may exceed 100% if including the cost of saving the banking industry. [6]In addition, costs related to pension in Slovenia is lifted significantly, if maintaining the current policy, pensions, health and long-term medical will account for 10% of GDP during 2010-60, while the average level of those in EU countries accounts for only 3% of GDP. [7]

The financial unsustainability makes it more and more difficult for government to bailout banking system, and economic development is contained as well. Government has to continue lending money, and debt interest rates gradually increase. In 2010, Slovenia issued euro bond twice, whose periods are 10 and 5 years respectively, with the total value of € 2.5 billion. 10-year bond interest rate is 4.125%. In January 2011, Slovenia issued 10-year bond worth 1.5 billion euros, with interest rate of 4.375%. In March of the same year, Slovenia issued 15-year bond worth 1.5 billion euros, with interest rate of 5.125%[8]which are the seventh and eighth Eurobonds issued by Slovenia since joined euro zone in January 2007. Slovenia

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[1]Economist Intelligence Unit, Country Report, Slovenia, March 30, 2013, p.2.
[2]http://www.oecd-ilibrary.org/economics/country-statistical-profile-slovenia_20752288-table-svn
[3]Economist Intelligence Unit, Country Report, Slovenia, March 30, 2013, p.6.
[4]OECD Economic Surveys: Slovenia 2013, OECD Publishing 2013, p.75. http://dx.doi.org/10.1787/eco_surveys-svn-2013-en
[5]OECD Economic Surveys: Slovenia 2013, OECD Publishing 2013, p.75. http://dx.doi.org/10.1787/eco_surveys-svn-2013-en
[6]European Commission, Fiscal Sustainablity Report, European Economy, no.8.
[7]European Commission, The 2012 Ageing Report. Economic and Budgetary Projections for the 27 EU Member States (2010-2060), European Economy, No. 2.
[8]http://si.mofcom.gov.cn/aarticle/jmxw/201103/20110307473889.html

issued dollar bond in 2012, which acquired a lot of financing. However, due to the frequent borrowing, public debt has also increased year by year accompanied by weak economic growth. In 2008 public debt accounted for 22.4% of GDP, and for 31.2%, 33.4% and 41.9% respectively in 2009, 2010 and 2011. It is estimated to be 50.8% in 2012 and is forecast to be 56.7% in 2013. [1]

4. Crisis response from the government is ineffective which made the decision-making less efficient.

Because of the lack of political consensus between relevant parties, the government can't take necessary measures in time to save the banking crisis which resulted in the market confidence's declining dramatically. When facing the banking crisis, there existed a lot of contradictions about how to go out of the crisis within the government. The opposition party Positive Slovenia, opposed austerity measures and pension reforms. In 2012, the government planned to set up a state-owned company (commonly known as "bad bank") to take over the non-performing assets of about € 6.5 billion, but this action was strongly opposed by the Positive Slovenia, who insisted that the government needed to give the public a clear explanation for the legitimacy of its policy. Parliament had to postpone the voting to establish a state-owned company on July 20, 2012. Positive Slovenia demanded to hold a referendum on the establishment of the bad bank and the privatization of state-owned companies on October 31, 2012 as well.[2]The different attitudes between different parties posed an interruption to the government's crisis response which increased the uncertainty of decision-making, and triggered panic to the market. The crisis has been exacerbated by political strife and international market continued low confidence in sovereign credit of Slovenia. After Cyprus crisis broke out in March 2013, the panic in the international market exacerbated further which led to the banking crisis in Slovenia get worse and worse. The voice that Slovenia may need bailout was heard again.

Ⅲ. The prospect of the Slovenia banking crisis

First, in the short term, there is little possibility for Slovenia to ask for bailout, and there are still many ways for it to walk out of the crisis.

