

# Slovenia: Government and opposition join ranks to impose austerity

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Slovenia's conservative government led by Janez Jansa is planning another austerity package to raise funds for the country's heavily indebted banks. To this end, the right-wing government coalition is working closely with the opposition Social Democrats and the trade unions.

What was formerly an economic "role model" for the rest of Europe is now regarded as the most likely new candidate for a European bailout. After its accession into the European Union (EU) in 2004, a huge housing bubble emerged, then abruptly burst in the wake of the 2008 financial crisis. The collapse plunged many Slovenian companies, particularly in the construction industry, into bankruptcy.

Slovenian banks, which are mostly owned by the state, are sitting on a mountain of bad loans estimated at around €6.4 billion. The collapse of the small country's two largest banks has only been prevented by massive financial support from the state.

In December 2009, the EU initiated proceedings against Slovenia for its "excessive budget deficit". This year, the economy will contract by nearly 2 percent. This compares with a contraction last year of 0.2 percent. The interest charged for Slovenian government bonds are 5.5 percent, over 1 percent higher than a year ago.

Many analysts now fear that Slovenia could be the next country in the euro zone to apply for international loans. Finance Minister Janez Sustersic said last week that Slovenia had to set aside €4 billion, representing

about 11 percent of GDP, in the form of state guarantees for banks. This figure could rise further if the current recession continues.

Government and business representatives have made clear that a withdrawal by the country from the euro zone would have disastrous consequences. Such a step would lead to massive inflation inside the country and severely affect Slovenian exports, 70 percent of which go to the euro area.

The extra funding for the banks is to be raised by making huge inroads into social expenditure. The head of the country's central bank, Marko Kranjec, stepped up pressure on the government to make cuts by declaring that reforms were vital if Slovenia was to avoid dependence on international aid.

The government of Prime Minister Jansa is now working on a plan to recapitalise banks in the country based on introducing cuts in all areas.

The austerity measures include raising the retirement age to 65 years, liberalising employment law, cutting unemployment benefits, the rapid privatisation of state enterprises and the creation of a "bad bank" to absorb the bad credits of the large financial institutions.

Leaders of the opposition parties and the country's trade unions immediately signalled their readiness to support the government programme. "An agreement on reform is far more likely than last year", declared

Mojmir Mrak, a professor at the Economics University in Ljubljana.

The largest trade union confederation, ZSSS, which launched a referendum against the proposed pension reform last year, stressed that the unions would not oppose the government plans. ZSSS general secretary Pavle Vrhovec noted: “We are moderate optimists regarding the possibility of agreement on the pension reform,” and continued: “Cooperation with this government seems better than with the previous one. The government and the labour ministry are listening to our opinions and trying to acknowledge them.”

The main opposition party, Positive Slovenia, also supports the plans. “We do not reject the reform proposals...and we hope to bring the negotiations to a successful conclusion,” read a party statement quoted by Reuters news agency.

Positive Slovenia entered the election in December 2011 and won 28.51 percent of the vote, thus gaining 28 parliamentary seats. The organisation was established just two months earlier by the populist businessman Zoran Jankovic, mayor of the country’s capital city and CEO of the Mercator retailing chain. Despite winning the largest share of the vote, Jankovic was unable to secure a majority in parliament.

A similar positive response to austerity cuts came from the Social Democrats, which lost ground at the last elections. “We support the reforms on principle. We hope that the government will consider and upgrade what was already agreed. To that end we support everything that would be good for Slovenia,” declared the party chairman, Igor Luksic.

All party representatives expressed their opposition to a popular referendum that could block the cuts programme—as was the case last year. Currently, a referendum can be called either by 30 MPs or by an organisation that collects 40,000 signatures.

The right-wing government coalition, which currently holds 48 of the 90 seats in parliament, hopes to obtain the necessary two-thirds majority to change the constitution and prevent further referenda on specific issues, in particular in the spheres of budgetary policy, human rights and defence. All-party talks began last week to this end.

Both the Jansa government and its social democratic predecessor have imposed cuts since 2008 that have massively driven down living standards. In July, the salaries of public employees were reduced by 3 percent and many allowances abolished.

In a recent interview with Reuters, 51-year-old engineer Pecaric Boris said: “Living standards have deteriorated considerably.... There are no jobs and it is practically impossible to get a bank loan to start a business.” Last year, he had to resign following the failure of his transport company employer to pay him for months.

The situation is similar for many other Slovenes. Official unemployment has doubled in the country since the beginning of the economic crisis in 2008 and now stands at 12 percent.



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