# Slovenia threatened with national bankruptcy

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Slovenia is likely to be the next candidate for the European bailout scheme. Although the country's total debt is relatively low at 47 percent of GDP, the crisis gripping Slovenia's three largest banks threatens to drag the country into the abyss.

In this regard, it is already being talked about as "the Spain of Central Europe." As in Spain, cheap loans in Slovenia unleashed a huge real estate boom that exploded in 2008 with the global financial crisis. All the country's major construction companies went bankrupt; the banks were left sitting on billions of euros in bad loans.

Slovenian economist Joze Damjan estimates the total amount of defaulting loans at between €6 billion and €8 billion. Without government assistance the banks cannot survive, but if the state, which owns about 50 percent of the banks, has to pay out for all their bad loans, the budget deficit would climb to 28 percent of GDP.

Slovenian Prime Minister Janez Jansa said at the weekend that Slovenia could be bankrupt in October. If a proposed bond issue for October fails, Slovenia is threatened with insolvency, according to the head of the centre-right coalition in Ljubljana.

Slovenia has been an EU member since 2004 and a member of the euro zone since 2007. The former Yugoslav republic has long been regarded as a paragon among the Eastern European accession countries, but the global financial crisis has brought the rotten foundations of Slovenian capitalism to light. In 2009, GDP fell by more than 8 percent, and last year the country was again in recession.

In the second quarter, economic output declined year-on-year by 3.2 percent. Ratings agency Moody's downgraded Slovenia's credit rating to just above junk status. Interest rates on 10-year government bonds are near the critical 7 percent mark.

With 2 million people and a GDP of €35 billion, Slovenia has one of the smallest economies in the EU. According to analysts, a "bailout" would currently cost about €5 billion. The major concern of the international financial elite, however, is the effect on other European countries.

"In the worst-case scenario, Austria is clearly vulnerable because its banking system is most exposed in Slovenia," William Jackson of the London research firm Capital Economics told the news agency APA.

Jackson regards the further development of Slovenia negatively. The country faces several years of fiscal consolidation, which would lead to a vicious cycle of weak economic growth, lower government revenues and the need for additional consolidation, he said.

Nevertheless, representatives of international financial institutions and the EU are demanding Jansa's coalition implement radical austerity measures.

Suma Chakrabarti, head of the European Bank, said in an interview with news agency STA that an important step in solving the economic problems for the euro zone member was the slimming down of the state and a much greater role for the private sector. Chakrabarti was referring to the relatively high proportion of state holdings in banks and companies.

OECD Secretary-General Angel Gurria tied aid directly to brutal cuts: "Why do we not talk about a reform of the pension system, labour market, banking sector, a debt ceiling, the privatization of state companies, before we talk about whether aid packages are needed or not?"

Economic analyst Andraz Grahek also pleaded for radical social cutbacks as a "rescue measure."

In this context, the call for political unity between the right-wing government and the opposition Social Democrats is getting louder. For example, Slovenian Economics Minister Radovan Zerjav appealed: "I have called on the Slovenian political elite to seek a consensus on key issues. Above all, it's about saving the banks. After all, without that there is no recovery of the Slovenian economy."

The government needs a two-thirds majority in parliament in order to pass the reform plans, which is only possible with the votes of the opposition.

In recent years, there have been fierce clashes between the Social Democrats, who come in part from the former communist state party, and the right-wing bourgeois parties. There is absolutely no question that the Social Democrats, like the government, will advocate a drastic austerity programme. In December 2011, the Social Democratic government of Prime Minister Borut Paho collapsed.

Jansa and the right wing had prevented the Social Democrats from implementing a pension reform through a referendum. Sections of the current opposition in turn oppose the austerity plans of Jansa, in whose five-party coalition there are considerable disputes. Jansa postponed a vote of confidence in August because he had to reckon with a defeat.

The Jansa government has already prepared a "crisis budget for 2013 and 2014," providing for the inclusion of a debt ceiling in the constitution and fundamental reforms of the labour market and pension system. The government is also considering the creation of a "bad bank" to rehabilitate the country's ailing financial institutions at the expense of the state budget. In addition, companies with high levels of public ownership—such as Adria Airways, insurer Triglav, oil company Petrol and the state-owned telecoms corporation—are to be privatized.

In May this year, the government had already approved an austerity package: public spending is to be reduced in 2012 by €800 million and by €750 million in 2013. At the same time, the Slovenian parliament agreed to a reduction in corporation tax, lowering the rate from 20 percent to 18 percent. It will fall by another percentage point every year from now on, reaching 15 percent by 2015.