Different from Cyprus, Slovenia did not take over-financialization policy. This is why Slovenia can keep its survival when experienced so many crises. The institutional design and the problems of internal management structure of the banking industry are the reasons why the crises happened in Slovenia. If Slovenian government can deal with properly the institutional structural barriers and corporate governance of banking industry, the sovereign credit of Slovenia is much higher than Cyprus and other countries in crisis. In addition, Slovenia has stronger financing capacity, and got successful financing for several times in the international market. On October 19th 2012, Slovenia began to issue foreign currency bond--2.25 billion

[1]Economist Intelligence Unit, Country Report, Slovenia, March 30, 2013, p.10.
[2]According to Slovenian Constitution, the threshold of holding a referendum in Slovenia is so low that 40,000 people's signatures can call for a referendum on a government policy.

dollars of 10-year dollar-denominated bond. The interest rate is 5.7%. The financing from the newly issued bond will be used to alleviate the government budget deficit and pay the 2-billion Eurobonds which will become due in 2013. In addition to the 2.25 billion dollars bonds sold in October 2012, Slovenia sold 1.1 billion Euros bond again. It can meet the financing demand (not including the costs of bank restructuring) of 3.2 billion Euros of Slovenia and leave more space for the debt repayment in 2013. Although the costs of bank recapitalizations are about 3 to 4 billion Euros which nearly accounts for 11% of the GDP in Slovenia, Standard & Poor's has pointed out that Slovenia is still a relatively rich country: the scale of government debt is lower than the average of that in Euro area. The bond yields rose after the Cyprus crisis. Many investors hold more optimistic attitudes and plan to invest in Slovenia and purchase bonds. Because of the success of financing, the debt pressure on government was relieved to a large extent, and there is a little more time to solve the crisis. If Slovenia accelerates the privatization and strengthens the corporate governance of banking industry, it will still have many ways to walk out of the crisis.

Moreover, the new caretaker government has taken relatively effective measures to deal with the crisis and eased the market panic. This is another reason why Slovenia may not need rescues. In January 2013, the anti-corruption monitoring agency of Slovenia accused Prime Minister Janez Jansa of personal property's unidentified sources of 285,000 dollars. Three parties of the center-right five party coalition governments quitted the Cabinet, which led directly to the failure of Janez Jansa Cabinet in the parliament confidence vote. On March 20th, the parliament authorized Alenka Bratusek, the chairman of Positive Party, as the Prime Minister of Slovenia. The government united the Social Democratic Party from centre-left wing, Citizen List Party from center-right wing and Demokraticna stranka Upokojecev Slovenije of Slovenia to form the Cabinet. After the new caretaker government formed in March 2013, Bratusek stated that she would give up some austerity measures of the former government and take more stimulus ones to spur economic growth. In April 2013, Slovenia announced the establishment of bad bank to deal with bad debts. Now, the government has taken a series of measures including privatization, market financing, and strict supervision to the banking industry. If those measures can be taken properly, the crisis can be solved to some extent.

Second, in the long term, if Slovenia wants to be completely out of the crisis, it must take effective measures in the following:

1. Conducting the structural reforms based on eliminating root causes of the crisis. The banking crisis is mainly caused by the improper institution designing that led to poor corporate governance and low efficiency of banking management. To solve these problems, privatizing the banking industry further and introduction of enterprise manager system are indispensable steps. Through the privatization, the banks in Slovenia can get necessary foreign strategic investors which will improve the structure of corporate governance, make the banking step on the marketization way rather than survive relying on the country's shelter.

2. Reforming the welfare system is also quite important. The reconstruction of welfare expenses will be helpful to deal with budget deficit and rein the increase of

public expenses caused by the aging of population.

It can be predicted that the government may face resistances in reforming welfare system, but the reform must be carried out. The burden of high-level welfare, especially the burden of pension (which accounted for 11% of the GDP in 2012), cannot be solved for many years. Most of the previous governments did not want to face it, and Janez Jansa government fell from the power because it proposed the reform of pension system. In order to alleviate the pressure of aging of population, the Jansa government put forward the scheme of reforming pension system in October 2012. According to the proposal, the retirement age which is 58 years old for male and 57 years old for female would increase to 65 years old for both in the next 7 years. Reforming the employment system was also carried out to increase the flexibility of labor market and reduce the unemployment compensation. However, these reforms faced strong resistances from the labor union. Labor union challenged the policies of government and asked for referendum about the reform. The negotiation between government and labor union was hard, but the decision-makers have realized that the government must make a difference in the reform of welfare system, if not, the government would probably fall.

