Slovenian government adopts another austerity programme

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Seven weeks after taking power, Slovenia’s centre-left governing coalition adopted a new austerity programme and presented it to the European Union commission. Through tax increases and the privatisation of companies, the government plans to cut the budget deficit from its current level of 8.3 percent.

With these measures Prime Minister Alenka Bratusek intends to stabilise the country’s ailing banks at the expense of the population. The banks have debts of €7 billion (US$9 billion)—a sum equivalent to one fifth of Slovenian gross domestic product (GDP).

Bratusek announced plans to sell off 15 companies, including the second largest bank Nova KBM, Telekom Slovenia, the national airline Adria Airways, and the Ljublijana airport. For some of these concerns, privatisation is already under way.

Finance minister Uros Cufer said that the state would not maintain a controlling share in any of the companies. The austerity programme should result in savings totalling €1 billion. For the employees of these companies this will mean large wage cuts and layoffs.

On July 1, VAT on goods and services will increase from 20 percent to 22 percent, hitting those on low and middle incomes particularly hard. The lower rate of income tax will increase by 1 percent to 9.5 percent, bringing in €250 million annually.

Bratusek noted that the VAT changes would be permanent, “because it is a structural measure and not a temporary one.”

Wages in the public sector will once again be reduced with the full support of the trade unions. They were already cut severely last year.

Interior Minister Gregor Virant and trade union leader Branimir Strukelj declared in Ljublijana last Tuesday that they had agreed on further cuts. The reductions in basic rates of pay and state payments for health care and pensions come into force on June 1 and will achieve savings of €291 million this year and in 2014. Including previously implemented measures, the austerity programme will save a total of €500 million by the end of 2014.

The trade unions have seized the opportunity to reaffirm their support for austerity policies and the government, made up of the Positive Slovenia Party, the Social Democrats (SD), the Liberals (DL) and the Pensioners’ Party (DeSus). To this end, Bratusek held discussions last week with Dusan Semolic, the head of the largest trade union association ZSSS.

An initial announcement to impose a “general crisis tax” has for the time being not been implemented. However the tax will continue to be a “plan B” option. A charge on those with gross earnings of more than €750 per month will be levied.

Slovenia has come under growing pressure in recent weeks, after rating agency Moody’s downgraded the credit rating of the former Yugoslavian republic to junk status. As a consequence, EU officials had increased the pressure on Slovenia to intensify its austerity programme.

The austerity measures are aimed at stabilising the ailing banks. Slovenia’s banks hold toxic assets worth an estimated €7 billion, of which €4 billion are to be transferred in to a newly created “bad bank.”

The state-owned banks, which have already received support of €420 million, are to be given a further €900 million of capital this year. Credit rating agency Fitsch has estimated that the three largest banks require at least €2 billion of financial assistance.

The Organisation for Economic Cooperation and Development (OECD) has predicted that Slovenia will go into recession this year and see a sharp rise in government debt. Economic output will contract by a further 2.1 percent. Debt as a percentage of GDP will climb rapidly from 47 percent to 100 percent by 2025.

Although the trade unions have supported the austerity measures and opposed even token protests against them, further demonstrations are inevitable. In recent months there were several protests in the country's major cities, the largest since Slovenian independence in 1991.

At the end of April, thousands demonstrated in the capital demanding that parliamentary elections planned for the end of 2013 be brought forward in order to force the Bratusek government from office. With placards that read "power to the people," "fire the troika, not the citizens," "money for the people instead of the banks," and "we won't pay for your crisis", the participants expressed their rage with the government, the EU and international financial institutions.