Pressure from European Union heightens political crisis in Slovenia

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The Slovenian government of Prime Minister Alenka Bratusek is coming under increasing pressure. While European Union (EU) representatives demand harsher austerity measures, a power struggle has erupted between the head of government and Zoran Jankovic, the influential mayor of the country's capital, Ljubljana.

The European Commission is demanding more budget cuts from the euro zone country in ex-Yugoslavia. According to Slovenian media reports, representatives of the "euro group" of euro zone finance ministers declared that current efforts aimed at deficit reduction were inadequate.

It is feared that problems arising in its financial sector could make Slovenia the euro zone's next major crisis, requiring a bailout from the European Stability Mechanism (ESM). Analysts regard Slovenia as the next candidate for a bailout from the euro zone countries' rescue fund.

The European Commission wants Slovenia to limit new borrowing to less than 3 percent of gross domestic product (GDP) by 2015. This year's debt is expected to reach 7.9 percent, because the state is pumping huge amounts of money into the banks.

Euro group leader Jeroen Dijsselbloem called on the government to reduce the escalating deficit by October, while EU monetary affairs commissioner Olli Rehn called the situation serious but manageable, warning that "the clock is ticking".

After the euro group meeting, Slovenian finance minister Uros Cufer said EU officials would now discuss the new austerity measures that have to be implemented. Cufer told the STA news agency, "The European Commission is following our debate on the supplementary budget and regards our efforts to balance the budget as insufficient to meet their demands."

Last April, the EU had already demanded rigorous cuts from Slovenia similar to those enforced on Greece and Cyprus. It demanded cuts to public sector wages cuts, to pension and social security systems, and in education and health care.

Bratusek recently faced criticism due to the deficit of 4.4 percent of the country's GDP and found himself compelled to revise the budget. The EU recently allowed the government in Ljubljana two more years—until 2015—to effect a balanced budget. The deficit will amount to about €1.5 billion (US$2 billion) this year.

Slovenia is already paying huge sums to obtain these foreign loans. "Slovenia is currently expending about 1.5 percent of its budget just to pay them off", said political analyst Marko Lovec. He doubts that the cuts made so far will be enough.

By resorting to tax increases and privatising many formerly state-owned enterprises, Bratusek is continuing policies of the former government of Janez Jansa. His aim is to make the population pay for the restoration of the countries' ailing banks, which are in debt to the extent of approximately €7 billion (US$9.3 billion) or a fifth of the GDP.

Taxes were increased on July 1. The rate of VAT was increased by 1.0 percent to 9.5 percent, which the government estimates would bring about €1 billion (US$1.3 billion) into the state coffers. There were also cuts in public spending, and civil servants' salaries were again reduced.

Public shares in the Mercator supermarket chain were sold off in May. The sales volume amounted to about €500,000 (US$664,000), making it the biggest privatisation transaction in recent years. The state also plans to sell public shares in a further 15 large companies, including those in the country's second largest bank, Nova KBM, Slovenia Telecom, and Adria Airways. Bratusek has already announced that more companies will be privatised if necessary.

Government representatives have been officially protesting for months that they would be able to make the required cuts without the "troika"—the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF)—having to intervene.

When Bratusek and German chancellor Angela Merkel recently met, it was stressed that German companies should have the opportunity to participate in the privatisation of state enterprises in Slovenia.

Since the outbreak of the global economic crisis, unemployment in the country has risen by more than 10 percent. Poverty is becoming more and more acute. An average Slovenian family today spends almost 25 percent of its income on food alone. The government intends to transfer bad loans to a so-called bad bank, but this step has not yet received approval from the EC, apparently because the so-called stress tests for banks have not yet been completed.

The prospects for the former Yugoslav constituent republic are bleak. A recent report from the Ernst & Young accounting firm estimates that Slovenia's economy will shrink by 4.9 percent this year, with the trend continuing into 2014. Exports to the EU are projected to fall 2.5 percent, and unemployment could reach 14 percent next year.

Under these conditions, violent conflicts are erupting inside the Slovenian political elite. Zoran Jankovic, Ljubljana's mayor and former head of the Positive Slovenia (PS) party, publicly opposed the government's financial plans.

Jankovic called on the party he himself founded to hold a party congress in order to reinstate him as its leader. Earlier this year, he was forced to step down from the party leadership over corruption allegations. "But Jankovic still has support within the party", said political analyst Lovec in an interview. If it actually comes to a vote between Jankovic and Bratusek, the prime minister's chances would be very slim.

The conflicts within the PS are purely tactical, however. Both Bratusek and Jankovic support the rigid austerity policy.

However, the return of Jankovic would dramatically affect the coalition. The PS's coalition partners—the Desus pensioners' party and the Social Democratic Party (SD)—have announced that Jankovic's return to power would mean the collapse of government. Lovec comments, "If Jankovic triggers a political crisis, the stalling of budgetary consolidation and consequent inability to continue borrowing money on international markets would mean that the Troika would be heading for Slovenia".

But the ruling parties above all fear a resurgence of popular protest. In late 2012 and early this year, tens of thousands participated in protests. The demonstrators' anger was directed at the austerity programme of Janesz Jansa's right-wing government, whose policies Bratusek is now continuing.