3. If Slovenia wants to keep the competition capacities in export, it must readjust industrial structure, which is to give up the heavy reliance on light industry, housing construction and service industry and support the emerging industries. In order to reduce the burden of budget, the social sectors must be reduced substantially and become more efficient through privatization and restructure. If accelerating the reform, Slovenia has more opportunities to develop market economy comprehensively and integrate into EU deeply.

Ⅳ **Slovenia will undergo profound transformation due to the crisis**

Different from most countries in Central and Eastern Europe, Slovenia has its specificities during the transformation. It is regarded as transformative model in Central and Eastern Europe. Why?

Since the kick start of the transformation, Slovenia kept the successive growth of GDP with financial stability. At the same time, it avoided the dramatic turbulence in politics, economy and society. The levels of economic development and income were close to those in Western European countries, and much higher than those in Eastern European countries. We can find the reasons in its economic structure.

The economic model which Slovenia took during the transformation was different from that of most countries in Central and Eastern European countries who began to open its market to foreign direct investors extensively shortly after the establishment of capitalist system. The companies with ill-management went bankrupted under the pressure of outdated technology. Banks was closed down under the heavy pressure of debt. In many sectors of some Central and Eastern European countries, the privatized assets were transferred to some incapable agents, which made the economic situation worse. Since 1997, most countries in Central and Eastern European region have taken the so-called “Hungary’s Model”, that is to transform handicraft industry, the sectors of banking, finance, retail and energy into multinational corporation. Slovenia is the only one who insisted that the economy, especially large-scale and significant economy, should be controlled by the country or social organizations. Because of this economic structure, Slovenia kept away from the production chain of global multinational corporations. When countries from Eastern Europe had to give the high value-added products to the mother companies in Western Europe, Slovenia has established the institution that a series of production chains from blue collar to white collar were controlled by its own. Since the production departments of multinational corporations were located in Eastern Europe, Slovenia adopted the export-oriented policy of high value-added industries, and the production, employment and benefits were controlled by the country. The high value-added jobs promoted high-level employment and wages. At the same time it amplified the demand of low-skilled jobs, so the employment and life of all level of walks in Slovenia can be guaranteed.

Meanwhile, when Slovenia was a republic member of the Yugoslavia, it can conduct free trade with the western countries, so it is easy for Slovenia to buy the high and new technology, products and management experience from the western countries. During Tito times, people from Slovenia can go abroad freely, and they can work as migrant workers in Germany and Austria. Tito government was interested in the foreign exchange remittance and skills of migrant workers rather than caring about if they can return home. The economists and other high-level elites in Slovenia can contact with scholars from Western countries easily. They knew clearly the core mechanism of capitalist economy and realized that the rapid privatization had some problems. Since the elites from Communist Party in Slovenia were well educated, the political culture was coordinated and cooperative. The traditions of learning from the West and pragmatic behavior made it easy for Slovenian different parties to reach an agreement. Their political stand was similar and coherent which were economic development and joining the European Union. The labor union and employee associations had space to self-management or participate in decision-making process as well.

Generally speaking, Slovenia gradually formed the national-level and consensus-based decision-making mechanism and strong social partnership during the transformation towards market economy. Because of the clear goals of joining the EU and economic development, the conversations between parities in Slovenia were fruitful. Due to the existence of many kinds of consultative platforms, the hopes and ideas of ordinary people can be expressed fully. In addition to highly relying on the national ownership, Slovenia also copied the vocational training system and enterprise representative system from Germany. All those systems made Slovenia have the characteristic of coordinated market economy which is similar to the well-known Rhineland Corporatism that Germany, Holland and Austria adopted.[1] The socio-economic indicators in Slovenia, especially those of social security and social equality, were close to the level of Scandinavian countries. Therefore, the democratic

[1]Zoltan Pogatsa, Slovenia: The Only Successful Case of Economic Transition? Hungarian Review, Issue:04/2012, pp.50-53.

system based on high-degree consensus, low-degree political antagonism, strong social partnership, mature social dialogue mechanism and comprehensive social security made Slovenia, to a large extent, become the model of transformation in Central and Eastern European countries. [1]

However, since the fall of Liberal Democratic Party of Slovenia in 2004, the situation gradually changed. Especially after the economic crisis in 2008, political antagonism among parties became sharp, and the negative powers between different parties led to low efficiency of decision-making and political instability. Social dialogue began to extremalization especially under the influence of economic crisis. The reform of pension system in 2010 was difficult to make any progress. What's worse, it continued to influence the current government. The problems that Slovenia encountered has gradually converged with most of countries in Central and Eastern Europe which is political antagonism without consensus, weak economic growth, problematic financial systems, less social dialogue and weak social security system. All these problems make Slovenia lose its place as the model of transformative countries in Central and Eastern Europe.

