# New austerity package in Slovenia

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With Slovenian banks heavily in debt, the right-wing government of Prime Minister Janez Jansa is acceding to the demands of the European Union and international financial institutions for tougher austerity measures.

The banking sector of Slovenia (formerly a part of the Yugoslav Republic) notched up its third successive year of losses in 2012. The country's three biggest banks are now calling for injections of capital by the state.

State-owned Nova Ljubljanska Banka (NLB) must raise 320 million euros to meet the requirements of the European Banking Authority. Last April credit rating agency Moody's downgraded the NLB's rating, along with those of several other Slovenian banks.

The proportion of bad loans rose in March this year to nearly twelve percent of all loans, or over six billion euros. The debt crisis has led to a freeze on bank lending, principally affecting the construction, insurance, and financial services industries.

The media has already identified Slovenia as the EU's next "problem child." A decline in economic output of 1.5 percent is forecast for this year. Last year the economy shrank by 0.2 percent. At 5.5 percent, the interest rate for Slovenian government bonds is one percent higher than a year ago. In December 2009, the EU initiated a so-called deficit procedure against Slovenia over its "excessive budget deficit."

To comply with EU requirements, the Slovenian parliament adopted an austerity package in May for 2012 and 2013. Public expenditure is be cut back by 800 million euros this year and 750 million euros in 2013. Last year, the budget deficit was 6.4 percent of GDP. The cuts aim to reduce it to 4 percent of GDP this year and under 3 percent by 2013.

The new austerity package, which is particularly directed at the public sector, was preceded by a vote in the Slovenian parliament to reduce corporate tax rates. The tax rate was cut from 20 to 18 percent and will fall a further one percent each year until it reaches a rate of 15 percent by 2015. This will make it among the lowest rates in Europe.

The right-wing parties took over government earlier this year with the declared aim of imposing the austerity measures, which the previous social-democratic government had failed to implement due to internal divisions.

The Positive Slovenia party won the most votes in the federal election in December 2011. The mayor of the capital, Zoran Jankovic, had founded the party two months earlier to run in the election. Jankovic failed to secure a majority in parliament, however.

The conservative Slovenian Democratic Party (SDS) then formed a coalition with the People's Party (SLS), the New Slovenia Party (NSI), the Civil List and the pensioner's party Desus. Jansa was prime minister from 2004 to 2008 and led Slovenia into the EU.

Under Jansa, Slovenia was one of the first EU countries to ratify the new European fiscal pact this spring. A leading role in the drafting of the new austerity package was played by Finance Minister, Janez Sustarsic, a proponent of a radical austerity. He now plans to introduce a "debt brake" balanced-budget amendment into the country's constitution.

The Government also announced further privatizations and a new social contract. According to government officials, the contract is to be the starting point for "systemically important" changes in labour legislation, pension and health care.

Half of the planned savings will be achieved through cuts in public spending. The measures include pay cuts of 15 percent for civil servants, who will also lose holiday pay. In addition, teachers will be required to work for about three hours longer per week, and class sizes are to be expanded. This is supposed to eliminate some 420 million euros in spending in two years

There are also plans for a series of severe cuts in social benefits. Unemployment benefits are to be reduced and their duration limited to 18 months. Child support and subsidies for food for students will also be cut, as well as funding for child care and kindergarten.

Prime Minister Janez Jansa defended the planned austerity measures, which he described as mild given Slovenia's situation, and announced further cuts. "This is just the first step, it will not be enough," the Premier added.

To limit opposition to the measures, the governing parties also agreed to make it harder to hold popular referendums. When they were out of government, the SDS used such referendums to block social-democratic plans for pension and labour market reform.

An estimated 100,000 employees in the public sector struck against the austerity measures in April. Schools and kindergartens were closed and many hospitals reduced to emergency service. There were traffic jams at border crossings with Croatia as tax collectors and police officers joined the protests. Demonstrations against the government took place in cities across Slovenia.

Amid mounting public outrage, the trade unions have played a key role in suppressing strikes and protests. Close collaboration between government, business and the trade unions has characterized Slovenian political life since it broke away from Yugoslavia.

The unions played a key role in privatizating enterprises in the early 1990s and suppressed all opposition by workers to the sell-off of key sectors of the Slovenian economy. The trade union federation ZSSS saw itself as "active partners in the privatization process."

Immediately after the April strikes, the unions declared their support for the government's course. Many unions openly supported the current government's policies and have refrained from initiating any referendums against its planned labour market reforms.

The daily newspaper *Dnevnik* aptly remarked: "Jansa's Shock Doctrine, like his principle of taking from the poor to give to the rich, is made possible mainly due to the passive and submissive nature of the media and the behaviour of the unions and leftist opposition parties."