Slovenian government privatizes state corporations

Markus Salzmann
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The Slovenian government is seeking to bail out the country's heavily-indebted banks at the expense of the population through the privatization of 15 state-owned enterprises and other cost-cutting measures. These cuts are the government's response to the demands of the European Union, which has long been calling for privatization and spending cuts.

The telecommunications company Telekom Slovenije, the country's main airport, the airline Adria Airways, the laser manufacturer Fotona and the winter sports clothing firm Elan are also being put up for sale.

According to estimates by Citigroup, the sale of shares in these companies will raise between €500-€750 million, which will then be available to compensate Slovenia's distressed banks. The privatization process will begin at the end of the month, Prime Minister Alenka Bratusek recently told reporters.

To speed up the sale of Telekom Slovenije, various shareholders, holding 73 percent of its shares, with a total value of €530 million, have signed an agreement.

A favorite among the potential investors is Deutsche Telekom, whose subsidiaries Hrvatski Telekom (Croatia) and Magyar Telekom (Hungary) delivered a memorandum of understanding for the sale of 49.13 percent of their own shares.

China Southern Airlines is on the verge of acquiring Adria Airways and is interested in the Joze Pucnik Aiport in the capital. This was confirmed by the managing director of the airport, Zmago Skobir. China Southern Airlines is the largest Asian carrier and is seeking to expand in Europe.

It is clear that the privatization of the 15 companies is only the beginning. According to the *Wall Street Journal*, there is an even larger potential for privatization in Slovenia, where the government holds shares in over 80 companies with a value of just under €9 billion. "I think there is a reluctance still to sell the family silver," Timothy Ash of Standard Bank told the *Wall Street Journal* .

In contrast to other Eastern European countries where state-owned enterprises were sold off quickly in the 1990s, the privatization process in Slovenia has been slower, with many industries and factories remaining at least partially under state control. This was one of the reasons for the relative prosperity in Slovenia and its low unemployment rate compared to other Eastern European countries. Currently one in eight employees works in a state-owned enterprise.

The sale of public enterprises comes together with layoffs, the reduction of wages and deteriorating working conditions, the proceeds of which will be used to pay off the banks' debts.

The total of the "bad" loans on the balance sheets of Slovenian banks is estimated at around €7 billion, about 20 percent of the country's GDP. Support extended to the financial institutions has caused the country's budget deficit to hit 7.9 percent of GDP, the highest in Europe. Around €1.2 billion were recently pumped into the Nova Ljubljanska Bank and the Nova Kreditna Banka Maribor to keep them afloat. Last year, Slovenia's budget deficit was 4 percent of GDP.

The planned establishment in June of a so-called "bad bank," which would receive underperforming assets from the Slovenian banks, has been postponed. A spokesman for the Slovenian "bad bank" (DUBT) said the European Commission has still not cleared asset transfers to take place. Observers assume that the Commission wants to wait for results of "stress tests" planned for 18 Slovenian banks, and results are expected by the end of the year.

As in Greece and Cyprus, the EU is pressing Slovenia to implement massive cuts to social spending and workers' wages. In July, Brussels urged Slovenia to carry out "more effective" measures. The austerity programs that have already been implemented, including cuts in wages in the public sector, the raising of the retirement age and an increase in the standard value added tax (VAT) rate by two percentage points, has led to a deepening of the recession.

Saso Stanovnik, Chief Economist of the investment firm Alta Invest, said, "We can expect a steeper fall of consumption, and also of GDP, in the third quarter precisely because of the VAT increase."

In the first six months of this year, Slovenia's GDP fell by 3.2 percent, and economists expect a further 3 percent contraction by the end of the year. The decisive factor for the massive slump is shrinking domestic demand as a result of austerity measures. Unemployment, which is already at 9.6 percent, could reach 14 percent in the coming year.

At the same time, corporate taxes will be incrementally reduced by 2015 from 20 to 15 percent. Business organizations argue, however, that even this tax cut is insufficient. Recently they gave the government a "wish list," demanding, among other things, further tax cuts and a deregulation of labor laws to improve competitiveness.

In March of this year the center-left coalition of Positive Slovenia (PS), the Social Democrats (SD) and the Democratic Party of Pensioners of Slovenia (DeSus), formed a government claiming they would rectify the budget deficit. So far the government has done nothing to quell fears that Slovenia will be the next candidate for a bailout from the EU.

Following renewed pressure from Brussels, Prime Minister Alenka Bratusek (PS) announced new austerity measures, which will be made public in late September. "The measures will not be popular," Bratusek declared, adding, "We do not know exactly how much we need and how much we will save with the new package."