In order to walk out of crisis completely, Slovenia may get into new transformation. The main points of transformation include deep privatization of banking industry and transformation of corporate governance, reforming welfare system to increase the flexibility of labor market and ease the financial burden, modifications of constitutional system (especially the threshold set for referendum) to reduce political antagonism and improve the efficiency of decision-making, and readjustment of industrial structure to increase the market competition capacity.

Ⅴ. **Implications to China**

From the above analysis, we can get the following implications for China, whose local government debt burden has been of enormous concern.

First, gradual privatization is a double-edged sword. The dialectical relationship between gradual privatization and integrating the global must be well handled rather than keep standstill and reject all foreign things blindly. Gradual privatization can avoid the rapid privatization's impact on national economy and industrial structure and find a suitable development road according to its own situation. However, if the application of gradual privatization is not proper, it will fall behind the development pace of times.

The measures of gradual privatization in Slovenia have shown such characteristics: privatization is slow, national economy is dominant, the share of foreign investment is low, and the resource is often allocated through political interference. All those led to low economic freedom, and at the same time, politics and market were highly interrelated. The gradual privatization is proved successful at the beginning and made some satisfying results. It relied more on Slovenia's good economic foundation and industrial structure. However, gradualism was keeping the

[1] Igor Guardiancich, The Uncertain Futureof Slovenian Exceptionalism, East European Politics andSocieties, Volume 26, Number 2, May 2012, 380-399.

monopoly and restriction on foreign competition. The prices were regulated, and exchange system was controlled. State-owned enterprises can gain allowance, therefore keep away from the market competition.[1]Some scholars think it is the gradual way of transformation that leads to the development dilemma of Slovenia.[2]Some scholars consider that state monopoly is established and sustained. Foreign investment is always rejected. The privatization contributes to the emergence of dependent economy, and external investment is controlled by administrative power. Hereafter, foreign investment is decided by political sentiment as well. Considering the national interests, the domestic corporations cannot be sold to the foreign investors. Even after the transformation, the economic system is still highly regulated, the development level of corporate governance is low, the ability of economic innovation is not good, external competition is restricted, investment in research, development and education is relatively low, and labor market is short of flexibility.[3]Generally speaking, Slovenia chooses the right policy but goes in a wrong way in practice. The standard of a good policy is whether it can keep up with the times rather than stand still.

China is a socialist country. Despite the necessity of raising the efficiency of the state-owned enterprises, it cannot adopt privatization as its ownership system.

Second, China can seize the opportunity of the crisis and find the new investment in Central and Eastern Europe. In the late 1980s and early 1990s, Eastern European countries began to transform and carried out large-scale privatization, but China did not take advantage of the opportunity of the transformation.

Considering the new structural reforms and adjustments in Slovenia, China should seize the opportunity according to its specific situation. Since privatization and attracting foreign investment are the necessary ways for Slovenia to get out of crisis, China should carry out policy investigation and find out its good assets of privatization (such as purchasing its banking industry). Since there are not many Chinese financial branches in Central and Eastern Europe, banks purchased by China in Slovenia can play the role of offshore RMB trading center. It can be expected that the scale and sum of Chinese investment in Central and Eastern Europe will expand gradually, so the financial transactions of Chinese people in Slovenia will be booming. Considering the good location of Slovenia in Central Europe, China can take over banks and provide services related to Chinese currency.

[1]Lea Prijon, Successfulness of Slovenian Economic Transition? Slovak Journal of Political Sciences, volume 12, No.3, 2012.
[2]Lea Prijon, Successfulness of Slovenian Economic Transition? Slovak Journal of Political Sciences, volume 12, No.3, 2012.
[3]O.Beachain, V. Sheridan and S. Stan (eds), Life in Post-Communist Eastern Europe After EU Membership, United Kingdom: Routledge, 2012.